



ANNUAL REPORT

FOR

THE YEAR ENDED

DECEMBER 31, 2021

Contents

MESSAGE FROM CHIEF EXECUTIVE OFFICER	3
Vision Statement	4
Report for the Year Ended December 31, 2021	5
1) Nature and Scope of Activities	5
2) Governance.....	5
3) Our People	5
4) Management Discussion and Analysis.....	9
i) Loan Performance.....	9
ii) Loan Delinquency	9
iii) Financial Performance	10
5) Programmes Administered on Behalf of the Cayman Islands Government.....	10
6) The Future.....	10
7) Acknowledgements	11
8) Appendix: Ownership Performance Reporting and Statement Outputs Delivered to Cabinet.....	12
Outputs Delivered to Cabinet (Financial Performance).....	12
OUTPUTS TO BE DELIVERED IN 2022 AND 2023	15
Financial Statements	16
For the Year Ended December 31, 2021	16
Statement of Responsibility for the Financial Statements	18
AUDITOR GENERAL'S REPORT.....	19
STATEMENT OF FINANCIAL POSTION.....	22
STATEMENT OF COMPREHENSIVE INCOME	23
STATEMENT OF CASH FLOWS	24
STATEMENT OF CHANGES IN EQUITY	25
NOTES TO THE FINANCIAL STATEMENTS	26
IMPACT OF COVID-19 PANDEMIC.....	52
EVENTS AFTER THE REPORTING DATE	53



MESSAGE FROM CHIEF EXECUTIVE OFFICER

The Cayman Islands continued to feel the impact of Covid-19 in 2021. The phased border re-opening provided some financial relief but tourism was trickling in as our primary tourism market still grappled with high infection rates. Small businesses are still operating below capacity and many cannot access additional capital.

While real estate sales of \$1 billion broke records in 2021, the bank does not provide mortgage financing to non-Caymanians and was unable to capitalize on these sales. The bank had CI\$1.8million available to fund loans however, there was very little demand for mortgages for first time Caymanian homeowners due to inflation and land scarcity. The bank has a very competitive mortgage package but Caymanians were unable to purchase homes or buy raw land that was affordable. The NHDT will be building close to 100 homes to which the bank has a dedicated mortgage product to fund these homes but this will not be available until 2023.

The pandemic had the effect of accelerating digital banking and saw the decline of cash use. This enabled customers to readily effect loan transactions and make regular scheduled payments without visiting the branch.

In order for the bank to improve its market acceptance a shift to providing financial services to attract customer growth is needed by targeting specific needs. Examples include bringing customers into an ecosystem that connects them to other services. Government is integrating its ecommerce to accomplish a one stop shop for obtaining multiple services. Providing value added services that generate greater customer involvement and sustainable fees will be essential for future growth.

Banks have not yet had to take substantial write-offs; their forbearance programs and government support have kept households and companies afloat, however, few expect this state of suspended animation to last. It is projected that loan-loss provisions (LLPs) in the coming years will increase as support ceases. The bank ceased foreclosure activity to further assist customers in 2021 and sold the majority of its foreclosed properties that were on its books for several years without a sale. It is inevitable that legal recourse will be reinstituted for 2022 to assist with any further erosion of the bank's balance sheet.

The bank's Tangible Net Worth remains strong at \$31million. A net loss of \$328K was recorded with total comprehensive income of CI\$166K due to the revaluation surplus of the bank's building of \$495K. The bank's delinquency ratio continues to fall due to increased collection efforts and policy solutions to assist its customers.

The bank is a wholly owned Government entity and as such has the capacity to continue to roll out programs that are socially inclined to continue to help its people recover.

I would like to take this opportunity to thank my staff for their continued support and dedication to provide care and compassion for our customers and one another. Thank you.

Tracy Ebanks

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, 2021

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, 2021, the bank had a total of 15 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	Roger Bodden, BSc (Hons), Notary Public
Acting Senior Manager Credit	Carlene Wilson, AICB

During the year ended December 31, 2021, employees of the Bank participated in a number of mandatory training programs that included training in Anti-Money Laundering and Fraud. The staff also availed of free online courses hosted by the Caribbean Development Bank to sharpen their knowledge and attended several Chamber of Commerce training courses.

Fiscal year 2021 saw a strong staff engagement in the community and in marketing efforts for new loan products.

In January we joined Plastic Free Cayman to help clean up the beaches in East End and West Bay.



In March the bank attended the Chamber's Career Fair at the UCCI, (From Left to Right Brandon McLean, Carlene Wilson, The Honorable Governor Martyn Roper, Tracy Ebanks, Erna Davis)



The bank also attended the Layman Scott High School Career Fair in Cayman Brac and the Clifton Hunter High School in Frank Sound. Mrs. Erna Davis, Brandon McLean and Floyd Groves were instrumental in arranging the displays, social and technical media.



In April members of staff joined the annual Earth Day clean up. In August, the bank's Credit Team attended the North Side Community Meeting with a booth advertising the various bank loan products and the GM/CEO gave a presentation on its special mortgage program for the National Housing Development Trust homes.



The bank rounded out the year hosting the second annual Customer Appreciation Day in December. It was a very successful event and the bank's staff worked very hard to decorate the hall and organize food and games for the bank's customers. The Credit Team decorated their individual offices and customers were invited to vote for their favourite. The overall winner was Mrs. Erna Davis pictured in the elf costume.



4) Management Discussion and Analysis

The key objectives for fiscal year 2021 were as follows:

Continue availment of funds in support of the Business Interruption Loans

Potential roll out of new Home Energy Loan Program “HELP”

Potential roll out of CI\$10Million for Mortgages

Expanded payment relief support due to Covid-19

Provision of financial counseling for customers

Continue engagement within the community

i) Loan Performance

As of December 31, 2021, the loan portfolio stood at \$17,053,100 before loan loss provision of \$727,640 compared to the loan portfolio as of year ended December 31, 2020 of \$19,380,193 before loan loss provision of \$1,480,387, representing a net decrease of 11% in the loan portfolio over year ended December 31, 2020.

Number and value of new loans inclusive of restructures and existing loan disbursements approved for the Year Ended December 31, 2021. Does not include 90 disbursements totaling \$143K for insurance, legal fees and property valuations.

Loan Category	Number of Loans	Limit
Business Loan	8	\$26,612
2020 MSBIL	6	\$133,684
Mortgage	25	\$530,775
Student Loan	7	\$92,206
Other	30	\$121,592
TOTAL	76	\$904,869

The Bank rolled out its new Home Energy Loan Program and a Mortgage Program for first time Caymanian homeowners and/or switch from an existing commercial financial institution. Despite the marketing effort and fielding hundreds of enquiries, the bank did not book any HELP and only 2 mortgages. The low acceptance was attributed to the lack of housing stock available for purchase and raw land due to the record land sales in 2021. Homes are not available to purchase within the banks' mortgage lending limits. The bank did not finance any NHDT homes under its Affordable Home Mortgage Program as construction of these homes was delayed due to the general elections and subsequent change of government.

ii) Loan Delinquency

Delinquent loans continued to decrease and fell to 34% totaling \$6Million as at December 31, 2021 compared to 50% in 2019 and 35.5% in 2020 the previous year totaling \$10.7Million and \$7.4Million respectively. Despite the record land sales in 2021, the economic recovery for the tourism sector was still negatively impacted due to prolonged Covid-19 measures. Although the bank sold the majority of properties that were foreclosed on prior to the pandemic of 2020, the bank did not initiate foreclosure proceedings in 2021 due to the prolonged weakened local economy and inflation. The Bank continues to work with customers in an attempt to reduce delinquency levels and will discuss with the board and the ministry their position on commencing debt recovery through legal recourse.

iii) Financial Performance

As of December 31, 2021, the total assets of the Bank stood at \$47,310,582 (excluding cash held on behalf of the Education Council Scholarship Fund of \$7,660,365), an increase of \$5,793,684 attributed to an increase of cash and fixed deposits. The loan portfolio represented approximately 28% of the Bank's assets as of December 31, 2021 a 18% decrease from 2020. This was the result of approximately \$1.8Million in early loan pay outs and limited lending. Overall Liabilities increased by \$1.1 Million due to the scholarship funds held for disbursements totaling \$7.6Million however, the long term loan facility with FirstCaribbean International Bank now stands at \$7.6Million down from \$11.6Million from the semi annual payments.

Gross income decreased 29% for the year ended December 31, 2021 despite lower interest expense due to a decrease in interest income.

Interest income from loans decreased 33% from the previous year period due to the early pay out of loans for approximately \$1.8Million and limited loan growth. In addition, low interest rates earned reduced earnings on fixed deposits.

The Bank's operating expenses increased 10% overall due to an increase in accommodation costs, advertising, office expenses that included Covid-19 supplies and salary/benefits. The full year impact of the 2 vacancies filled mid 2020 attributed to the salary increase plus rising health insurance premiums.

5) Programmes Administered on Behalf of the Cayman Islands Government

During the fiscal year ended December 31, 2021, the Bank continued to provide administrative services to the Cayman Islands Government in respect of the various government guaranteed loan programmes as well as the administration of the funds under the Government's Scholarship Programme.

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

6) The Future

The outputs received by Government to assist with the administration of various programs on their behalf and operational costs of the Bank have not changed over the years. Operational costs have increased due to an increase in insurances, legal fees and other services incurred to manage the portfolio. Regulatory changes also required the hiring of additional staff to remain compliant with CIMA, Internal Audit and the Auditor General. An increase in output support from Government will eventually be needed until such time a strategic direction is executed for medium to long term growth.

The bank has approximately \$16 million to on lend that will assist with funding mortgages to customers eligible under the National Development Housing Trust projects started in North Side and West Bay in 2022.

There are several large projects under construction and some that are nearing completion that will explode the population in the Cayman Islands and further exacerbate the housing shortage crisis.

While the NHDT houses assist with approximately 50 homes for Caymanians, it is understood that hundreds are waiting. In addition, many may not want to live in an affordable schemed area due to covenants however, land scarcity has made home ownership unattainable for many.

Additional mortgage products will be needed to provide housing to the Caymanian middle class to compete with the non-Caymanian workforce in a higher income bracket.

COVID-19-caused crisis, led NDBs to significantly increase their lending, among other operations, in a counter-cyclical way, contributing to saving jobs and companies, as well as supporting a sustainable economic recovery. The Bank is keen on working with the Government's Environmental initiatives to reduce the reliance on fuel and cost savings for consumers. A Home Energy Loan Program "HELP" was launched in the 4th quarter of fiscal 2021. The HELP program assists with improving the thermal characteristics of a home by having proper insulation and weatherization and buying up-to-date technologies. The Cayman Islands have a strong building code to ensure better protection against the elements, but regular maintenance is required. The installation of hurricane windows and doors would not only afford costs savings through lower utility bills but could mean the difference between losing electricity for several days compared to losing your home. The HELP will be revisited in 2022 to extend amortization to gain better market acceptance.

A new board of directors was announced February 2022 and the key objectives will need to be determined. Objectives could include:

Continue availment of funds in support of the Business Interruption Loans

Continue availment of the Home Energy Loan Program "HELP"

Potential roll out of new mortgage products

Expanded payment relief support due to Covid-19

Provision of financial counseling for customers

Continue engagement within the community

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)

FINANCIAL PERFORMANCE MEASURE	2021 ACTUAL \$000'S	2021 BUDGET \$000'S	ANNUAL VARIANCE \$000'S	NOTE
REVENUE FROM CABINET	526	526	-	
REVENUE FROM MINISTRIES, PORTFOLIOS, STATUTORY AUTHORITIES AND GOVERNMENT COMPANIES	40	40	-	
REVENUE FROM OTHER PERSONS OR ORGANISATIONS	1,113	2,177	(1,064)	1
SURPLUS/DEFICIT FROM OUTPUTS				
OTHER EXPENSES	1,990	2,867	(877)	2
NET SURPLUS (DEFICIT)	(311)	(124)	(187)	3
TOTAL ASSETS	47,311	39,743	7,568	4
TOTAL LIABILITIES	15,461	8,633	6,828	5
NET WORTH	31,850	31,110	740	6
CASH FLOWS FROM OPERATING ACTIVITIES	7,280	(3,204)	10,484	7
CASH FLOWS FROM INVESTING ACTIVITIES	(6,381)	1,500	(7,881)	8
CASH FLOWS FROM FINANCING ACTIVITIES	417	424	(7)	
CHANGE IN CASH BALANCES	1,316	(1,280)	2,596	
FINANCIAL PERFORMANCE RATIO				
CURRENT ASSETS : CURRENT LIABILITIES	242%	300%	-58%	
TOTAL ASSETS : TOTAL LIABILITIES	306%	460%	-154%	
NOTES: EXPLANATION FOR VARIANCE				

External revenue lower than budget due to less consumer loan lending. The COVID-19 Pandemic also
1 impacted lending.

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
2 provisioning.

3 Lower than budgeted revenue had negative impact on net deficit.

Total assets grew over budget due to a number of loans repaid ahead of scheduled maturity which
4 increased cash and bank balances.

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 \$7.6 Million in this fund at year end due to timing of receipts from Government and
5 payments to students.

Net worth higher than budget due to increased cash at bank from customer loans repaid ahead of
6 scheduled maturity.

The increase in cash flows from operating activities over budget can be attributed to cash received from
customers paying out a number of loans ahead of scheduled maturity and the timing of receipts from
7 Government for the Ministry of Education Scholarship Fund..

The decline in cash flows from investing activities over budget can be attributed to higher than expected
amounts transferred from cash to long-term fixed deposits during the year. Rather than having funds
sitting idle in regular cash accounts, the Bank makes every effort to place excess funds on fixed deposit to
8 earn interest income until funds are ready for disbursement through loan programs.

HUMAN CAPITAL MEASURES	2021 ACTUAL \$000'S	2021 BUDGET \$000'S	ANNUAL VARIANCE \$000'S	NOTE
TOTAL FULL TIME EQUIVALENT STAFF EMPLOYED	15	15	-	
STAFF TURNOVER (%)				
SENIOR MANAGER	-	-	-	
PROFESSIONAL AND TECHNICAL STAFF	-	-	-	
ADMINISTRATIVE STAFF	-	-	-	
PHYSICAL CAPITAL MEASURES				
VALUE OF TOTAL ASSETS	47,311	39,743	7,568	1
ASSET REPLACEMENTS : TOTAL ASSETS	-	-	-	
BOOK VALUE OF ASSETS : COST OF THOSE ASSETS	66%	50%	16%	2
DEPRECIATION : CASH FLOW ON ASSET PURCHASES	1013%	0%	1013%	3
CHANGES TO ASSET MANAGEMENT POLICES	NONE	NONE	-	
MAJOR CAPITAL EXPENDITURE PROJECTS				
BANKING SOFTWARE AND COMPUTER HARDWARE	-	-	-	
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.	-	-	-	
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	533	487	46	4
Remuneration Payments made to Senior Management	423	387	36	4
NUMBER OF KEY MANAGEMENT PERSONNEL (BOARD)	6	6	-	
NUMBER OF KEY SENIOR MANAGEMENT (MD)	3	3	-	

NOTES: EXPLANATION FOR VARIANCE

VALUE OF TOTAL ASSETS: Total assets increased over budget due to cash received from customers paying out a number of loans ahead of scheduled maturity, plus a large balance of \$7.6 Million in the Ministry of Education of Education Scholarship Fund at year end due
1 to timing of receipt from Government.

BOOK VALUE OF ASSETS : COST OF THOSE ASSETS ratio higher than budget due to
2 purchase of computer equipment and office furniture.

DEPRECIATION : CASH FLOW ON ASSET PURCHASES: There were no planned asset purchases in 2021, however additional computer equipment and office furniture were
3 needed.

Remuneration paid to key management personnel higher than budget due to the
4 Government award of the COLA that was not included in the 2021 budget.

OUTPUTS TO BE DELIVERED IN 2022 AND 2023

The outputs to be purchased by Cabinet and delivered by the Cayman Islands Development Bank during the 2022 and 2023 financial years are documented below.

2023 financial years are documented below.

DVB 4	Administration of Lending Activities		
DESCRIPTION Administration of lending activities involving: Human Resource Development A programme of direct lending for human resource development at the tertiary level and for vocational training A government guaranteed student loan scheme funded by leading local commercial banks Micro and Small Business Development promoting the programme through various media providing a counselling and information service appraising loans considered for financing ensuring adequate loan documentation monitoring the loan portfolio ensuring debt collection measures generating periodic performance reports Mortgage Finance Programme including direct lending and support services to assist low to middle income Caymanians in owning their own homes and owners of sub-standard housing in improving their housing accommodation by: promoting the programme through media advertising monitoring projects in progress providing a counselling 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	2022 1 Jan to 31 Dec 2022	2023 1 Jan to 31 Dec 2023	2021 12-Month Actual
QUANTITY Number of enquiries responded to Number of loans processed Number of new loans approved Number of site visits Number of counselling sessions Number of loans under special debt service arrangements Number of loans under litigation Number of performance reports	140-200 70-100 75-95 20-25 80-100 60-80 30-40 24	150-225 80-110 85-100 20-25 85-105 50-70 25-35 24	483 76 76 11 270 4 13 24
QUALITY Minimum percent of customers expressing satisfaction with service when surveyed Percentage accuracy and relevance of reports as determined by internal peer review Percentage of borrowers over 90 days in arrears Percentage value of loan portfolio over 90 days in arrears Percentage of loan portfolio written off annually	90-100 90-100 35-43 35-42 4-8%	90-100 90-100 30-25 25-30 4-6%	90-100 90-100 32 34 3%
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	80-100 90-100	80-100 90-100	90 95
LOCATION Services are delivered within the Cayman Islands	100%	100%	100%
COST	\$526,317	\$526,317	\$526,317
RELATED BROAD OUTCOME: Providing solutions to improve the well-being of our people so they can achieve their full potential			

Cayman Islands Development Bank
Financial Statements
For the Year Ended December 31, 2021

CAYMAN ISLANDS DEVELOPMENT BANK

FINANCIAL STATEMENTS

For the Year Ended December 31, 2021

Table of Contents

	Page
Statement of Responsibility for the Financial Statements	18
Auditor General's Report	19-21
Statement of Financial Position	22
Statement of Comprehensive Income	23
Statement of Cash Flows	24
Statement of Changes in Equity	25
Notes to the Financial Statements	26-53

Cayman Islands Development Bank
Statement of Responsibility for the Financial Statements
December 31, 2021

These financial statements have been prepared by the Cayman Islands Development Bank in accordance with the provisions of the *Public Management and Finance Act (2020 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 Act (2020 Revision)*.

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

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

The financial statements fairly present the financial position of the Cayman Islands Development Bank as at 31 December 2021, and its financial performance, cash flows and changes in equity for the financial period then ended.

To the best of our knowledge the statements:

- (a) completely and reliably reflect the financial transactions of the Cayman Islands Development Bank for the year ended 31 December 2021;
- (b) fairly reflect the financial position as at 31 December 2021 and financial performance for the year ended 31 December 2021; and
- (c) comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.



Mark Scotland
Chairman of the Board of Directors
Cayman Islands Development Bank



Tracy Ebanks
General Manager
Cayman Islands Development Bank

Date: April 29, 2022

Date: April 29, 2022



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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 31st December 2021 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31st December 2021, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 10 to 37.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31st December 2021 and its financial performance and its cash flows for the year ended 31st December 2021 in accordance with Section 21(3) of the Cayman Islands Development Bank Act (2018 Revision) and the provisions of Section 60(1)(a) of the Public Management and Finance Act (2020 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 31st December 2021 amounted to \$6,051,880. This represents 34% 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 31st December 2021. 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 Act (2020 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

29th April 2022
Cayman Islands

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021
(Expressed in Cayman Islands Dollars)

	Notes	2021 \$	2020 \$
ASSETS			
<u>Current Assets</u>			
Cash and Cash Equivalents	3, 13	10,539,293	9,222,372
Term Deposit, Loan Interest and Other Receivable	5	205,216	209,447
Fixed Deposit, Net of Allowance for Expected Credit Losses	4	18,138,768	11,763,374
Loans to Customers, Net of Allowance for Expected Credit Losses - Current Portion	6	918,176	1,176,011
Total Current Assets		29,801,453	22,371,204
<u>Non-Current Assets</u>			
Loans to Customers, Net of Allowance for Expected Credit Losses - Non-Current Portion	6	16,134,924	18,204,182
Prepaid Expenses	5	41,543	42,458
Deposit on Assets	5	5,928	5,500
Property and Equipment	7	1,305,766	884,917
Lease Right-of-Use Asset	8	2,879	8,637
Total Non-Current Assets		17,491,040	19,145,694
TOTAL ASSETS		47,292,493	41,516,898
LIABILITIES AND EQUITY			
<u>Current Liabilities</u>			
Accounts Payable and Accrued Liabilities	9	176,102	175,415
Due to Related Parties	13	7,660,365	2,468,787
Lease Liability - Current Portion	8	3,099	6,168
Current Portion of Long Term Debt	15	4,076,458	4,076,458
Total Current Liabilities		11,916,024	6,726,828
<u>Non-Current Liabilities</u>			
Lease Liability - Long-Term Portion	8	-	3,196
Long Term Debt	15	3,544,747	7,621,206
Total Non-Current Liabilities		3,544,747	7,624,402
TOTAL LIABILITIES		15,460,771	14,351,230
EQUITY			
Contributed Capital	10	32,819,185	28,319,185
Statutory Reserve Fund	11	176,923	176,923
Revaluation Reserve – Property and Equipment	7	960,287	465,287
Accumulated Losses		(2,124,673)	(1,795,727)
TOTAL EQUITY		31,831,722	27,165,668
TOTAL LIABILITIES AND EQUITY		47,292,493	41,516,898

Approved on behalf of Management:



Tracy Ebanks
General Manager

Date: April 29, 2022



Paula R. Smith
Financial Controller

Date: April 29, 2022

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, 2021
(Expressed in Cayman Islands Dollars)

		2021	2020
	Notes	\$	\$
INCOME			
Interest Income			
Loans	6	1,038,365	1,554,293
Fixed Term Deposits	3, 4	63,451	133,458
		<u>1,101,816</u>	<u>1,687,751</u>
Interest Expense			
Long Term Debt	15	(141,588)	(319,454)
Lease Liability	8	(215)	(597)
		<u>(141,803)</u>	<u>(320,051)</u>
Net Interest Income		960,013	1,367,700
Expected credit loss remeasurement credit - loans to customers	3, 4, 6	203,832	167,947
Services Provided to Cayman Islands Government	13	526,317	526,317
Ministry of Education Payments for Output	13	40,451	40,451
Other Income		5	318
Loan Commitment Fees		11,179	11,451
Gain (Loss) on Foreign Currency Conversion		(12,868)	(14,199)
Net Income from Operations		<u>1,728,929</u>	<u>2,099,985</u>
ADMINISTRATIVE EXPENSES			
Salaries and Other Staff Benefits	12, 16	1,513,521	1,396,614
Professional Fees	12	127,153	124,301
Accommodation Costs	16	112,687	95,806
Office Expenses		109,831	80,345
Depreciation - Property and Equipment	7	81,807	77,315
Computer Maintenance		68,943	61,710
Depreciation - Lease Right-of-Use Asset		5,758	5,758
Directors' Fees		3,950	5,150
Advertising and Promotion		24,005	5,615
Other		10,220	6,827
Total Administrative Expenses		<u>2,057,875</u>	<u>1,859,441</u>
Net Income (Loss)		(328,946)	240,544
Transfer to Reserves	11	-	(48,109)
Net Income (Loss) after Transfer to Reserves		<u>(328,946)</u>	<u>192,435</u>
Other Comprehensive Income			
Revaluation Surplus – Property and Equipment	7	495,000	90,600
Total Comprehensive Income		<u>166,054</u>	<u>283,035</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, 2021
(Expressed in Cayman Islands Dollars)

	Notes	2021 \$	2020 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income (Loss) after Transfer to Reserves		(328,946)	192,435
Adjustments for:			
Transfer to Reserve Fund	11	-	48,109
Bad Debt Written Off		-	-
Depreciation - Property and Equipment	7	81,807	77,315
Depreciation - Right-of-Use Asset	8	5,758	5,758
Interest expense - lease liability		215	597
Credit Loss (Credit) Expense	3, 4, 6	(203,832)	(167,947)
		(444,998)	156,267
Changes in Operating Assets and Liabilities			
(Increase) Decrease in Prepaid Expenses		915	(7,478)
(Increase) Decrease in Deposit on Assets		(428)	-
(Increase) Decrease in Term Deposit and Loan Interest and Other Receivables		4,231	29,967
(Increase) Decrease in Loans to Customers		2,528,467	324,043
Increase (Decrease) in Accounts Payable and Accrued Liabilities		687	(1,451)
Increase (Decrease) in Due to Related Parties		5,191,578	(1,792,310)
Increase (Decrease) in Interest Payable – Long Term Debt		-	(1,352)
Net Cash Provided by (used in) Operating Activities		7,280,452	(1,292,314)
CASH FLOWS FROM INVESTING ACTIVITIES			
(Increase) Decrease in Fixed Deposits	4	(6,372,936)	2,351,603
Purchase of Property and Equipment	7	(7,656)	(35,584)
Net Cash Provided by (Used in) Investing Activities		(6,380,592)	2,316,019
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital Contributed	10	4,500,000	4,500,000
Lease Liability Payment	8	(6,480)	(6,480)
Repayments of Long-Term Debt	15	(4,076,459)	(4,076,459)
Net Cash Provided by Financing Activities		417,061	417,061
Net Increase in Cash and Cash Equivalents		1,316,921	1,440,766
Cash and Cash Equivalents at Beginning of the Year		9,222,372	7,781,606
Cash and Cash Equivalents at End of Year		10,539,293	9,222,372
Supplementary information on Cash Flows From Operating			
Interest Received During the Year		1,107,238	1,702,838
Interest Paid During the Year		141,803	321,403

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, 2021
(Expressed in Cayman Islands Dollars)

	Notes	Contributed Capital	Statutory Reserve Fund	Revaluation Reserve	Accumulated Losses	Total
		\$	\$	\$	\$	\$
Balance as at December 31, 2019	10	23,819,185	128,814	374,687	(1,988,162)	22,334,524
Net Income (Loss) for the Year		-	-	-	240,544	240,544
Transfer to Reserves	11	-	48,109	-	(48,109)	-
Revaluation Surplus – property & equipment		-	-	90,600	-	90,600
Capital Contribution	10	4,500,000	-	-	-	4,500,000
Balance as at December 31, 2020		28,319,185	176,923	465,287	(1,795,727)	27,165,668
Net Income (Loss) for the Period		-	-	-	(328,946)	(328,946)
Transfer to Reserves	11	-	-	-	-	-
Revaluation Surplus – property & equipment	7	-	-	495,000	-	495,000
Capital Contribution	10	4,500,000	-	-	-	4,500,000
Balance as at December 31, 2021		32,819,185	176,923	960,287	(2,124,673)	31,831,722

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, 2021
(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 Act (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 Act (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, 2021, the Bank had fourteen (14) employees (2020: 15).

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. The COVID-19 Pandemic has given rise to heightened uncertainty as it relates to accounting estimates and assumptions. This has increased the need for organizations to apply judgement in evaluating the economic and market environment and the impact on material estimates; this will significantly impact the estimates and assumptions surrounding the allowance for credit losses, valuation of financial instruments and asset impairment.

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**
(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, 2021**
(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	45 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.

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, 2021, 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 2020 and 2021 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, 2021**
(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 contribution pension fund, in accordance with the Public Service Pension Act. 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. The Bank classifies all 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, 2021, 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, 2021, financial liabilities comprise of accounts payable and accrued liabilities and long-term loan. All financial assets and liabilities as of December 31, 2021 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, 2021**
(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, 2021**
(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.

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**
(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, 2021 and 2020, the Bank has recorded the allowance for expected credit losses for all loans to customers and fixed deposits held with other financial institutions. The ECL allowance is based on the credit losses expected to arise over the life of the financial asset (the lifetime expected credit loss or LTECL up to a maximum of loan contractual period), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12-month ECL). In determining what is considered significant increase in credit risk for a loan or group of loans, the Bank generally considers a loan that is 30 days past due as having a significant increase in credit risk. The Bank also examines historical loan data, reviews and considers information on hand about each loan, example, information about the financial situation of a borrower and certain macroeconomic factors. The 12-month ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12-month ECLs are calculated on an individual loan basis. The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank allocates its loans into Stage 1, Stage 2 and Stage 3, as described below:

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

Loan Impairment Calculation

The Bank calculates ECL taking into account the following:

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

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

Definition of Default

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

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**
(Expressed in Cayman Islands Dollars)

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.

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**
(Expressed in Cayman Islands Dollars)

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 31.30%. 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 8.68%.

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 2021 of 0.40% - weighted at 4.58%
- Base case – Stable economic position, the PD will remain at its 2021 level of 0.40% - weighted at 31.64%
- Worst case – Degrading economic position, in line with the expectation of increasing unemployment, resulting in a PD of 8.68% - weighted at 63.78%

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 2.8%, the base case where the unemployment rate would be between 2.8% and 4.5% and the worst case where the unemployment will exceed 4.5%.

The scenario weighted 12-month PD is 5.68%.

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 or second charge over property or a guarantee is provided is deemed to be secured and an applicable discount rate is applied. For all other loans deemed unsecured a discount of 100% is applied in arriving at the overall ECL.

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

g) New and Amended International Financial Reporting Standards

Covid-19-Related Rent Concessions beyond 30 June 2021 *Amendments to IFRS 16*

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. The Bank did not receive any rent concessions during the year, and as such, this amendment to IFRS 16 is not expected to have any impact on the financial statements of the Bank and no specific disclosures are required.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

IBOR rates (interbank offered rates) have been the basis for determination of time value of money in transactions globally (loans, borrowings, derivatives, leases, insurance contracts). Currently the reform of the interest rate market is being conducted. IBOR rates will be replaced with alternative reference rates, which will be based on executed transactions instead of declarations of market participants. From the beginning of 2022, some LIBOR rates will cease to be published.

The amendments to the IFRS being response to the changes in financial markets are being introduced in two phases:

Phase 1 amendments provide temporary exceptions for specific hedge accounting requirements arising from the reform before an existing interest rate benchmark (IBOR) is replaced with an alternative benchmark interest rate. These amendments apply to reporting periods beginning on or after January 1, 2020.

Phase 2 amendments relate to issues that could affect financial reporting when an IBOR is replaced with an alternative benchmark interest rate. The amendments are relevant for many entities and in particular those with financial assets, financial liabilities or lease liabilities that are subject to the interest rate benchmark reform and those that apply the hedge accounting requirements in IFRS 9 or IAS 39 to hedging relationships that are affected by the reform. The Phase 2 amendments apply to annual reporting periods beginning on or after January 1, 2021.

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

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

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (continued)

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments have no material impact on the Bank's financial statements. The Bank has no financial instruments with hedging relationships. In addition, the Bank's lending rates to customers are not tied to IBOR. The Bank has one credit facility with a local financial institution with a balance of US\$9,173,333 (KYD 7,621,205), where the interest rate is tied to US 3-Month LIBOR plus 1.125% and the interest rate is reset on a quarterly basis. As of December 31, 2021, the all-in interest rate is 1.3429%. This financial institution has confirmed that they are transitioning to Secured Overnight Financing Rate (SOFR) and will transition our credit facility from LIBOR to SOFR in November 2022.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of the financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The amendments to the definition of material do not have a significant impact on the Bank's financial statements.

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**
(Expressed in Cayman Islands Dollars)

3. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

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

Classification of Liabilities as Current or Non-current – Amendments to IAS 1

On January 23, 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements to clarify the requirements for classifying liabilities as current or non-current. More specifically:

- The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists.
- Management expectations about events after the statement of financial position date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant.
- The amendments clarify the situations that are considered settlement of a liability.

The new guidance will be effective for annual periods starting on or after 1 January 2023.

The amendments to the classification of liabilities are not expected to have a significant impact on the Bank's financial statements.

Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16

The amendment to IAS 16 Property, Plant and Equipment (PPE) prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. An entity applies the amendments for annual reporting periods beginning on or after 1 January 2022, with early application permitted. This amendment is not expected to have any impact on the Bank, as the Bank does not normally engage in such transactions.

Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37

In May 2020, amendments to IAS 37 were issued which clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for contracts for which an entity has not yet fulfilled all its obligations on or after January 1, 2022. The amendments are not expected to have any impact on the Bank.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in Cayman Islands Dollars)

3. CASH AND CASH EQUIVALENTS

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

	2021	2020
	\$	\$
Current and Savings Accounts	2,878,928	6,933,935
Cash held on behalf of the Education Council Scholarship Fund	7,660,365	2,288,437
Total	10,539,293	9,222,372

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
	\$	\$
As of December 31, 2021		
Fixed Deposit	18,138,798	18,138,798
Expected credit loss allowance	(30)	(30)
Net Balance	18,138,768	18,138,768
As of December 31, 2020		
Fixed Deposit	11,765,862	11,765,862
Expected credit loss allowance	(2,488)	(2,488)
Net Balance	11,763,374	11,763,374

Expected credit loss allowance on fixed deposits

Total expected credit loss on fixed deposits, all with maturities of 6 months or less is \$30 (2020: \$2,488). 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 2021 Moody's Default study and the EAD derived based on the actual deposits held with financial institutions at year end.

Interest rate on fixed deposits

The effective interest rate on fixed deposits for the year ended December 31, 2021, was 0.42% (2020: 0.94%). The deposits had an average maturity of 135 days (2020: 135 days). Interest income earned on fixed deposits for the year ended December 31, 2021 amounted to \$63,451 (2020: \$133,458).

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in Cayman Islands Dollars)

5. TERM DEPOSITS, LOAN INTEREST AND OTHER RECEIVABLES

The balances as of December 31 are as follows:

	December 31, 2021	December 31, 2020
	\$	\$
Loan interest receivable	40,484	56,015
Deposit interest receivable	20,579	10,470
Late fee receivable	(131)	(36)
Receivable for CIG Output	131,579	131,579
Receivable for Ministry of Education Output	10,113	10,113
Other	2,592	1,306
Total	205,216	209,447

DEPOSITS ON ASSETS

Total deposit on assets relates to purchase of property and equipment during the year ended December 2018 and December 2021 for which projects were still in progress as of December 31, 2021. Subsequent to year end, amounts for completed projects will be transferred to the relevant property and equipment cost account.

	December 31, 2021	December 31, 2020
	\$	\$
Furniture and equipment	5,928	5,500
Total	5,928	5,500

PREPAID EXPENSES

Prepaid expenses as of December 31 comprise the following:

	December 31, 2021	December 31, 2020
	\$	\$
Software maintenance	18,806	20,392
Insurance	16,665	14,924
Permanent residence fee	1,725	1,725
Other	4,347	5,417
Total	41,543	42,458

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in Cayman Islands Dollars)

6. LOANS TO CUSTOMERS

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

	2021	2020
	\$	\$
Mortgages	6,859,745	7,324,623
Business Loans	2,045,306	3,487,031
Student Loans	2,222,059	2,752,895
Debt Consolidation	2,545,211	2,734,927
Staff Loans	1,064,621	1,114,731
2020 Micro & Small Business Loan Interruption Program	857,278	841,316
SME 2015 Loan Program	722,931	811,222
NHDT Mortgages	675,280	694,895
Financial Stimulus	595,750	624,306
2015 Debt Consolidation Loan Program	173,094	453,766
Personal Financial Assistance	14,531	17,531
Other Loans	4,934	3,337
	17,780,740	20,860,580
Less: Expected Credit Loss Allowance	(727,640)	(1,480,387)
Total Net Balances	17,053,100	19,380,193

	2021	2020
	\$	\$
Loans to Customers		
Short Term Portion	1,057,954	1,594,804
Long term Portion	16,722,786	19,265,776
Total	17,780,740	20,860,580
Expected Credit Loss Allowance		
Short Term Portion	(139,778)	(418,793)
Long term Portion	(587,862)	(1,061,594)
Total	(727,640)	(1,480,387)

Loans to customers' maturity analysis

	2021	2020
	\$	\$
0 – 3 Months	872,853	1,307,619
4 – 12 Months	185,101	287,185
1 – 5 Years	3,576,472	3,953,352
Over 5 Years	13,146,314	15,312,424
Total	17,780,740	20,860,580

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in Cayman Islands Dollars)

6. LOANS TO CUSTOMERS (CONTINUED)

Expected Credit Loss Allowances as of December 31, 2021

Stages	Principal Balance \$	ECL Allowance \$
Stage 1: Provision 12 month ECL performing loans	10,346,351	6,492
Stage 2: Provision lifetime ECL performing loans	1,438,639	35,484
Stage 3: Provision ECL credit impaired loans	5,995,750	685,664
Total	17,780,740	727,640

Expected Credit Loss Allowances as of December 31, 2020

Stages	Principal Balance \$	ECL Allowance \$
Stage 1: Provision 12 month ECL performing loans	12,868,833	10,423
Stage 2: Provision lifetime ECL performing loans	590,717	12,688
Stage 3: Provision ECL credit impaired loans	7,401,030	1,457,276
Total	20,860,580	1,480,387

As at December 31, 2021, the Bank had loan commitments amounting to \$433,762 (2020: \$452,485). 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.

Movement in Expected Credit Loss

	2021 \$	2020 \$
Balance at beginning of year	1,480,387	1,648,631
Remeasurement	(201,374)	(168,244)
Loans previously provided for written off	(551,373)	-
Total	727,640	1,480,387

Interest Income on Loans to Customers

	2021 \$	2020 \$
Performing loans	814,347	764,483
Non-performing loans	224,018	789,810
Total	1,038,365	1,554,293

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in Cayman Islands Dollars)

6. LOANS TO CUSTOMERS (CONTINUED)

Performing and Non-Performing Loans December 31, 2021

	Mortgages \$	Business Loans \$	Student Loans \$	Debt Consolidation \$	Staff Loans \$	2020 Micro & Small Business Loan Interruption Program \$	SME 2015 Loan Program \$	NHDT Mortgage \$	Financial Stimulus \$	2015 Debt Consolidation \$	Personal Financial Assistance \$	Other Loans \$	Total \$
Performing Loans	3,782,541	1,052,541	1,430,766	155,1884	1,064,621	807,278	695,437	675,280	565,986	97,592	-	4,934	11,728,860
Non- Performing Loans	3,077,204	992,765	791,293	993,327	-	50,000	27,494	-	29,764	75,502	14,531	-	6,051,880
Gross Total Loans	6,859,745	2,045,306	2,222,059	2,545,211	1,064,621	857,278	722,931	675,280	595,750	173,094	14,531	4,934	17,780,740

Performing and Non-Performing Loans December 31, 2020

	Mortgages \$	Business Loans \$	Student Loans \$	Debt Consolidation \$	Staff Loans \$	2020 Micro & Small Business Loan Interruption Program \$	SME 2015 Loan Program \$	NHDT Mortgage \$	Financial Stimulus \$	2015 Debt Consolidation \$	Personal Financial Assistance \$	Other Loans \$	Total \$
Performing Loans	3,741,960	2,009,524	1,698,851	1,643,371	1,114,731	841,316	799,576	694,895	593,102	308,382	-	3,337	13,449,045
Non- Performing Loans	3,582,663	1,477,507	1,054,044	1,091,556	-	-	11,646	-	31,204	145,384	17,531	-	7,411,535
Gross Total Loans	7,324,623	3,487,031	2,752,895	2,734,927	1,114,731	841,316	811,222	694,895	624,306	453,766	17,531	3,337	20,860,580

The average interest yield during the period on loans to customers was 5.37% (2020: 7.39%). Impaired loans as of December 31, 2021 amounted to \$6,051,880 (2020: \$7,411,535) and interest taken to income on impaired loans during the period amounted to \$224,018 (2020: \$789,810).

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in Cayman Islands Dollars)

6. LOANS TO CUSTOMERS (CONTINUED)

Ageing Analysis of Past Due but not Impaired Loans
As of December 31, 2021

	Mortgages	Business Loans	Debt Consolidation	SME 2015 Loan Program	Student Loans	Financial Stimulus	2020 Micro & Small Business Loan Interruption Program	Total
	\$	\$		\$	\$	\$	\$	\$
30 days and less	228,976	-	15,766	24,119	450,515	-	357,256	1,076,632
31 to 60 days	304,633	756,447	185,053	-	86,533	-	16,589	1,349,255
61 and less than 90 days	-	-	-	-	59,675	18,600	18,226	96,501
	<u>533,609</u>	<u>756,447</u>	<u>200,819</u>	<u>24,119</u>	<u>596,723</u>	<u>18,600</u>	<u>392,071</u>	<u>2,522,388</u>

As of December 31, 2020

	Mortgages	Business Loans	SME 2015 Loan Program	2015 Debt Consolidation	Student Loans	Financial Stimulus	NHDT Mortgages	Total
	\$	\$	\$	\$	\$	\$	\$	\$
30 days and less	488,342	794,023	550,000	5,470	308,803	137,571	118,214	2,402,423
31 to 60 days	94,557	7,535	-	-	154,377	-	-	256,469
61 and less than 90 days	-	-	-	3,177	32,417	-	-	35,594
	<u>582,899</u>	<u>801,558</u>	<u>550,000</u>	<u>8,647</u>	<u>495,597</u>	<u>137,571</u>	<u>118,214</u>	<u>2,694,486</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 \$181,797 (2020: \$999,395). As of December 31, 2021, one of these restructured loans was non-accrual, and two of them were delinquent. Subsequent to December 31, 2021 and as of the date of these financial statements, two of these restructured loans are non-accrual and one of the loans that was delinquent as of December 31, 2021 is now current.

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 reposess collateral in the event of default by customers. Reposessed collateral is sold as soon as practicable, with proceeds used to reduce the outstanding indebtedness. Reposessed collateral is not recognized on the Bank's statement of financial position. Reposessed collateral as of December 31, 2021 amounted to \$4,184,000 (2020: \$4,256,000).

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in Cayman Islands Dollars)

7. PROPERTY AND EQUIPMENT

	Building	Motor Vehicles	Computers	Furniture and Office Equipment	Total
Cost	\$	\$	\$	\$	\$
At January 1, 2021	805,000	29,880	533,481	114,644	1,483,005
Additions	-	-	4,631	3,025	7,656
Cost adjustment - revaluation	495,000	-	-	-	495,000
Disposals	-	-	-	-	-
At December 31, 2021	<u>1,300,000</u>	<u>29,880</u>	<u>538,112</u>	<u>117,669</u>	<u>1,985,661</u>
Accumulated Depreciation					
At January 1, 2021	-	29,880	467,484	100,724	598,088
Depreciation charge for the year	28,889	-	47,673	5,245	81,807
Depreciation written back due to revaluation surplus	-	-	-	-	-
Disposals	-	-	-	-	-
At December 31, 2021	<u>28,889</u>	<u>29,880</u>	<u>515,157</u>	<u>105,969</u>	<u>679,895</u>
Net Book Value – December 31, 2021	<u>1,271,111</u>	<u>-</u>	<u>22,955</u>	<u>11,700</u>	<u>1,305,766</u>
Net Book Value – December 31, 2020	<u>805,000</u>	<u>-</u>	<u>65,997</u>	<u>13,920</u>	<u>884,917</u>

As of January 1, 2021, the fair value of the building is estimated at \$1,300,000 based on an internal valuation report dated December 3, 2021, prepared by the Lands & Survey Department of the Cayman Islands Government. The valuation was prepared in accordance with International Valuation Standards (2017) and Royal Institution of Chartered Surveyors (RICS) Valuation Global Standards 2020, as well as the International Financial Reporting Standards (IFRS). Market Value used in the valuation report is defined in accordance with Valuation Standards as: *“The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.”* In arriving at the valuation for the building, the Investment Method was used. The Investment Method of valuation is based on capitalization or conversion of present and predicted income (cash flows) to produce a capital value. It 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 an investor in this type of property. The net revenue used in the valuation is based on office comparable rents of other office buildings in the area and is calculated as income from leasing the building after accounting for operating costs. The yield used in the valuation is 8.32%. The resulting net revaluation surplus of \$495,000 is recorded in other comprehensive income and also included in revaluation reserve balance on the statement of financial position of \$960,287. The carrying amount of building before revaluation is \$805,000. Based on the revaluation, the useful life of the building has been revised downward from 50 years to 45 years.

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 2019 to August 2020 is US\$25,495 and for September 2020 to August 2021 is US\$26,023.

Movement in Revaluation Reserve – Building

	2021	2020
	\$	\$
Balance brought forward	465,287	374,687
Revaluation surplus (deficit)	<u>495,000</u>	<u>90,600</u>
Revaluation reserve balance carried forward	<u>960,287</u>	<u>465,287</u>

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in Cayman Islands Dollars)

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

	2021
	\$
Cost - warehouse storage unit	28,789
Less accumulated depreciation January 1	(20,152)
Less depreciation for current year	(5,758)
Balance at December 31	<u>2,879</u>

Lease Liability

Maturity Analysis

	2021
	\$
Due in less than one year	3,099
Due in one to two years	-
Due in two to five years	-
Due over five years	-
Total	<u>3,099</u>

Interest expense recognized on lease liability for the year amounted to \$215.

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

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in Cayman Islands Dollars)

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:

	2021	2020
	\$	\$
Funds in hand for payment of fees on behalf of customers	41,981	62,192
Professional fees	87,864	74,000
Accrued leave liability	22,396	19,443
Credit card	4,457	2,217
Other payables	19,404	17,563
Total	<u>176,102</u>	<u>175,415</u>

10. AUTHORIZED AND CONTRIBUTED CAPITAL

The authorized capital of CIDB is CI\$50 million as stated in Section 14(1) of the *Cayman Islands Development Bank Act, (2018 Revision)*. At December 31, 2021, the amount of contributed capital of \$32,819,185 (2020: \$28,319,185) amounted to 66% (2020: 57%) of the \$50 million authorized capital in accordance with Section 14(3) of the *Cayman Islands Development Bank Act, (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, 2021, the Bank received \$4,500,000 in contributed capital from the Cayman Islands Government (2020: \$4,500,000).

11. STATUTORY RESERVE FUND

Under Section 20 of the *Cayman Islands Development Bank Act, (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 \$32.8 Million). There was no transfer to the Reserve Fund for year ended December 31, 2021 as the Bank made a net loss of \$(328,946) (2020: \$48,109). As of December 31, 2021, the Statutory Reserve Fund has a balance of \$176,923 (2020: \$176,923).

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.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in Cayman Islands Dollars)

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 12.4% of the employees' monthly pensionable earnings to the Public Service Pension Fund. The total amount contributed by CIDB for the year ended December 31, 2021 was \$138,149 (2020: \$121,942). On September 8, 2021, the Public Service Pensions (Contribution Rates) Regulations, 2021 was gazetted bringing the contribution rates from January 1, 2020 actuarial valuation into effect. The prescribed employer contribution rates as specified in Section 2 of the regulations have been established at 6.4%. Plan Member or employee contribution rates remains at 6% default rate as specified in Section 17 (1) of the Public Service Pensions Act (2021 Revision). As a result of the employer contribution rate revision from 6% to 6.4%, with a retroactive date to January 2020, \$4,065 in additional pension contributions for the period January 2020 to December 2020 has been included in pension expense for the year ended December 31, 2021.

Pension contributions are paid for all eligible employees on their pensionable emoluments. The Bank's 15 employees (2020: 15) 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>2021</u>	<u>2020 (revised)</u>
Defined Contribution Plans	- Employee	6%	6%
	- Employer	6.4%	6.4%

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), which is in accordance with Section 16 of the Public Management and Finance Act (2020 Revision) and Section 39 of the Public Authorities Act (2020 Revision). In accordance with Section 39(3) of the Public Authorities Act (2020 Revision), the SAGC is required to pay dividends in accordance with the formulae established by the Minister of Finance after consultation with the board in writing, unless otherwise directed by Cabinet. 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, 2021 (2020: Nil). In accordance with Section 39(2) of the Public Authorities Act (2020 Revision), subject to Section 39(1), the SAGC is required to pay over to the Government any surplus cash reserves being held for more than 90 days. In April 2022, Cabinet waived the requirement under Section 39(2) for an SAGC to pay over to the Government any excess cash being held over 90 days.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in Cayman Islands Dollars)

13. RELATED PARTY TRANSACTIONS (CONTINUED)

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. CIDB receives payments annually of \$526,317 for providing these services in addition to other 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. CIDB receives \$40,451 annually for services provided to the Ministry of Education.

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, 2021 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, 2021 and 2020 are as follows:

	2021	2020
	\$	\$
Education Council Scholarship Fund	7,660,365	2,288,437
Housing Recovery Grant	-	180,350
Total	<u>7,660,365</u>	<u>2,468,787</u>

In May 2021, the HRG Fund was closed and balance remaining of \$180,467 was paid over to the Cayman Islands Government.

c) Transactions with Members of Management and Staff

During the year ended December 31, 2021, 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, 2021 totaled \$533,008 (2020: \$528,837), 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, 2021 amounted to \$47,689 (2020: \$47,912).

As at December 31, 2021, Senior Management held loans totaling \$6,616 (2020: \$14,861); these loans are included in total net loan balance reflected on the statement of financial position. Income earned on Senior Management loans for year ended December 31, 2021 amounted \$527 (2020: \$1,136).

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in Cayman Islands Dollars)

13. RELATED PARTY TRANSACTIONS (CONTINUED)

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

As of December 31, 2021, the total staff loan balance is \$1,064,621 (2020: \$1,114,731). 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, 2021, the Bank has not made any provision for impairment losses relating to amounts owed by Senior Management or staff (2020: 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 \$17,053,100 represents the maximum exposure to credit risk as of December 31, 2021 (2020: \$19,380,193) 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, 2021, the total net cash and equivalents of \$10,539,293 (2020: \$9,222,372) and net fixed deposit of \$18,138,768 (2020: \$11,763,374) 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.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in Cayman Islands Dollars)

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 CI\$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, 2021 amounted to \$141,588 (2020: \$319,454). All borrowing costs incurred during the period have been expensed.

Terms and Principal Repayment Debt Schedule as at December 31, 2021

	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%	7,621,205	4,076,458	3,544,747	-	-
TOTAL	7,621,205	4,076,458	3,544,747	-	-

Terms and Principal Repayment Debt Schedule as at December 31, 2020

	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%	11,697,664	4,076,458	4,076,458	3,544,748	-
TOTAL	11,697,664	4,076,458	4,076,458	3,544,748	-

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in Cayman Islands Dollars)

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

	2021	2020
	\$	\$
Salaries	1,096,686	1,033,512
Medical Expenses	264,703	232,795
Pension Cost – Defined Contribution Plan	138,149	121,942
Recruitment and Other Related Expenses	13,983	8,365
	<u>1,513,521</u>	<u>1,396,614</u>

b) Accommodation Costs

	2021	2020
	\$	\$
Strata Fees	34,280	34,280
Electricity	22,859	19,934
Telephone	15,699	14,995
Insurance-Contents	6,310	5,731
Janitorial Costs	10,721	9,350
Other	22,818	11,516
	<u>112,687</u>	<u>95,806</u>

c) Professional Fees

	2021	2020
	\$	\$
Professional fees	56,155	58,106
Audit fee	70,000	65,000
Membership fees	998	645
Legal fee	-	550
	<u>127,153</u>	<u>124,301</u>

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in Cayman Islands Dollars)

17. STATEMENT OF CONTINGENT LIABILITIES AND COMMITMENTS

The Bank had no known contingent liabilities at December 31, 2021 (2020: Nil). At December 31, 2021 and 2020, the Bank had commitments relating to maintenance of the Alpha banking software by Highgate Systems (formerly Gresham Computing Ltd). The amount committed per year is approximately \$22,314 (2020: \$21,859). As at December 31, 2021, the Bank had loan commitments amounting to \$433,762 (2020: \$3452,485). 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. 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 has caused 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. The pandemic has impacted the Bank's results through lower loan payment collections from customers and lower interest rates on new loans issued. To assist and provide some relief to the business community, new loans issued ranged between 1% and 2.5%. Approximately \$645,000 in small business loans were issued by the Bank at an interest rate of 2.50%, while approximately \$980,000 new loans were issued under the Joint Business Loan Program as outlined below at an interest rate of 1%. Interest income on fixed deposits placed by the Bank with external financial institutions fell by \$70,007 over 2020 and fell by \$117,960 over 2019. Fixed deposit effective interest rates for 2021 was 0.42% and for 2020 was approximately 0.94% compared to an effective rate of 1.64% for 2019. As it relates to ECL, the numbers were better than expected as a number of the Bank's loans are collateralized through real estate; \$16,194,972 (91%) of the Bank's loan portfolio is secured by charge over property, which includes first charge and second charge. The real estate market in the Cayman Islands has performed relatively well despite the pandemic, which saw property values holding and, in some instances, increasing in value. The performance of real estate market positively impacted the ECL. The ECL fell by \$770,836; of this total, \$551,373 represented write off of loans previously provided for and \$219,463 in a write back of loan loss provision, which impacted the Bank's profitability for 2021. Despite the negative impacts of the pandemic, the Bank was able to post a net profit of \$240,544 in 2020, however, the bank suffered a net loss of \$(310,857) in 2021. 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 6 tourism-related loans, with combined total principal balances of \$570,099, representing 3.21% of the loan portfolio. Two of these loans are mortgages with a combined loan balance of \$325,557. 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 had on loan collections due to loss of income by those customers. Other COVID-19 related expenditure included within totals on the Statement of Financial Position and the Statement of Comprehensive Income are outlined below:

	2021	2020
	\$	\$
Expenses (impact on statement of comprehensive income)		
Masks, hand sanitizer, social distancing signs and other miscellaneous items (included in office expenses)	10,493	1,268
Computer software (included in computer maintenance expense)	-	378
Other software license expiring in a year (including in prepaid expense)	-	3,997
Overtime pay (included in salaries & other staff benefit)	-	2,621
Total	10,493	8,264
Property & Equipment (impact on statement of financial position)		
Protective plexiglass	-	5,762
Computer equipment	-	7,470
Total	-	13,232

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**
(Expressed in Cayman Islands Dollars)

18. IMPACT OF COVID-19 PANDEMIC (CONTINUED)

Loan Payment Waivers

In 2020, 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 has carried out the directive and, in some instances, extended the loan payment waivers beyond 3 months at the request of customers. These loan payment waivers contributed to the overall decline in loan payment collections for 2020 by approximately \$400,139 when compared to 2019 loan payment collections. As of December 31, 2020, \$146,269 in loan payment waivers were requested by customers. These waivers relate to total principal balance of \$3,732,026, representing 18% of the loan portfolio.

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 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. As of December 31, 2020, \$880,000 in loans were approved under the program. During 2021, \$100,000 in additional loans were approved, bringing total loans approved as of December 31, 2021 to \$980,000.

19. EVENTS AFTER THE REPORTING DATE

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