



ANNUAL REPORT

FOR

THE YEAR ENDED

DECEMBER 31, 2019

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CHAIRMAN'S STATEMENT

Interest income from loans increased 2.6% over 2018 due to increased collection efforts and realization of assets that were under foreclosure. The Bank's loan portfolio declined CI\$1.8 Million through contractual principal repayments, early payouts and limited loan growth. During the period the Bank reduced its long-term debt by CI\$4.076 Million through semi-annual principal payments on its remaining CI\$15.7 Million loan facility with FirstCaribbean International Bank.

The Bank's operating expenses increased 18% overall mainly due to an increase in salary expense due to the mandatory hiring of 2 manager level employees in the latter of 2018. Also, professional fees increased as the bank outsourced the implementation and maintenance of the new provisioning modeling under IFRS 9. Despite the increase in operating expenses, the Bank posted a profit of CI\$329K before transfer to reserves of CI\$65K. A contributing factor was the write-back of CI\$666K upon completion of the annual provision for credit losses.

Despite the economic impact of Covid-19, it is projected that the bank will post a profit for the 2020 fiscal year end. This projection is based on the relatively low request for payment moratoriums partly due to the large percentage of civil servants maintaining loan payments. In addition, while the bank has halted exercising its right of sale to collect bad debt, existing properties that were under foreclosure for years have been sold generating interest income. The bank is providing business interruption loans utilizing CI\$5million of existing capital that will earn modest interest income for 2020 that poses no risk as the Government provided their Guarantee. It is envisioned that the bank will play a vital role in economic recovery and further programs will be announced in 2020.

For the Bank to remain a viable entity, the Cayman Islands Government will be required to provide additional capital at the next 2 year budget period 2022-2024. The Bank is effectively managed by 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.

A handwritten signature in black ink, appearing to read "Richard Lewis", with a large, stylized loop at the end.

Richard Lewis



Vision Statement

CAYMAN ISLANDS DEVELOPMENT BANK

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



Report for the Year Ended December 31, 2019

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, 2019, 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, 2019, employees of the Bank participated in several training programs that included training in Anti-Money Laundering and Fraud. The General Manager/CEO attended the annual CEO & Directors Forum in Miami hosted by the Caribbean Association of Banks that focuses on issues in the region.

4) Management Discussion and Analysis

The key objectives of CIDB for the fiscal year ended December 31, 2019, were as follows:

- Increase portfolio by new business loan programs
- Increase portfolio by new Home Energy Loan Program “HELP”
- Increase portfolio by new Affordable Home Mortgage Program



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- Expanded support for the student loan program via counseling
- Provision of financial counseling for customers
- Implement new loan loss provision model

i) Loan Performance

As of December 31, 2019, the loan portfolio stood at \$21,184,623 before loan loss provision of \$1,648,631 compared to the loan portfolio as of the year ended December 31, 2018, of \$25,710,854 before loan loss provision of \$4,302,811, representing a net decrease of 17% in the loan portfolio over the year ended December 31, 2018. The portfolio decreased due to limited lending and from early redemption of loans, disposal of assets from foreclosure and write-downs

Number and Value of Loans Inclusive of Restructures Approved for the Year Ended December 31, 2019

<u>Sector</u>	<u>Number of Loans</u>	<u>Value of Loans</u>
NHDT Mortgages	5	577,750
Student Loans	6	125,000
Other Loans*	<u>77</u>	<u>73,745</u>
Total	<u>88</u>	<u>776,495</u>

*comprises of insurance, legal fees and property valuations and 2 small staff loans

The Bank rolled out the Affordable Home Mortgage Program to assist customers purchasing NHDT housing units. Only 5 mortgages were booked as NHDT was actively purchasing land to start construction of additional homes. It is envisioned that CIDB will grant mortgages towards the end of 2020. 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



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obtain their Associate's before 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 homeowners insurance coverage as customers were unwilling or unable to pay the premiums. In addition, loans were booked under this category to pay legal fees due to foreclosure and updated property valuations as part of the new provisioning model.

ii) Loan Delinquency

Loan delinquency levels remain high however, the bank made progress to reduce delinquencies from the legacy debt. Delinquent loans continued to decrease and fell to 50% totaling \$10.7 Million as of December 31, 2019, compared to 53% the previous year totaling \$13.5 Million. 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 and the board has been meeting more regularly to approve write-downs for fully provisioned loans.

Loan delinquency levels remain high however, the bank made progress to reduce delinquencies from the legacy debt. Delinquent loans continued to decrease and fell to 50% totaling \$10.7 Million as of December 31, 2019, compared to 53% the previous year totaling \$13.5 Million. 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 and the board has been meeting more regularly to approve write-downs for fully provisioned loans.

iii) Financial Performance

As of December 31, 2019, the total assets of the Bank stood at \$42,563,210 (excluding cash held on behalf of the Education Council Scholarship Fund of \$4,081,702 and the Housing Recovery Grant of \$179,395), an increase of \$1,560,998 attributed to an increase in cash and a CI\$666,782 write back. The loan portfolio represented approximately 46% of the Bank's assets as of December 31, 2019, compared to 52% in previous years due to an increase in deposits. Liabilities decreased by \$3.2 Million due mainly to the commencement of semi-



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annual principal payments on the CI\$15.7 Million loan facility with FirstCaribbean International Bank.

Gross income improved 34% for the year ended December 31, 2019, due to lower interest expense, however, this does not include credit losses.

Interest income from loans increased 2.6% from the previous year period due to increased collection efforts and the sale of several properties under foreclosure. Overall interest income increased 8% due to an increase in interest income from funds held on fixed deposits.

The Bank's operating expenses increased 18% overall mainly due to an increase in salary expense due to the hiring of 2 manager level employees in late 2018. 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. Besides, 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 to effectively manage the operational processes and financial reporting with the implementation of IFRS 9. The Bank posted a profit of CI\$329K compared to a loss of CI\$433K for the previous year due to the write-back of CI\$666K. The provisioning policy was updated to accurately reflect the performance of the existing portfolio.

5) Programmes Administered on Behalf of the Cayman Islands Government

During the fiscal year ended December 31, 2019, the Bank continued to provide administrative services to the Cayman Islands Government in respect of the various Government Guaranteed Loan programs as well as the administration of the funds under the Government's Scholarship Program.

Under the Government Guaranteed loan programs, several 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 programs. The Cayman Islands Government remunerates CIDB for the administrative services provided on its behalf under these programs and this arrangement is



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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 from the 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. The ending result was losses due to an underperforming loan portfolio and insufficient capital to fund good loan growth. The bank's strategic plan was approved by Cabinet in November 2019 authorizing the bank to resume lending by utilizing its unrestricted cash of approximately CI\$16 million.

The National Housing Trust Development (NHDT) purchased land in North Side and George Town to construct over 100 homes. The bank is working with the NHDT and offers an attractive competitive mortgage package to assist lower-income earners to buy their own home. Additionally, the bank has not increased its provision to accommodate these new loans as the NHDT will buy back the homes from the bank and re-sell them to other waiting customers.

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 cost savings through lower utility bills but could mean the difference between losing electricity for several days compared to losing your home.

There has been resistance from commercial financial institutions to allow customers to offer their homes as collateral by way of a second charge to the bank. In light of this, the bank is prepared to offer take out mortgage financing in conjunction with the HELP program that will also put the bank in a stronger security position.

The bank was considering rolling out new business start-up loans as the commercial institutions do not offer this service unless the prospective customer has a secondary source of



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income. These loans are considered very high risk but there is a demand that needs to be met. Covid-19 halted the bank's new business operations during the 3 month shelter in place order.

The key objectives for fiscal year 2020 pivoted as follows:

- Availment of CI\$5Million to provide Business Interruption Loans
- Potential roll out of new Home Energy Loan Program "HELP"
- Potential roll out of CI\$10Million for Business Interruption Loans (pending capital from Government)
- Expanded payment relief support due to Covid-19
- Provision of financial counseling for customers

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.

8) **Appendix: Ownership Performance Reporting and Statement Outputs Delivered to Cabinet**

Outputs Delivered to Cabinet (Financial Performance)

YEAR ENDED DECEMBER 31, 2019				
FINANCIAL PERFORMANCE MEASURE	2019 ACTUAL	2019 BUDGET	ANNUAL VARIANCE	NOTE
	\$000'S	\$000'S	\$000'S	
REVENUE FROM CABINET	526	526	-	
REVENUE FROM MINISTRIES, PORTFOLIOS, STATUTORY AUTHORITIES AND GOVERNMENT COMPANIES	40	40	-	
REVENUE FROM OTHER PERSONS OR ORGANISATIONS	2,245	2,284	(39)	1
SURPLUS/DEFICIT FROM OUTPUTS			-	
OTHER EXPENSES	2,482	2,733	(251)	2
NET SURPLUS (DEFICIT)	329	117	212	3
TOTAL ASSETS	42,563	40,509	2,054	4
TOTAL LIABILITIES	20,229	17,048	3,181	5
NET WORTH	22,334	23,461	(1,127)	6
			-	
CASH FLOWS FROM OPERATING ACTIVITES	3,252	358	2,894	7



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	CASH FLOWS FROM INVESTING ACTIVITES	(2,447)	(41)	(2,406)	8
	CASH FLOWS FROM FINANCING ACTIVITES	418	424	(6)	
	CHANGE IN CASH BALANCES	1,222	740	482	
	FINANCIAL PERFORMANCE RATIO				
	CURRENT ASSETS : CURRENT LIABILITIES	260%	100%	160%	
	TOTAL ASSETS : TOTAL LIABILITIES	210%	200%	10%	
	NOTES: EXPLANATION FOR VARIANCE				
1	External revenue lower than budget due to less consumer loan lending.				
2	Expenses lower than budgeted due to loan loss provision credit. There was a decline in loan loss provision over budget. Collateral provided by customers to secure loans had a positive impact on loan loss provisioning.				
3	Lower than budgeted expenses had a positive impact on net surplus.				
4	Total assets grew over budget due to several loans being repaid ahead of scheduled maturity which increased cash and bank balances.				
5	Total liabilities higher than budget due to a higher balance being held at year end on behalf of The Ministry of Education Scholarship Fund. It was budgeted that \$1 Million would be in this fund at year end, however, there was \$4 Million in this fund at year due to timing of receipts from the Government and payments to students.				
6	Net worth lower than budget due to higher overall liability total and lower than expected consumer loan lending.				
7	The increase in cash flows from operating activities over budget can be attributed to cash received from customers paying out some loans ahead of scheduled maturity.				
8	The increase in cash flows from investing activities over budget can be attributed to more funds placed on fixed deposits due to cash received from customers paying out some loans ahead of scheduled maturity.				



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	HUMAN CAPITAL MEASURES	2019 ACTUAL	2019 BUDGET	ANNUAL VARIANCE	NOTE
		\$000'S	\$000'S	\$000'S	
	TOTAL FULL TIME EQUIVALENT STAFF EMPLOYED	13	11	2	1
	STAFF TURNOVER (%)				
	SENIOR MANAGER	-	-	-	
	PROFESSIONAL AND TECHNICAL STAFF	-	-	-	
	ADMINISTRATIVE STAFF	-	-	-	
	PHYSICAL CAPITAL MEASURES				
	VALUE OF TOTAL ASSETS	42,563	40,509	2,054	2
	ASSET REPLACEMENTS : TOTAL ASSETS	-	-	-	
	BOOK VALUE OF ASSETS : COST OF THOSE ASSETS	60%	51%	8%	3
	DEPRECIATION : CASH FLOW ON ASSET PURCHASES	66%	0%	66%	4
	CHANGES TO ASSET MANAGEMENT POLICES	NONE	NONE	-	
	MAJOR CAPITAL EXPENDITURE PROJECTS				
	BANKING SOFTWARE AND COMPUTER HARDWARE	97	-	97	5
	TRANSACTION				
	Equity Investments into Cayman Islands Development Bank	4,500	4,500	-	
				-	
	Capital Withdrawals from Cayman Islands Development Bank	-	-	-	
	Dividend or Profit Distributions to be made by Cayman Islands Development Bank.	-	-	-	
				-	



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	Government Loans to be made to Cayman Islands Development Bank	-	-	-	
	Government Guarantees to be issued in relation to Cayman Islands Development Bank	-	-	-	
	Related Party Payments (Non Remuneration) made to Key Management Personnel[1]	-	-	-	
	Remuneration[2] Payments made to Key Management Personnel	489	449	40	
	Remuneration Payments made to Senior Management	386	383	3	
	NUMBER OF KEY MANAGEMENT PERSONNEL (BOARD)	6	6	-	
	NUMBER OF KEY SENIOR MANAGEMENT (MD)	3	3	-	
	NOTES: EXPLANATION FOR VARIANCE				
1	Two full-time staff hired after the 2019 budget was completed; one IT Manager and one AML Compliance Manager.				
2	Total assets increased over budget due to cash received from customers paying out some loans ahead of scheduled maturity.				
3	BOOK VALUE OF ASSETS: COST OF THOSE ASSETS ratio higher than budget due to purchase of banking software and computer hardware in 2019. This purchase was planned for 2018 but did not occur until 2019.				
4	DEPRECIATION: CASH FLOW ON ASSET PURCHASES ratio higher than budget due to purchase of banking software and computer hardware in 2019. This purchase was planned for 2018 but did not occur until 2019.				
5	Purchase of asset amounts higher than budget due to the purchase of banking software and computer hardware in 2019. This purchase was planned for 2018 but did not occur until 2019.				

Purchase Agreement outputs delivered (Min of Education) 2019

The outputs purchased by Cabinet and delivered by the Cayman Islands Development Bank during 2019 are documented below.

Measures	2019 Actual	2019 Budget	Variance
Quantity			
Number of payments to facilitate Education Council scholarship recipients (inclusive of: local & overseas, & direct institutions)	783	400-525	258
Number of performance reports	12	10-12	0%
Quality			
Ensure that Education Council scholarship payments are administered in accordance with agreed arrangements as submitted from time to time by the Ministry of Education.	100%	100%	0%
Submit required performance reports with accuracy and relevance of reports as agreed with the Ministry of Education.	100%	100%	%
Timeliness			
Administer all scholarships in a timely manner to ensure that recipients are in receipt of funds as requested & submitted by the Ministry of Education to CIDB.	100%	100%	0%
Maximum time of 7 working days between the end of month and submission of reports	40%	100%	60%
Location Cayman Islands	100%	100%	0%
Cost	\$40,451	\$40,451	\$0

Variance Explanation

CIDB processed 258 more scholarship payments than budgeted due to the increased number of annual scholars. Monthly reporting also lagged behind. However, all disbursements to students are recorded in a timely manner and fund reconciliation reports prepared monthly and there was constant communication between CIDB representatives and the Ministry of Education representatives who were made aware of the balance in the fund at all times.

Purchase Agreement Outputs Delivered 2019

The outputs purchased by Cabinet and delivered by the **Cayman Islands Development Bank** during 2019

CIB 1	Programme of Direct Lending for Human Resource Development		
Description Administer a programme of direct lending for Human Resource Development at the tertiary level and vocational training by: • promoting the programme through media advertising • providing a counseling and information service • appraising loans considered for financing • ensuring adequate loan documentation • monitoring the loan portfolio • enforcing debt collection measures • generating periodic performance reports			
Measures	2019 Actual	2019 Budget	Variance
<i>Quantity</i> • Number of inquiries responded to • Number of loans processed • Number of new loans approved • Number of counseling sessions • Number of loans under special debt service arrangements • Number of loans under litigation • Number of performance reports (FMI submissions)	250 6 6 150 30 20 4	45-55 25-35 30-40 20-30 20-30 10-15 4	205 (19) (24) 130 - 5 -



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Quality			
• Minimum percent of customers expressing satisfaction with service when surveyed	92%	90-100%	-
• Percent accuracy and relevance of reports as determined by internal peer review	95%	90-100%	-
• Percent of borrowers over 90 days in arrears	36%	35-40%	-
• Percent value of loan portfolio over 90 days in arrears	37%	25-30%	7
• Percent of loan portfolio written off annually	3%	3-5%	-
Timeliness			
• Maximum turn-around time of two working days between receipt of all application particulars and the approval of loan	80%	80-100%	-
• Maximum time of 15 days between the end of quarter and submission of reports	90%	80-100%	-
Location			
Grand Cayman		100%	
Cost			
	\$121,353	\$121,353	\$0

Variance Explanation

The number of inquiries increased substantially mainly due to queries for extensions to existing terms and workouts for NALs. A significant drop in new loan requests as some opting to attend UCCI locally. Additionally, it has become more difficult to obtain a Second Charge for security.



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CIB 2	Programme of Direct Lending for Micro and Small Business Development			
Description Administer a programme of direct lending for micro and small business development by: • promoting the programme through media advertising • providing a counseling and information service • appraising loans considered for financing • ensuring adequate loan documentation • monitoring the loan portfolio • enforcing debt collection measures • generating periodic performance reports				
Measures <i>Quantity</i> • Number of inquiries responded to • Number of on-site technical assistance • Number of counseling sessions • Number of loans under special debt service arrangements • Number of loans under litigation • Number of performance reports (FMI submissions) <i>Quality</i> • Minimum percent of customers expressing satisfaction with service when surveyed • Percent accuracy and relevance of reports as determined by internal peer review • Percent of borrowers over 90 days in arrears • Percent value of loan portfolio over 90 days in arrears • Percent of loan portfolio written off annually <i>Timeliness</i> • Maximum turn-around time of two working days between receipt of all application particulars and the approval of loan • Maximum time of 15 days between end of quarter and submission of reports <i>Location</i> Grand Cayman	2019 Actual	2019 Budget	Variance	
	75	50-100	-	
	25	10-20	5	
	20	10-20	-	
	25	22-30	-	
	32	30-35	-	
	4	4	-	
	95%	90-100%	-	
	90%	90-100%	-	
	78%	50-60%	18	
	70%	40-50%	20	
	21%	5-10%	11	
	80%	80-100%	-	
	90%	80-100%	-	
	100%			
	<i>Cost</i>	\$156,025	\$156,025	\$0

Variance Explanation

The bank was not funding new business loans and the existing loans were granted under outdated policies. The board approved the write off of loans in 2019 that had been fully provisioned for years. Delaying write-downs have over inflated the % delinquencies.



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CIB 3	Mortgage Finance Programme		
Description Administer a mortgage finance programme including direct lending and support services to assist: ○ Low to middle-income Caymanians in owning their own homes ○ Owners of sub-standard housing in improving their housing accommodation by: • promoting the programme through media advertising • monitoring projects in progress • providing a counseling and information service • appraising loans considered for financing • ensuring adequate loan documentation • monitoring the loan portfolio • enforcing debt collection measures • generating periodic performance reports			
Measures	2019 Actual	2019 Budget	Variance
Quantity • Number of inquiries responded to • Number of projects appraised • Number of new loans approved • Number of site visits • Number of counseling sessions • Number of loans under special debt servicing arrangements • Number of loans under litigation • Number of performance reports	150 11 5 25 225 25 24 4	30-40 3-5 3-5 10-15 20-35 25-30 15-20 4	120 6 - 10 205 - 4 -
Quality • Minimum percent of customers expressing satisfaction with service when surveyed • Percent accuracy and relevance of reports as determined by internal peer review • Percent of borrowers over 90 days in arrears • Percent value of loan portfolio over 90 days in arrears • Percent of loan portfolio written off annually	95% 95% 39% 43% 4%	90-100% 90-100% 30-40% 30-40% 5-10%	- - - 3 (1)
Timeliness • Maximum turn-around time of two working days between receipt of all application particulars and the approval of loan • Maximum time of 15 days between end of quarter and submission of reports	85% 95%	80-100% 80-100%	- -
Location Grand Cayman		100%	
Cost	\$231,152	\$231,152	\$0

Variance Explanation



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Counseling and queries increased due to increased delinquencies and market demand for housing. The bank had suspended the mortgage program due to limited funds. The bank has a new program specifically for NHDT customers and captured the 5 remaining home for sale.

CIB 4	Government Guaranteed Student/Home Loan Schemes		
Description Administer, as Executing Agent for the Government, a government guaranteed student/mortgage loan scheme funded by leading local commercial banks by: • providing a secretarial service for the scheme • monitoring loan portfolio • monitoring Government’s exposure and liability • enforcing debt collection measures against defaulting borrowers • generating periodic performance reports			
Measures	2019 Actual	2019 Budget	Variance
Quantity • Number of items of correspondence with participating banks • Number of loans under special debt servicing arrangements • Number of performance reports	10 N/A 4	8-12 1 4	- - -
Quality • Percent accuracy and relevance of reports as determined by internal peer review • Percent of borrowers over 90 days in arrears • Percent value of loan portfolio over 90 days in arrears • Percent of loan portfolio written off annually	95% N/A N/A N/A	90-100%	- - - -
Timeliness • Maximum time of 15 working days between end of quarter and submission of reports	95%	90-100%	-
Location Grand Cayman		100%	
Cost	\$17,787	\$17,787	\$0

Variance Explanation

The bank currently only provides administrative support and executes discharges upon notification from the commercial banks that the government's guarantee is no longer required. The discharge is then submitted to Government.



AUDITED FINANCIAL STATEMENTS FOR YEAR ENDED DECEMBER 31, 2019

Cayman Islands Development Bank
Financial Statements
For the Year Ended December 31, 2019

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FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

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Cayman Islands Development Bank
Statement of Responsibility for the Financial Statements
December 31, 2019

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

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

The financial statements fairly present the financial position of the Cayman Islands Development Bank as at December 31, 2019, and its financial performance, cash flows and changes in equity for the financial year then ended.

To the best of our knowledge the statements:

- (a) completely and reliably reflect the financial transactions of the Cayman Islands Development Bank for the year ended December 31, 2019;
- (b) fairly reflect the financial position as at December 31, 2019 and financial performance for the year ended December 31, 2019; and
- (c) comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.

The Office of the Auditor General has conducted an independent audit and expressed an opinion on the accompanying financial statements. The Office of the Auditor General has been provided access to all the information necessary to conduct an audit in accordance with International Standards on Auditing.



Richard Lewis
Chairman of the Board of Directors
Cayman Islands Development Bank
Date: July 20, 2020



Tracy Ebanks
General Manager
Cayman Islands Development Bank
Date: July 20, 2020

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, 2019 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2019, 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, 2019 and its financial performance and its cash flows for the year ended December 31, 2019 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 note 6 in the financial statements that outlines that impaired loans as at December 31, 2019 amounted to \$10,721,501. This represents 51% of the overall loan portfolio excluding allowances for credit losses.

According to note 10 of the financial statements the Bank received \$4,500,000 in contributed capital from the Cayman Islands Government during the year ended December 31, 2019. I also draw your attention to Note 13 which indicates that the Bank received payments amounting to \$526,317 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.

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 and fair presentation 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.

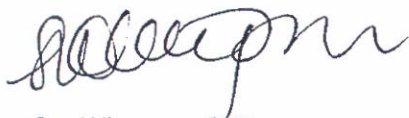
As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- 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.



Sue Winspear, CPFA
Auditor General

July 20, 2020
Cayman Islands

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019
(Expressed in Cayman Islands Dollars)

		2019	2018
	Notes	\$	\$
ASSETS			
Cash and Cash Equivalents	3,13	7,781,606	6,559,283
Term Deposit, Loan Interest and Other Receivable	5	239,414	353,691
Fixed Deposit, Net of Allowance for Expected Credit Losses	4	14,115,275	11,769,986
Loans to Customers, Net of Allowance for Expected Credit Losses	6	19,535,992	21,408,043
Prepaid Expenses	5	34,980	30,063
Deposit on Assets	5	5,500	80,076
Property and Equipment	7	836,048	801,070
Lease Right-of-Use Asset	8	14,395	-
TOTAL ASSETS		42,563,210	41,002,212
LIABILITIES AND EQUITY			
Accounts Payable and Accrued Liabilities	9	176,868	123,038
Due to Related Parties	13	4,261,097	3,519,774
Lease Liability - Current Portion	8	5,883	-
Lease Liability - Long-Term Portion	8	9,363	-
Interest Payable – Long Term Debt		1,352	2,793
Current Portion of Long Term Debt	15	4,076,458	4,076,458
Long Term Debt	15	11,697,665	15,774,123
TOTAL LIABILITIES		20,228,686	23,496,186
EQUITY			
Contributed Capital	10	23,819,185	19,319,185
Statutory Reserve Fund	11	128,814	62,973
Revaluation Reserve – Property and Equipment	7	374,687	374,687
Retained Earnings (Accumulated Losses)		(1,988,162)	(2,250,819)
TOTAL EQUITY		22,334,524	17,506,026
TOTAL LIABILITIES AND EQUITY		42,563,210	41,002,212

Approved on behalf of Management:



Tracy Ebanks
General Manager

Date: July 20, 2020



Paula R. Smith
Financial Controller

Date: July 20, 2020

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, 2019
(Expressed in Cayman Islands Dollars)

		2019	2018
	Notes	\$	\$
INCOME			
Interest Income			
Loans	6	1,312,838	1,279,912
Fixed Term Deposits	3, 4	251,417	169,344
		<u>1,564,255</u>	<u>1,449,256</u>
Interest Expense			
Long Term Debt	15	(685,659)	(768,715)
Lease Liability	8	(870)	-
		<u>(686,529)</u>	<u>(768,715)</u>
Net Interest Income		877,726	680,541
Credit Loss / Credit (expense)	3, 4, 6	666,099	(661,160)
Services Provided to Cayman Islands Government	13	526,317	1,026,317
Ministry of Education Payments for Output	13	40,451	40,451
Other Income		11,157	41
Loan Commitment Fees		2,723	2,019
Gain (Loss) on Foreign Currency Conversion		(11,375)	(11,094)
Net Income from Operations		<u>2,113,098</u>	<u>1,077,115</u>
ADMINISTRATIVE EXPENSES			
Salaries and Other Staff Benefits	12, 16	1,282,399	1,138,604
Professional Fees		166,160	86,857
Accommodation Costs	16	104,145	105,513
Office Expenses		84,100	71,171
Depreciation - Property and Equipment	7	66,541	37,078
Computer Maintenance		57,089	53,342
Depreciation - Lease Right-of-Use Asset		5,758	-
Directors' Fees		5,700	2,980
Advertising and Promotion		5,025	5,215
Bad Debt Written Off		-	750
Other		6,978	8,426
Total Administrative Expenses		<u>1,783,895</u>	<u>1,509,936</u>
Net Income (Loss)		329,203	(432,821)
Transfer to Reserves	11	(65,841)	-
Net Income (Loss) after Transfer to Reserves		<u>263,362</u>	<u>(432,821)</u>
Other Comprehensive Income			
Revaluation Surplus (Deficit) – Property and Equipment	7	-	-
Total Comprehensive Income (Loss)		<u>263,362</u>	<u>(432,821)</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, 2019
(Expressed in Cayman Islands Dollars)

	Notes	2019 \$	2018 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income (Loss) after Transfer to Reserves		263,362	(432,821)
Adjustments for:			
Transfer to Reserve Fund	11	65,841	-
Bad Debt Written Off		-	750
Depreciation - Property and Equipment	7	66,541	37,078
Depreciation - Right-of-Use Asset	8	5,758	-
Credit Loss (Credit) Expense	3, 4, 6	(666,099)	661,160
		(264,597)	266,167
Changes in Operating Assets and Liabilities			
Decrease in Prepaid Expenses		(4,917)	(1,419)
Decrease (Increase) in Deposit on Assets		74,576	(80,076)
Decrease (Increase) in Term Deposit and Loan Interest and Other Receivables		114,277	(128,237)
Decrease in Loans to Customers		2,538,832	3,383,391
Increase (Decrease) in Accounts Payable and Accrued Liabilities		54,016	(228,066)
Increase (Decrease) in Due to Related Parties		741,323	(633,013)
Decrease in Interest Payable – Long Term Debt		(1,441)	(334,602)
Net Cash Provided by Operating Activities		3,252,069	2,244,145
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in Fixed Deposits	4	(2,345,289)	(6,596,465)
Purchase of Property and Equipment	7	(101,519)	(43,806)
Net Cash Used in Investing Activities		(2,446,808)	(6,640,271)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital Contributed	10	4,500,000	2,250,000
Lease Liability Payment	8	(6,480)	-
Repayments of Long-Term Debt	15	(4,076,458)	(4,076,459)
Net Cash Provided by (Used in) Financing Activities		417,062	(1,826,459)
Net Increase / (Decrease) Increase in Cash and Cash Equivalents			
		1,222,323	(6,222,585)
Cash and Cash Equivalents at Beginning of the Year		6,559,283	12,781,868
Cash and Cash Equivalents at End of Year		7,781,606	6,559,283
Supplementary information on Cash Flows From Operating			
Interest Received During the Year		1,559,140	1,456,108
Interest Paid During the Year		687,970	1,103,317

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, 2019
(Expressed in Cayman Islands Dollars)

	Notes	Contributed Capital	Statutory Reserve Fund	Revaluation Reserve	Retained Earnings (Accumulated Losses)	Total
		\$	\$	\$	\$	\$
Balance as at December 31, 2017	10	17,069,185	62,973	374,687	(1,817,998)	15,688,847
Net Income (Loss) for the Year		-	-	-	(432,821)	(432,821)
Transfer to Reserves	11	-	-	-	-	-
Revaluation Surplus – Property & Equipment	7	-	-	-	-	-
Capital Contribution	10	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
Net impact of change in accounting policy					(705)	(705)
Net Income (Loss) for the Period		-	-	-	329,203	329,203
Transfer to Reserves	11	-	65,841	-	(65,841)	-
Revaluation Surplus – property & equipment	7	-	-	-	-	-
Capital Contribution	10	4,500,000	-	-	-	4,500,000
Balance as at December 31, 2019		23,819,185	128,814	374,687	(1,988,162)	22,334,524

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, 2019**
(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.

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, 2019, the Bank had thirteen (13) employees (2018: 13).

2. ACCOUNTING POLICIES

2.1 Basis of Preparation

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

Statement of Compliance

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

2.2 Significant Accounting Judgments and Estimates

In the process of applying the Bank’s accounting policies, Management has exercised judgment and estimates in determining the amounts recognized in the financial statements. 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, 2019**
(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 under IFRS 9 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 Probability of Default (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

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, 2019**
(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. The next building valuation will be carried out in the year ending 2020. CIDB'S commercial building is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If in any year, the carrying amount of the building is deemed greater than its estimated recoverable amount, then it would be written down immediately to its recoverable amount by recording a revaluation decrease. For the year ended December 31, 2019, no impairment loss needs to be recognized in relation to the building as there were no changes in the local real estate market that would have a negative impact on the carrying value of the building. The 2018 and 2019 statistics indicate that the Cayman Islands real estate market continues to grow, evidenced by the healthy demand for property on island. There has been no damage to the building or any structural changes to the building during the year. In addition, the building is not used for cash generation purposes. The building is used solely to carry out the Bank's day to day operations.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(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).

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, 2019, 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, 2019, financial liabilities comprise of accounts payable and accrued liabilities and long-term loan. All financial assets and liabilities as of December 31, 2019 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, 2019**
(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, 2019
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

Financial Instruments (Continued)

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 measurement categories of financial assets FVPL, available for sale (AFS), held-to-maturity and amortised cost are as follows:

- 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)

Gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL are presented in other comprehensive income (OCI) with no subsequent reclassification to the income statement.

Impairment calculation

The Bank accounts for loan loss impairments with a forward-looking expected credit loss (ECL) approach. The Bank records 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, 2019
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Transition disclosures for 2018

The following pages set out the impact of adopting IFRS 9 on the statement of financial position for year ended December 31, 2018, 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, 2019**
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Impairment of Financial Assets

For the years ended December 31, 2019 and 2018, 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.

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2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

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 is based on the date a loan goes non-accrual (that is the date it goes 90 days in arrears). An average PD was calculated for each year across all loans.

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2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

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 64.39%. The forecast unemployment rate for Cayman Islands is 4.5%, which given the strength of the correlation, equates to a forward-looking 12-month PD of 6.87%.

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 2019 of 2.08% - weighted at 6.11%
- Base case – Stable economic position, the PD will remain at its 2019 level of 2.08% - weighted at 30%
- Worst case – Degrading economic position, in line with the expectation of increasing unemployment, resulting in a PD of 6.87% - weighted at 64%

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 3.0%, the base case where the unemployment rate would be between 3.0% and 4.5% and the worst case where the unemployment will exceed 4.5%

The scenario weighted 12-month PD is 5.12%.

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.

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3. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

g) New and Amended International Financial Reporting Standards

IFRS 9 – Amendments: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are solely payments of principal and interest on the principal amount outstanding (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of 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 for recognised leases will be similar to finance lease accounting, with interest and depreciation expense recognised separately in the statement of comprehensive income. 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. Management believes the impact of the new IFRS 16 is negligible on the operations of the Bank.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset, which will generally result in a higher charge being recorded in the statement of comprehensive income compared to IAS 17. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

During 2019, the Bank performed an impact assessment of IFRS 16 and has applied the modified retrospective approach as permitted by the standard. The Bank will recognize a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. As permitted by the standard, this amount will be equal to the lease liability, adjusted for any prepayments or accrued lease payments relating to that lease. The lease liability is measured at an amount equal to the outstanding lease payments at the date of initial application, considering extension and termination options, discounted at the Bank's incremental borrowing rate. The capitalized right-of-use asset consists of a warehouse used for storage.

In summary, the adoption of IFRS 16 is expected to have minimal impact on retained earnings. The recognized right-of-use asset and lease liability at initial application both equal approximately \$28,789.

CAYMAN ISLANDS DEVELOPMENT BANK
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3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, cash at bank and deposit accounts with terms of maturity of three months or less from the date of acquisition. Cash and cash equivalents at December 31 were comprised of the following:

	2019	2018
	\$	\$
Current and Savings Accounts	1,128,116	1,054,313
Fixed Deposit less than three months	2,572,107	2,162,393
Credit loss allowance	(319)	(234)
Cash held on behalf of the Education Council Scholarship Fund	4,081,702	3,342,811
Total	7,781,606	6,559,283

The effective interest rate on call deposits for the year ended December 31, 2019 was 1.64% (2018: 1.59%). The deposits had an average maturity of 135 days (2018: 135 days). Interest income earned on fixed deposits for the year ended December 31, 2019 amounted to \$251,417 (2018: \$169,344).

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.

	Total	Matures Within 91 Days and 180 Days	Matures Within 181 Days and 365 Days
	\$	\$	\$
As of December 31, 2019			
Fixed Deposit	14,117,147	14,117,147	
Expected credit loss allowance	(1,872)	(1,872)	
Net Balance	14,115,275	14,115,275	-
As of December 31, 2018			
Fixed Deposit	11,771,260	11,771,260	-
Expected credit loss allowance	(1,274)	(1,274)	-
Net Balance	11,769,986	11,769,986	-

Expected credit loss allowance on fixed deposits

Total expected credit loss on fixed deposits, all with maturities of 6 months or less is \$2,191 (2018: \$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 of the financial institution with which deposit is held, determined using the Bloomberg DRSK function. The LGD was derived based on 2018 Moody's Default study and the EAD derived based on the actual deposits held with financial institutions at year end.

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5. TERM DEPOSITS, LOAN INTEREST AND OTHER RECEIVABLES

The balances as of December 31 are as follows:

	December 31, 2019	December 31, 2018
Loan interest receivable	23,459	16,730
Deposit interest receivable	58,114	59,728
Late fee receivable	439	425
Receivable for CIG Output	131,579	256,579
Receivable for Ministry of Education Output	10,113	20,229
Receivable from Public Service Pension (pension over payment)	13,622	-
Other	2,088	-
Total	239,414	353,691

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, 2019. Subsequent to year end, amounts for completed projects will be transferred to the relevant property and equipment cost account.

	December 31, 2019 \$	December 31, 2018 \$
Computer software	-	74,576
Furniture and equipment	5,500	5,500
Total	5,500	80,076

PREPAID EXPENSES

Prepaid expenses as of December 31 comprise the following:

	December 31 2019 \$	December 31 2018 \$
Software maintenance	19,188	14,618
Insurance	11,135	10,286
Salary	-	500
Permanent residence fee	1,294	1,294
Other	3,363	3,365
Total	34,980	30,063

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6. LOANS TO CUSTOMERS

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

	2019	2018
	\$	\$
Mortgages	8,322,776	9,475,885
Business Loans	4,285,949	5,858,024
Student Loans	3,044,100	3,458,790
Debt Consolidation	2,906,331	4,078,514
2015 Debt Consolidation Loan Program	720,166	1,163,577
Financial Stimulus	653,728	909,801
NHDT Mortgages	575,259	-
Staff Loans	544,252	594,181
SME 2015 Loan Program	108,002	139,268
Personal Financial Assistance	20,531	29,351
Other Loans	3,529	3,463
	21,184,623	25,710,854
Less: Expected Credit Loss Allowance	(1,648,631)	(4,302,811)
Total Net Balances	19,535,992	21,408,043

	2019	2018
	\$	\$
Short Term Portion	2,221,726	1,409,966
Long Term Portion	18,962,897	24,300,888
Total	21,184,623	25,710,854

Loans to customers' maturity analysis

	2019	2018
	\$	\$
0 – 3 Months	1,641,702	703,865
3 – 12 Months	580,024	706,101
1 – 5 Years	4,249,814	6,465,697
Over 5 Years	14,713,083	17,835,191
Total	21,184,623	25,710,854

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6. LOANS TO CUSTOMERS (CONTINUED)

Expected Credit Loss Allowances as of December 31, 2019

	\$	\$
Stage 1: Provision 12 month ECL performing loans	8,427,742	16,103
Stage 2: Provision lifetime ECL performing loans	2,956,397	98,272
Stage 3: Provision ECL credit impaired loans	9,800,484	1,534,256
Total	21,184,623	1,648,631

Expected Credit Loss Allowances as of December 31, 2018

	\$	\$
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

	2019 \$	2018 \$
Balance at beginning of year	4,302,811	3,643,159
Remeasurement	(666,782)	659,652
Loans previously provided for written off	(1,987,398)	-
Balance at end of year	1,648,631	4,302,811

As at December 31, 2019, the Bank had loan commitments amounting to \$196,355 (2018: \$598,143). 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

	2019 \$	2018 \$
Performing loans	827,696	884,356
Non-performing loans	485,142	395,556
Total	1,312,838	1,279,912

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6. LOANS TO CUSTOMERS (CONTINUED)

Performing and Non-Performing Loans December 31, 2019

	Mortgages \$	NHDT 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	4,083,782	575,259	437,153	1,635,177	96,356	584,101	1,883,477	620,036	544,252	-	3,529	10,463,122
Non- Performing Loans	4,238,994	-	3,848,796	1,271,554	11,646	136,065	1,160,623	33,692	-	20,531	-	10,721,501
Gross Total Loans	8,322,776	575,259	4,285,949	2,906,731	108,002	720,166	3,044,100	653,728	544,252	20,531	3,529	21,184,623

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	2,157,469	1,276,222	99,167	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	17,1960	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

The average interest yield during the period on loans to customers was 5.60% (2018: 4.67%). Impaired loans as of December 31, 2019 amounted to \$10,721,501 (2018: \$13,542,381) and interest taken to income on impaired loans during the period amounted to \$485,142 (2018: \$395,556).

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6. LOANS TO CUSTOMERS (CONTINUED)

Ageing Analysis of Past Due but not Impaired Loans

As of December 31, 2019

	Mortgages	NHDT	Business		SME 2015	2015 Debt		Financial		Total
	\$	Mortgages	Loans	Debt Consolidation	Loan	Consolidation	Student Loans	Stimulus	Other	\$
	\$	\$	\$	\$	Program	\$	\$	\$	\$	\$
30 days and less	523,198	124,487	-	-	-	52,868	677,512	322,346	1,149	1,701,560
31 to 60 days	1,108,321	118,750	38,148	146,830	60,117	-	34,556	-	-	1,506,722
61 and less than 90 days	91,635	-	-	-	-	12,499	79,628	-	-	183,762
	<u>1,723,154</u>	<u>243,237</u>	<u>38,148</u>	<u>146,830</u>	<u>60,117</u>	<u>65,367</u>	<u>791,696</u>	<u>322,346</u>	<u>1,149</u>	<u>3,392,044</u>

As of December 31, 2018

	Mortgages	Business Loans	Debt Consolidation		SME 2015	2015 Debt		Financial		Total
	\$	\$	\$	Program	Consolidation	Student Loans	Stimulus	Other	\$	\$
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
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>

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 \$334,936 (2018: \$929,845). Subsequent to December 31, 2019 and as of the date of these financial statements, one of the loans restructured during the fiscal year with a principal balance of \$15,164 is 90 days or more in arrears and is, therefore, considered impaired.

Reposessed Collateral

In the normal course of business, the security documentation which governs the collateral charged in favour of the Bank to secure the debt, gives the Bank express authority to repossess collateral in the event of default by customers. Repossessed collateral is sold as soon as practicable, with proceeds used to reduce the outstanding indebtedness. Repossessed collateral is not recognized on the Bank's statement of financial position. Repossessed collateral as of December 31, 2019 amounted to \$5,371,000 (2018: \$7,566,250).

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7. PROPERTY AND EQUIPMENT

	Building	Motor Vehicles	Computers	Furniture and Office Equipment	Total
Cost	\$	\$	\$	\$	\$
At January 1, 2019	760,000	29,880	410,155	100,867	1,300,902
Additions	-	-	97,359	4,160	101,519
Disposals	-	-	-	-	-
At December 31, 2019	760,000	29,880	507,514	105,027	1,402,421
Accumulated Depreciation					
At January 1, 2019	15,200	18,426	370,921	95,285	499,832
Depreciation charge for the year	15,200	5,976	43,606	1,759	66,541
Disposals	-	-	-	-	-
At December 31, 2019	30,400	24,402	414,527	97,044	566,373
Net Book Value – December 31, 2019	729,600	5,478	92,987	7,983	836,048
Net Book Value – December 31, 2018	744,800	11,454	39,234	5,582	801,070

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, 2019. 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 and for September 2019 to August 2020 is US\$25,495.

Movement in Revaluation Reserve – Building

	2019	2018
	\$	\$
Balance brought forward	374,687	374,687
Revaluation surplus (deficit)	-	-
Revaluation reserve balance carried forward	374,687	374,687

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8. LEASE

The Bank leases warehouse storage facility. The current lease runs for 5 years from July 2017 to July 2022 with monthly lease payments of \$540. As permitted under IFRS 16, the Bank has adopted the modified retrospective approach to leases. Under this approach, the Bank measures the right-of-use asset as if it had applied IFRS 16 since the commencement date using an incremental borrowing rate at the date of initial application. The cost of the right-of-use asset comprises the amount of the initial measurement of the lease liability. The lease liability is measured as the present value of the unpaid lease payments at commencement date of the lease.

Subsequent to initial measurement of the right-of-use asset, the Bank applies the cost model. In applying the cost model, the Bank measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability.

Subsequent to initial measurement of the lease liability, the Bank measures the lease liability by:

- a) increasing the carrying amount to reflect interest on the lease liability
- b) reducing the carrying amount to reflect the lease payments made
- c) remeasuring the carrying amount to reflect any reassessment or lease modifications

Right-of-Use Asset

	2019
	\$
Cost - warehouse storage unit	28,789
Less accumulated depreciation January 1	(8,637)
Less depreciation for current year	(5,758)
Balance at December 31	14,394

Lease Liability

Maturity Analysis

	2019
	\$
Due in less than one year	5,883
Due in one to two years	6,168
Due in two to five years	3,195
Due over five years	-
Total	15,246

Interest expense recognized on lease liability for the year amounted to \$870.

Total lease payments for the year amounted to \$6,480.

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9. 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, the balances were as follows:

	2019	2018
	\$	\$
Funds in hand for payment of fees on behalf of customers	61,317	24,101
Professional fees	87,140	81,011
Accrued leave liability	10,661	11,706
Credit card	1,051	334
Other payables	16,699	5,886
Total	<u>176,868</u>	<u>123,038</u>

10. AUTHORIZED AND CONTRIBUTED CAPITAL

The authorized capital of CIDB is C\$50 million as stated in Section 14(1) of the *Cayman Islands Development Bank Law, (2018 Revision)*. At December 31, 2019, the amount of contributed capital of \$23,819,185 (2018: \$19,319,185) amounted to 48% (2018: 39%) 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, 2019 the Bank received \$4,500,000 in contributed capital from the Cayman Islands Government (2018: \$2,250,000).

11. 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 \$23.8 Million). There was a transfer of \$65,841 to the Reserve Fund for year ended December 31, 2019 as the Bank made a net profit of \$329,203 (2018: Nil). As of December 31, 2019, the Statutory Reserve Fund has a balance of \$128,814 (2018: \$62,973).

12. PERSONNEL

Public Service Pension Plan

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

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12. 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 12% of the employees' monthly pensionable earnings to the Public Service Pension Fund. The total amount contributed by CIDB for the year ended December 31, 2019 was \$107,513 (2018: \$108,173).

Pension contributions are paid for all eligible employees on their pensionable emoluments. Twelve of the Bank's 13 employees (2018: 12) 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>2019</u>	<u>2018</u>
Defined Contribution Plans	- Employee	6%	6%
	- Employer	6%	6%

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.

13. RELATED PARTY TRANSACTIONS

a) Cayman Islands Government Dividend Policy

The Cayman Islands Government has a policy for the payment of annual dividends by Statutory and Government Owned Companies (SAGCs). Dividends are calculated and paid to Government based on the higher of 5% of operating revenue and 50% of operating surplus. An SAGC is exempt from paying dividends in accordance with Section 19 of the policy. CIDB is, therefore, claiming exemption under Section 19a of the policy (and which has been approved by the Accountant General), which allows exemption if "*the operations of the SAGC are not self-sustainable (i.e. the SAGC is reliant on core government subsidies, capital injections or charitable donations to fund its operating activities)*". CIDB is currently economically dependent upon Government to meet annual operating expenses and receives an annual output from Government in the amount of \$526,317. In addition, CIDB currently receives annual capital injection of \$4.5 Million from Government to help repay an existing long-term debt held with a local financial institution. As such, no dividends have been accrued in these financial statements for year ended December 31, 2019.

b) 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, 2019, CIDB received payments of \$526,317 (2018: \$1,026,317) for providing these services as outlined in a purchase agreement between CIDB and the Cayman Islands Government. Currently, CIDB is economically dependent upon Government to meet its operational expenditure.

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13. RELATED PARTY TRANSACTIONS (CONTINUED)

a) Transaction with the Cayman Islands Government (continued)

The amounts received and disbursed on behalf of the programs are recorded on a timely basis by CIDB and the cash balances as of December 31, 2019 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, 2019 and 2018 are as follows:

	2019	2018
	\$	\$
Education Council Scholarship Fund	4,081,702	3,342,811
Housing Recovery Grant	179,395	176,963
Total	<u>4,261,097</u>	<u>3,519,774</u>

b) Transactions with Members of Management and Staff

During the year ended December 31, 2019, 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, 2019 totaled \$489,448 (2018: \$486,540), 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, 2019 amounted to \$35,508 (2018: \$48,256).

As at December 31, 2019, Senior Management held loans totaling \$31,179 (2018: \$46,606). Income earned on Senior Management loans for year ended December 31, 2019 amounted \$1,865 (2018: \$2,563).

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13. RELATED PARTY TRANSACTIONS (CONTINUED)

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

As of December 31, 2019, the total staff loan balance is \$544,252 (2018: \$594,181). 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, 2019, the Bank has not made any provision for impairment losses relating to amounts owed by Senior Management or staff (2018: Nil).

14. 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 15.

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 \$19,535,992 represents the maximum exposure to credit risk as of December 31, 2019 (2018: \$21,408,043) 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, 2019, the total net cash and equivalents of \$7,781,606 (2018: \$6,559,283) and net fixed deposit of \$14,115,275 (2018: \$11,769,986) 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.

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.

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15. LONG-TERM DEBT

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

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, 2019 amounted to \$685,659 (2018: \$768,715). All borrowing costs incurred during the period have been expensed.

Terms and Principal Repayment Debt Schedule as at December 31, 2019

	TOTAL	1 Year or less	1-2 Years	2 - 5 Years	Over 5 Years
	\$	\$	\$	\$	\$
Secured Credit Facility					
US\$ 18.9 Million due June 2025, Variable					
Rate at 3-Month US\$ LIBOR plus					
1.125%	15,774,123	4,076,458	4,076,458	7,621,207	-
TOTAL	15,774,123	4,076,458	4,076,458	7,621,207	-

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	-

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16. OTHER SIGNIFICANT EXPENSE ITEMS

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

a) Salaries and Other Staff Benefits

	2019	2018
	\$	\$
Salaries	951,142	841,209
Medical Expenses	213,622	171,002
Pension Cost – Defined Contribution Plan	107,513	108,173
Recruitment and Other Related Expenses	10,122	18,220
	<u>1,282,399</u>	<u>1,138,604</u>

b) Accommodation Costs

	2019	2018
	\$	\$
Strata Fees	37,708	37,708
Electricity	25,763	23,856
Telephone	14,501	12,755
Insurance-Contents	5,934	5,502
Janitorial Costs	10,800	10,800
Other	9,439	14,892
	<u>104,145</u>	<u>105,513</u>

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17. STATEMENT OF CONTINGENT LIABILITIES AND COMMITMENTS

The Bank had no known contingent liabilities at December 31, 2019 (2018: Nil).

At December 31, 2019 and 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 \$21,181 (2018: \$20,770).

As at December 31, 2019, the Bank had loan commitments amounting to \$196,355 (2018: \$598,143). 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.

18. EVENTS AFTER THE REPORTING DATE

Impact of COVID-19 Pandemic

In December 2019, a novel strain of coronavirus was reported to have surfaced in China. The global efforts to contain the spread of the coronavirus began to cause significant disruption in the global and local economies from January 2020 to date. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Therefore, while the Bank expects this matter to negatively impact its operating results, the related financial impact and duration cannot be reasonably estimated with any high degree of certainty at this time. As it relates to ECL, management of the Bank, however, expects an increase in the one-year default rate. Based on recently published unemployment rate of 12.30% (due to the impact of COVID-19) by the Cayman Islands Economic and Statistics Office (ESO), Management in applying this unemployment rate of 12.30% to the ECL model, predicts the one-year probability default rate at 28.46, weighted at 100% to estimate the worst case scenario which would cause the Stage 1 ECL provisioning amount in the model to increase from the current amount of \$16,103 to \$89,466, an increase of \$73,363. Also, Management expects an increase in the number of loans that will move from bucket 1 to bucket 2 and from bucket 2 to bucket 3. The two factors above will obviously lead to an increase in the ECL for the unsecured loans in the portfolio. The secured loans in the portfolio may most likely be impacted by possible reduction in the valuation of the collateral which may impact ECL on these loans to the extent that they are not over-collateralized. Management is unable to provide at this time a reliable estimate of the expected change in the amount of loan impairment, however, given that \$16,434,739 (78%) of the Bank's loan portfolio is secured by first charge over property, the increase in ECL in 2020 may be less than anticipated. The Cayman Islands Tourism Sector has been impacted significantly by the pandemic. As a result, Management performed a review of the loan portfolio to determine the percentage of tourism-related loans. Based on a review, it was determined that there are 7 tourism-related loans, with combined total principal balances of \$522,446, representing 2.5% of the loan portfolio. Two of these loans are mortgages with a combined loan balance of \$353,755. However, Management is unsure of the number of customers with loans that maybe impacted indirectly or directly by the fallout in the tourism sector and what impact this may have on future loan collections due to loss of income by customers.

Joint Business Loan Program

In response to the coronavirus pandemic, the Government of the Cayman Islands approved a joint loan program between the Cayman Islands Development Bank and the Cayman Islands Centre for Business Development, an arm of the Ministry of Commerce, Planning and Infrastructure to lend \$5 Million dollars to micro and small businesses. Under this loan program, the Bank has proposed a very low interest rate of 1% per annum for the first year, with 6 months loan payment waiver. After the first year, interest rate on these loans will be capped at 4% per annum. A micro business can access up to \$20,000 and a small business can access up to \$50,000. A micro business is defined as any business with annual revenue of up to \$250,000 and 4 employees, excluding the owner. A small business is defined as any business with annual revenue of up to \$750,000 and 11 employees, excluding the owner.

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18. EVENTS AFTER THE REPORTING DATE (CONTINUED)

Loan Payment Waivers

In addition, the Bank received directive from the Cayman Islands Government to waive loan payments for all customers who request such a waiver for 3 months from April 2020 to June 2020. The bank estimates that as much as 75% of existing customers could request loan payment waivers. If this happens, then the Bank would not be able to collect approximately \$400,000 in loan payments over this 3-month period. To date, \$83,354 in loan payment waivers have been requested by customers. These waivers relate to total principal balance of \$2,582,358, representing 12% of the loan portfolio.