

**Cayman Islands Development Bank**

**Financial Statements**

**For the Year Ended June 30, 2012**

**CAYMAN ISLANDS DEVELOPMENT BANK**

**FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2012**

*Table of Contents*

	Page
Statement of Responsibility for Financial Statements	2
Auditor General's Report	3-4
Statement of Financial Position	5
Statement of comprehensive income	6
Statement of Cash Flows	7
Statement of Changes in Equity	8
Notes to the Financial Statements	9-27

**Cayman Islands Development Bank**  
**Statement of Responsibility for Financial Statements**  
**June 30, 2012**

These financial statements have been prepared by the Cayman Islands Development Bank in accordance with the provisions of the *Public Management and Finance Law, (2012 Revision)*. The financial statements comply with generally accepted accounting practice as defined in International Financial Reporting Standards.

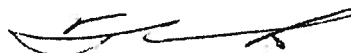
We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law, (2012 Revision)*.

To the best of our knowledge the statements are:

- (a) Complete and reliable;
- (b) Fairly reflect the financial position as at June 30, 2012 and performance for the financial year ended June 30, 2012; and
- (c) Comply with generally accepted accounting practice



*Mr. Noel Williams*  
*Deputy Chairman, Board of Directors*  
*Cayman Islands Development Bank*



*Ms. Tracy Ebanks*  
*General Manager*  
*Cayman Islands Development Bank*

Date: June 26, 2013

Date: June 26, 2013

## **Auditor General's Report To the Board of Directors of the Cayman Islands Development Bank**

I have audited the accompanying financial statements of the Cayman Islands Development Bank ("CIDB") which comprise of the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a statement of significant accounting policies and other explanatory notes as set out in pages 9 to 27, in accordance with the provisions of Section 21(3) of the *Cayman Islands Development Bank Law (2004 Revision)* and Section 60(1) of the *Public Management and Finance Law (2012 Revision)*.

### **Management's Responsibilities for the Financial Statement**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on our audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

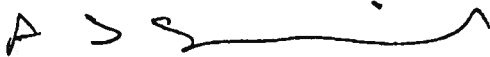
**Opinion**

In my opinion these financial statements present fairly, in all material respects, the financial position of the Cayman Islands Development Bank as at June 30, 2012, and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Emphasis of Matter**

I draw attention to note 13 of the financial statements which states that CIDB successfully negotiated with the bondholders of a US\$ 6 Million bond (CI\$4.9M) which matured on June 30, 2010 to extend maturity for another 5 years. Note 13 also describe how CIDB refinanced a US\$20 Million Bond (CI\$ 16.6M) originally due July 2017 to a new credit facility which will now be due in 2015. In addition to these, CIDB also has existing bonds totalling US\$ 11 Million (CI\$9.1M) due for redemption in 2015. As a result, CIDB now has debt totalling US\$ 36.8 Million (CI\$30.5M) which becomes due and payable in 2015.

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



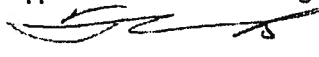
Alastair Swarbrick MA. (Hon), CPFA  
Auditor General

26 June 2013

**CAYMAN ISLANDS DEVELOPMENT BANK**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT JUNE 30, 2012**  
(Expressed in Cayman Islands Dollars)


	Notes	2012 \$	2011 \$
<b>ASSETS</b>			
Cash and Cash Equivalents	3, 11	4,722,199	3,817,114
Term Deposit, Loan Interest and Other Receivable		258,379	265,070
Fixed Deposit	4	171,324	170,548
Loans and Advances to Customers, Net of Allowance for Credit Losses	5	36,118,603	38,685,124
Prepaid Expenses		17,539	21,304
Property and Equipment	6	630,607	719,514
<b>TOTAL ASSETS</b>		<b><u>41,918,651</u></b>	<b><u>43,678,674</u></b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Bank Overdraft	3	-	239,482
Accounts Payable and Accrued Liabilities	7	349,095	294,524
Due to Related Parties	11	287,481	741,499
Interest Payable – Loans and Bonds		256,304	240,021
Current Portion of Long Term Debt	13	437,405	469,370
Post Retirement Benefit Pension Obligations	10	33,000	28,000
 Bonds	13	34,727,440	34,727,440
Loans - Caribbean Development Bank	13	2,492,536	2,836,068
<b>TOTAL LIABILITIES</b>		<b><u>38,583,261</u></b>	<b><u>39,576,404</u></b>
<b>Equity</b>			
Contributed Capital	8	3,289,185	3,289,185
Statutory Reserve Fund	9	48,509	48,509
Retained Earnings (Accumulated Losses)		(2,304)	764,576
<b>TOTAL EQUITY</b>		<b><u>3,335,390</u></b>	<b><u>4,102,270</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>41,918,651</u></b>	<b><u>43,678,674</u></b>

Approved on behalf of Management:



Tracy Ebanks  
General Manager

Date: June 26, 2013



Paula R. Smith  
Financial Controller

Date: June 26, 2013

The accompanying notes are an integral part of these financial statements

**CAYMAN ISLANDS DEVELOPMENT BANK**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
(Expressed in Cayman Islands Dollars)

	Notes	2012 \$	2011 \$
<b>INCOME</b>			
Interest Income			
Loans		2,462,185	2,400,489
Fixed Term Deposits		<u>6,759</u>	<u>576</u>
		<u>2,468,944</u>	<u>2,401,065</u>
Interest Expense			
Loan		(115,587)	(148,986)
Bond		(1,015,799)	(909,332)
Overdraft Interest	3	<u>(1,406)</u>	<u>(17,211)</u>
<b>Net Interest Income</b>		<b>1,336,152</b>	<b>1,325,536</b>
Gain (loss) on Foreign Currency Conversion		(1,612)	(1,706)
Loan Commitment Fees		21,531	103,934
Services Provided to Cayman Islands Government	11	577,875	577,875
Provision for Loan Losses	5	<u>(1,102,439)</u>	<u>(988,418)</u>
<b>Net Income from Operations</b>		<b>831,507</b>	<b>1,017,221</b>
<b>ADMINISTRATIVE EXPENSES</b>			
Salaries and Other Staff Benefits	10,14	1,139,615	1,196,415
Accommodation Costs	14	139,314	134,494
Depreciation	6	94,972	107,520
Professional Fees		72,782	104,894
Office Expenses		55,473	103,682
Computer Maintenance		74,748	82,905
Bad Debts Written Off		305	36,534
Commitment Fees on Debt		-	10,448
Directors' Fees		3,550	7,950
Advertising and Promotion		11,422	5,636
Other		<u>6,206</u>	<u>4,407</u>
<b>Total Administrative Expenses</b>		<b>1,598,387</b>	<b>1,794,885</b>
<b>Net Income (Loss)</b>		<b>(766,880)</b>	<b>(777,664)</b>
Transfer to Reserves		<u>-</u>	<u>-</u>
<b>Net Income (Loss) after Transfer to Reserves</b>		<b>(766,880)</b>	<b>(777,664)</b>

The accompanying notes are an integral part of these financial statements

**CAYMAN ISLANDS DEVELOPMENT BANK**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
(Expressed in Cayman Islands Dollars)

	Notes	2012 \$	2011 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net Income (Loss) after Transfer to Reserves		(766,880)	(777,664)
Adjustments for:			
Depreciation	6	94,972	107,520
Bad debts written off		305	36,534
Provision for Loan Losses	5	1,102,439	988,418
Transfer to Reserve Fund		-	-
		<u>430,836</u>	<u>354,808</u>
<b>Changes in Operating Assets and Liabilities</b>			
Decrease (Increase) in Prepaid Expenses		3,765	(15,243)
Decrease (Increase) in Term Deposit and Loan Interest and Other Receivables		6,691	136,872
Decrease (Increase) in Loans and Advances to Customers		1,463,777	(5,167,741)
Increase (Decrease) in Accounts Payables and Accrued Liabilities		54,571	(98,505)
Increase (Decrease) in Due to Related Parties		(454,018)	31,277
Increase (Decrease) in Post Retirement Pension Obligations		5,000	8,000
Increase (Decrease) in Interest Payable – Loans and Bonds		16,283	110,909
<b>Net Cash Provided by (Used in) Operating Activities</b>		<u><b>1,526,905</b></u>	<u><b>(4,639,623)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
(Increase) Decrease in Fixed Deposits	4	(776)	(422)
Purchase of Property and Equipment	6	(6,065)	(5,373)
<b>Net Cash Provided By (Used in) Investing Activities</b>		<u><b>(6,841)</b></u>	<u><b>(5,795)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from Debt Issued and Other Borrowed Funds	13	-	8,308,000
Repayments of Debt Issued and Other Borrowed Funds	13	(375,497)	(375,495)
<b>Net Cash Provided by (Used in) Financing Activities</b>		<u><b>(375,497)</b></u>	<u><b>7,932,505</b></u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents and Bank Overdraft During Year</b>		1,144,567	3,287,087
<b>Cash and Cash Equivalents and Bank Overdraft at Beginning of Year</b>		3,577,632	290,545
<b>Cash and Cash Equivalents and Bank Overdraft at End of Year</b>		<u><b>4,722,199</b></u>	<u><b>3,577,632</b></u>
<b>Supplementary information on Cash Flows From Operating Activities</b>			
Interest Received During the Year		2,403,060	2,532,536
Interest Paid During the Year		1,116,510	964,620

The accompanying notes are an integral part of these financial statements



**CAYMAN ISLANDS DEVELOPMENT BANK  
STATEMENT OF CHANGES IN EQUITY  
AS AT JUNE 30, 2012**

(Expressed in Cayman Islands Dollars)

	Notes	Contributed Capital \$	Statutory Reserve Fund \$	Retained Earnings (Accumulated Losses) \$	Total \$
Balance as at June 30, 2010	8	3,289,185	48,509	1,542,240	4,879,934
Net Income (Loss) for the Year				(777,664)	(777,664)
Transfer to Reserves	9		-	-	-
Balance as at June 30, 2011		3,289,185	48,509	764,576	4,102,270
Net Income (Loss) for the Year				(766,880)	(766,880)
Transfer to Reserves			-	-	-
<b>Balance as at June 30, 2012</b>		<b>3,289,185</b>	<b>48,509</b>	<b>(2,304)</b>	<b>3,335,390</b>

The accompanying notes are an integral part of these financial statements

**CAYMAN ISLANDS DEVELOPMENT BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
(Expressed in Cayman Islands Dollars)

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**1. GENERAL INFORMATION**

The Cayman Islands Development Bank (“CIDB” or “the Bank”) was established under the *Cayman Islands Development Bank Law (2004 Revision)* which came into force on March 1, 2002, and is solely owned by the Cayman Islands Government. Upon the enactment of the *Cayman Islands Development Bank Law (2004 Revision)*, two former statutory financial institutions, the Agricultural and Industrial Development Board and the Housing Development Corporation were dissolved and their functions as well as their assets and liabilities were transferred to the Bank.

The principal function of CIDB is to mobilise, promote, facilitate, and provide finance for the expansion and strengthening of the economic development of the Islands. The Bank does this by providing financing for tertiary education, housing, agriculture and the development of small businesses.

The registered office of the Bank is at 36B Dr. Roy’s Drive, P.O. Box 2576, George Town, Grand Cayman, KY1-1103. As at June 30, 2012, the Bank had thirteen (13) employees (2011: 14).

**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) issued by the International Accounting Standards Board (IASB).

**CAYMAN ISLANDS DEVELOPMENT BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
(Expressed in Cayman Islands Dollars)

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**2. ACCOUNTING POLICIES (CONTINUED)**

**2.2 Significant accounting judgments and estimates**

In the process of applying the Bank's accounting policies, Management has exercised judgment and estimates in determining the amounts recognized in the financial statements. The most significant uses of judgment and estimates are as follows:

**Impairment Losses on Loans and Advances**

Loans and advances is stated net of allowance for credit losses. The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of comprehensive income. Specific provisions for loan losses are determined for loans that are likely to become uncollectible in light of the borrowers' inability to repay the debt. The Bank assesses the security held in determining the provisions assigned. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

**Retirement Benefit Obligations**

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. See Note 10 for the assumptions used.

**2.3 Summary of Significant Accounting Policies**

The principal accounting policies applied in the preparation of these financial statements are set out below.

**a) Recognition of Income**

Revenue is recognized on the accrual basis to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

**Interest Income**

Interest income is recorded on an accrual basis using the effective interest method until such time as a loan is classified as impaired. Interest on loans that are contractually 90 days in arrears are classified as impaired. Any accrued interest on impaired loans is reversed against income for the current period. Thereafter, interest income on impaired loans is recognized in the period it is collected.

**Fee Income**

The Bank earns loan commitment fees that are recognized as income in the year loans are advanced to customers.

**CAYMAN ISLANDS DEVELOPMENT BANK  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Cayman Islands Dollars)**

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**2. ACCOUNTING POLICIES (CONTINUED)**

**2.3 Summary of Significant Accounting Policies (Continued)**

**b) Property and Equipment**

Property and equipment are recorded at cost and are depreciated using the straight-line method at rates considered adequate to write-off the cost over their estimated useful lives as follows:

Office Furniture/Equipment	5 years
Leasehold Improvements	5 years
Computer Equipment	3 years
Motor Vehicles	5 years
Building	20 years

Property and equipment are derecognized on disposal or when there are no future economic benefits expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the statement of comprehensive income in the year the asset is derecognized.

**c) Foreign Currency Transactions**

Transactions during the year in currencies other than the Cayman Islands dollar are converted at exchange rates prevailing at the date of the transactions. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the statement of financial position date. Resulting gains and losses on exchange are recognized in the statement of comprehensive income.

**d) Use of Estimates**

In the preparation of the financial statements, management is required to make estimates and reasonable assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

**e) Employee Benefits**

CIDB participates in the Public Service Pension Plan, a defined benefit and contribution pension fund, in accordance with the Public Service Pension Law. The Public Services 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.

**CAYMAN ISLANDS DEVELOPMENT BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
(Expressed in Cayman Islands Dollars)

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**2. ACCOUNTING POLICIES (CONTINUED)**

**2.3 Summary of Significant Accounting Policies (Continued)**

**e) Employee Benefits (Continued)**

The unfunded portion of the defined benefit plan, as determined by an actuarial valuation, is recorded as a liability.

**f) Financial Instruments**

**(i) Classification**

A financial asset is classified as any asset that is cash, a contractual right to receive cash or another financial asset or to exchange financial instruments under conditions that are potentially favorable or an equity instrument of another enterprise. As of June 30, 2012, financial assets comprise of cash and cash equivalents, deposit accounts and loans receivable.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial instrument or to exchange financial instruments with another enterprise under conditions that are potentially unfavorable. As of June 30, 2012, financial liabilities comprise of bank overdraft, accounts payable and accrued liabilities, long and short-term loans and bonds payable.

**(ii) Recognition**

The Bank recognizes financial assets and financial liabilities on the date it becomes party to the contractual provisions of the instrument. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognised in the statement of comprehensive income.

**(iii) Derecognition**

A financial asset is derecognised when the Bank realizes the rights to the benefits specified in the contract or loses control over any right that comprise that asset. A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled, or expires.

**(iv) Measurement**

Financial instruments are measured initially at cost, which is the fair value of the consideration given or received. Subsequent to initial recognition, all financial assets are measured at their estimated fair value.

**CAYMAN ISLANDS DEVELOPMENT BANK  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**  
(Expressed in Cayman Islands Dollars)

**2. ACCOUNTING POLICIES (CONTINUED)**

**2.3 Summary of Significant Accounting Policies (Continued)**

**g) Changes in International Financial Reporting Standards**

- I. IFRS 9 – Financial instruments (effective for periods beginning January 1, 2013) – addresses classification and measurement of financial instruments and replaces portions of IAS 39. Financial instruments can only be measured at amortized cost or fair value. Equity securities can only be recorded at fair value. An entity can record unrealized and realized gains or losses in other comprehensive income on an instrument by instrument basis and the election to do so is at initial recognition and this election is irrevocable. Dividend income on these equity securities can be recorded in profit and loss. Debt securities can only be recorded at amortized cost if the objective is to hold financial assets for the collection of contractual cash flows and the contractual cash flows represent solely payments of principal and interest, otherwise debt securities must be carried at fair value.
  
- II. An entity may elect to designate a financial instrument at fair value through profit and loss – however, this is an irrevocable election and the entity has to be consistent with this basis from year to year. The Bank currently has debt securities however an assessment will have to be made prior to the effective date of the standard in 2013, where applicable.

**3. CASH AND CASH EQUIVALENTS AND BANK OVERDRAFT**

**a) 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 June 30 were comprised of the following:

	2012	2011
	\$	\$
Bank Overdraft	-	(239,482)
Current and Savings Accounts	2,395,940	2,300,871
Fixed deposit less than three months	2,210,102	945,292
Cash held on behalf of the Education Council Scholarship Fund	116,157	570,951
<b>Total</b>	<u>4,722,199</u>	<u>3,577,632</u>

The effective interest rate on call deposits in 2012 was 0.30% (2011: 0.05%). The deposits had an average maturity of 135 days (2011: 135 days). As approved by the Board of Directors, short term fixed deposit of \$2,210,102 (2011: \$945,292) is restricted in use and is being held to service future debt repayment.

**CAYMAN ISLANDS DEVELOPMENT BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
(Expressed in Cayman Islands Dollars)

**3. CASH AND CASH EQUIVALENTS AND BANK OVERDRAFT (CONTINUED)**

**b) Bank Overdraft**

The overdraft facility as of June 30, 2012 is with a local financial institution. Interest on the overdraft facility is charged at U.S. Prime Rate plus 1.75%. Interest expense incurred on the overdraft facility for the year ended June 30, 2012 amounted to \$1,406 (2011: \$17,211).

**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.

**As of June 30, 2012**

	<u>TOTAL</u>	<u>Matures Within 91 Days and 180 Days</u>	<u>Matures Within 181 Days and 365 Days</u>
	\$	\$	\$
Fixed Deposit	171,324	171,324	-

**As of June 30, 2011**

Fixed Deposit	170,548	170,548	-
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**5. LOANS AND ADVANCES TO CUSTOMERS**

The net balances of loans and advances to customers as at June 30 were as follows:

	<b>2012</b>	<b>2011</b>
	\$	\$
Mortgages	15,280,323	15,787,739
Business Loans	12,281,823	11,258,835
Debt Consolidation	4,975,669	6,688,975
Student Loans	3,705,582	3,690,891
Financial Stimulus	2,595,763	2,927,837
Personal Financial Assistance	186,006	221,800
Staff Loans	1,035,867	808,476
Other Loans	351,694	468,860
Lines of Credit	53,988	77,384
	<u>40,466,715</u>	<u>41,930,797</u>
Less: Allowance for Impairment Losses	(4,348,112)	(3,245,673)
Total Net Balances	<u>36,118,603</u>	<u>38,685,124</u>

**CAYMAN ISLANDS DEVELOPMENT BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
(Expressed in Cayman Islands Dollars)

**5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

	2012	2011
	\$	\$
Short Term Portion	751,961	849,958
Long Term Portion	39,714,754	41,080,839
<b>Total</b>	<b>40,466,715</b>	<b>41,930,797</b>

Loans and advances to customers' maturity analysis.

	2012	2011
	\$	\$
0 – 3 Months	422,966	560,709
3 – 12 Months	328,994	289,249
1 – 5 Years	4,828,209	4,731,364
Over 5 Years	34,886,546	36,349,475
<b>Total Net Balances</b>	<b>40,466,715</b>	<b>41,930,797</b>

**Movement in Allowance for Impairment Losses**

	2012	2011
	\$	\$
Balance at beginning of year	3,245,673	2,667,443
Individual impairment	1,102,439	988,418
Loans previously provided for written off	-	(410,188)
<b>Balance at end of year</b>	<b>4,348,112</b>	<b>3,245,673</b>

As at June 30, 2012, the Bank had loan commitments amounting to \$1,027,487 (2011: \$1,543,829). These amounts, which are not reflected in the statement of financial position, reflect the undisbursed portion of loans, which have been approved by Management.

**Ageing Analysis of Past Due but not Impaired Loans**

**As of June 30, 2012**

	Mortgages	Business Loans	Debt Consolidation	Student Loans	Financial Stimulus	Personal Financial Assistance	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$
30 days and less	-	-	-	38,341	-	-	-	38,341
31 to 60 days	606,576	1,240,685	66,803	210,525	-	10,004	66,598	2,201,191
61 and less than 90 days	180,573	633,715	-	260,876	60,422	32,533	-	1,168,119
	<b>787,149</b>	<b>1,874,400</b>	<b>66,803</b>	<b>509,742</b>	<b>60,422</b>	<b>42,537</b>	<b>66,598</b>	<b>3,407,651</b>



CAYMAN ISLANDS DEVELOPMENT BANK  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
 (Expressed in Cayman Islands Dollars)

**5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

**Ageing Analysis of Past Due but not Impaired Loans (continued)**

**As of June 30, 2011**

	Mortgages	Business Loans	Debt Consolidation	Student Loans	Financial Stimulus	Personal Financial Assistance	Other	Total
	\$	\$	\$	\$	\$	\$	\$	
30 days and less	2,802,485	1,777,704	1,316,469	701,937	487,038	43,758	20,734	7,150,125
31 to 60 days	3,576,732	1,434,680	504,396	515,503	103,574	50,331	23,388	6,208,604
61 and less than 90 days	-	-	-	-	-	-	-	-
	<b>6,379,217</b>	<b>3,212,384</b>	<b>1,820,865</b>	<b>1,217,440</b>	<b>590,612</b>	<b>94,089</b>	<b>44,122</b>	<b>13,358,729</b>

The average interest yield during the year on loans and advances was 5.93% (2011: 6.01%). Impaired loans as of June 30, 2012 amounted to \$19,049,942 (2011: \$16,682,212) and interest taken to income on impaired loans during the year amounted to \$502,085 (2011: \$460,494).

**Renegotiated Loans**

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original Effective Interest Rate (EIR) as calculated before the modification of terms and the loan is no longer considered past due. The amount of the impairment loss is measured as the difference between the carrying value of the loan and the present value of estimated future cash flows, including amounts recoverable from guarantees and collateral, based on the renegotiated terms and conditions discounted at the original EIR. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

**Repossessed Collateral**

In the normal course of business, the security documentation which governs the collateral charged in favor of the Bank to secure the debt, gives the Bank express authority to repossess collateral in the event of default by customers. Repossessed collateral are sold as soon as practicable, with proceeds used to reduce the outstanding indebtedness. Repossessed collateral is not recognized on the Bank's statement of financial position.

Repossessed collateral as of June 30, 2012 amounted to \$2,712,500 (2011: \$2,217,500).

**CAYMAN ISLANDS DEVELOPMENT BANK  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**  
(Expressed in Cayman Islands Dollars)

**6. PROPERTY AND EQUIPMENT**

	<b>Building</b>	<b>Motor vehicles</b>	<b>Computers</b>	<b>Furniture and Office Equipment</b>	<b>Total</b>
Cost	\$	\$	\$	\$	\$
At July 1, 2011	816,065	21,300	344,595	117,688	1,299,648
Additions	-	-	5,577	488	6,065
Transfers	-	-	-	-	-
Disposals	-	-	-	-	-
At June 30, 2012	<u>816,065</u>	<u>21,300</u>	<u>350,172</u>	<u>118,176</u>	<u>1,305,713</u>
Accumulated Depreciation					
At July 1, 2011	163,060	20,235	288,047	108,792	580,134
Depreciation charge for the year	40,803	1,065	47,789	5,315	94,972
Transfers	-	-	-	-	-
Disposals	-	-	-	-	-
At June 30, 2012	<u>203,863</u>	<u>21,300</u>	<u>335,836</u>	<u>114,107</u>	<u>675,106</u>
Net Book Value – June 30, 2012	<u>612,202</u>	<u>-</u>	<u>14,336</u>	<u>4,069</u>	<u>630,607</u>
Net Book Value – June 30, 2011	<u>653,005</u>	<u>1,065</u>	<u>56,548</u>	<u>8,896</u>	<u>719,514</u>

CIDB has pledged as collateral building owned, with a net book value above of \$612,202 as of June 30, 2012 (2011: \$653,005), under a revolving bank overdraft facility agreement with a local financial institution. The limit under the bank overdraft facility agreement is C\$753,300. As of June 30, 2012, there was a nil overdraft balance (2011: C\$239,482).

CIDB acquired and implemented a banking software system, Real Time Integrated Banking System ("RIBS"), from Gresham Computing Ltd. during the 2004/2005 year. CIDB has entered into a maintenance service agreement for five years with Gresham Computing Ltd., at an annual maintenance fee of US\$15,000 which commenced July 1, 2004. This would increase by 3% annually except for the 2007/2008 when it increased by 20% to US\$ 19,096.

**CAYMAN ISLANDS DEVELOPMENT BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
(Expressed in Cayman Islands Dollars)

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**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities are comprised of funds held in hand for the payment of fees, professional fees and other payables. As of June 30, the balances were as follows:

	2012	2011
	\$	\$
Funds in hand for payment of fees on behalf of customers	257,906	159,972
Professional fees	67,580	106,539
Other payables	14,213	19,157
Accrued leave liability	9,396	8,856
<b>Total</b>	<u>349,095</u>	<u>294,524</u>

There is a Past Service Liability of \$33,000 (2011: CI\$28,000) representing the one employee who participates in the defined benefit plan of the Public Service Pensions Board (see details in Note 10).

**8. AUTHORIZED AND CONTRIBUTED CAPITAL**

The authorized capital of CIDB is CI\$50 million as stated in Section 14(1) of the *Cayman Islands Development Bank Law, (2004 Revision)*.

At June 30, 2012, the amount of contributed capital of \$3,289,185 amounted to 6.60% of the \$50 million authorized capital in accordance with Section 14(3) of the *Cayman Islands Development Bank Law, (2004 Revision)* which requires that the paid up portion of authorized capital should not be less than 3% of the authorized capital.

**9. STATUTORY RESERVE**

Under Section 20 of the *Cayman Islands Development Bank Law, (2004 Revision)*, the Bank is required to establish a reserve. The Bank transfers 20% of its annual net income until the balance reaches the paid-up portion of the authorized capital of the Bank (currently \$3.3Million). There was no transfer to the Reserve Fund for year ended June 30, 2012 as the Bank made a loss (2011: Nil).

**CAYMAN ISLANDS DEVELOPMENT BANK  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Cayman Islands Dollars)**

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**10. PERSONNEL**

**Public Service Pension Plan**

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

**Defined Contribution Plan**

A defined contribution plan is a pension plan under which the Bank pays fixed contributions; there is no legal or constructive obligation to pay further contributions. The assets of the plan are held separately from those of the Bank in a fund under the control of the Pensions Board. Where employees leave the plan prior to vesting fully in the contributions, the contributions payable by the Bank are reduced by the amount of the forfeited contributions.

CIDB contributes 13% of the employees' monthly pensionable earnings to the Public Services Pension Fund. This includes an additional 1% to cover ancillary costs, which is required of statutory authorities from July 1, 2003. The total amount contributed by CIDB for the 12-month period ended June 30, 2012 was \$108,287 (2011: \$110,226).

Pension contributions are paid for all eligible employees on their pensionable emoluments. The Bank's 13 (2011: 14) employees all participate in a defined contribution scheme. Under the plan, the obligations and assets are both equal to the account balances held on behalf of the participants and no actuarial valuations are required. The Plan is funded at rates of:

		<u>2012</u>	<u>2011</u>
Defined Contribution Plans	- Employee	6%	6%
	- Employer	7%	7%

**Defined Benefit Plan**

A defined benefit plan is a pension plan that defines an amount of benefit that an employee is entitled to receive in retirement, dependent on one or more factors such as age, years of service and salary. A full actuarial valuation by a qualified independent actuary is carried out every year.

For the year ended June 30, 2012, only one former employee was a participant falling under the defined benefit plan in the Public Service Pension Plan and CIDB recognised a Defined Benefit Liability of \$33,000 (2011: \$28,000).

**CAYMAN ISLANDS DEVELOPMENT BANK  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**  
(Expressed in Cayman Islands Dollars)

**10. PERSONNEL (CONTINUED)**

Using the projected Unit Credit method of measuring costs and obligations, the actuarial assessment for the Bank determined the minimum normal annual contribution to be 13% in 2011-12 (13% in 2010-11). This rate included 1% for the cost of all of the benefits that are provided over and above those related to the participant's total account balance. The Plan is funded at rates of:

		<u>2012</u>	<u>2011</u>
Defined Benefit Plans	- Employee	6%	6%
	- Employer	7%	7%

The actual amount of pension expense relating to the defined benefits for staff includes the effect of the changes in the actuarial determined liability. The pension expense for the year ended June 30, 2012 amounted to \$5,000 (2011: \$8,000) recognized in the statement of comprehensive income.

The cost of the defined benefit plan is normally determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. As of the Audit Report Date, the actuarial valuation for the year ended June 30, 2012 was not available; however, the Actuary to the Pensions Board has estimated the value of the Fund for the defined benefits portion. The actuarial gain (loss) on the defined benefit plan is recognised in the statement of comprehensive income for the year. Based on the Projected Funded Status report dated August 16, 2012, the valuation of the defined benefit plan as of June 30, 2012 is as follows:

	<u>2012</u>	<u>2011</u>
	\$	\$
Defined Benefit Obligation	(22,000)	(33,000)
Fair Value of Plan Assets	<u>(50,000)</u>	<u>(47,000)</u>
	(72,000)	(80,000)
Unrecognised Past Service Cost	-	-
Unrecognised Net Actuarial (Gain)/Loss	<u>39,000</u>	<u>52,000</u>
Defined Benefit Asset/(Liability) in Statement of financial position	<u>(33,000)</u>	<u>(28,000)</u>

**CAYMAN ISLANDS DEVELOPMENT BANK  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**  
(Expressed in Cayman Islands Dollars)

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**10. PERSONNEL (CONTINUED)**

The Distribution of the Plan Assets, at July 1, based on the share of the total Fund allocated to the Bank was as follows:

	<u>2012</u>	<u>2011</u>
Equity investments	*	61%
Bond Investments	*	32%
Property	*	3%
Cash/Other	*	4%

*\*Actuarial valuation report as of June 30, 2012 not available.*

**The principal Actuarial Assumptions at the date of valuation**

A. Cost Method - Projected Unit Credit

B. Economic Assumptions –

1. Discount Rate – \* (2011: 5.5%)
2. Expected Long-Term Rate of Return (Net of Expense) – \* (2011: 6%)
3. Salary Increase – \* (2011: 4%)
4. Future Pension Increases – \* (2011: 2.5%)
5. Expected Remaining Working Lives (Years) – \* (2011: 11.48)
6. Inflation Rate – \* (2011: 2.5%)

*\*Actuarial valuation report as of June 30, 2012 not available.*

C. Other Assumptions –

1. Mortality – Standard U.S. mortality rates
2. Retirement Age – completion of age 57 and 10 years of service

D. Asset Valuation – Fair (Market) Value

**11. RELATED PARTY TRANSACTIONS**

**a) Transaction with the Cayman Islands Government**

CIDB acts as an agent for the Cayman Islands Government in respect of the Hurricane Relief Programme (Housing Recovery Grant) and the Education Council Scholarship Funds. For the year ended June 30, 2012, CIDB received payments of \$577,875 (2011: \$577,875) for providing these services as outlined in a purchase agreement between CIDB and the Cayman Islands Government. Currently, CIDB is economically dependent upon Government to meet its operational expenditure.

**CAYMAN ISLANDS DEVELOPMENT BANK  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**  
(Expressed in Cayman Islands Dollars)

**11. RELATED PARTY TRANSACTIONS (CONTINUED)**

The amounts received and disbursed on behalf of the programs are recorded on a timely basis by CIDB and the cash balances as of June 30 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 as of June 30 are as follows:

	2012	2011
	\$	\$
Hurricane Recovery Grant	171,324	170,548
Education Council Scholarship Fund	116,157	570,951

**Due to Related Parties**

	2012	2011
	\$	\$
Due to the Housing Recovery Grant	171,324	170,548
Due to the Education Council Scholarship Fund	116,157	570,951
<b>Total</b>	<u>287,481</u>	<u>741,499</u>

**b) Transactions with Members of Management and Staff**

During the year ended June 30, 2012, CIDB had five key management personnel positions which consisted of the General Manager, Financial Controller, Operations Manager, Senior Risk Manager and Senior Credit Manager (2011: four key management personnel positions, General Manager, Financial Controller, Operations Manager and Manager Credit). The total compensation received by key management personnel for the year ended June 30, 2012 totaled \$536,408 (2011: \$437,731), which represents salary, pension and medical expenses for the reporting period. Defined contribution plan expense for key management personnel for year ended June 30, 2012 amounted to \$56,628 (2011: \$45,839).

As at June 30, 2012, Senior Management held loans totaling \$416,561(2011: \$316,299). Income earned on Senior Management loans was \$15,670 (2011: \$15,634).

The total staff loan balances were \$1,119,969 (2011: \$808,476). 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 June 30, 2012, the Bank has not made any provision for doubtful debts relating to amounts owed by Senior Management or staff (2011: Nil).

**CAYMAN ISLANDS DEVELOPMENT BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
(Expressed in Cayman Islands Dollars)

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**11. RELATED PARTY TRANSACTIONS (CONTINUED)**

**b) Transactions with Members of Management and Staff (Continued)**

A member of Senior Management provides accounting services for an entity owned by a customer of CIDB. For the years ended June 30, 2012 and 2011, all transactions with this customer were at arm's length. During the year ended June 30, 2011, a loan restructure exercise was undertaken for this customer consolidating two loans held with CIDB. As of June 30, 2012, there was one loan balance outstanding with this customer of \$249,382 (2011: \$253,635) with security provided in the form of land. Total interest earned on loans with this customer for year ended June 30, 2012 amounted to \$20,154 (2011: \$33,146). In addition, the existing loan as of June 30, 2012 and 2011 was classified as non-performing with total arrears of \$11,033 (2011: \$8,914). As of June 30, 2012, there was provision for doubtful debt of \$15,417 (2011: \$15,417) against the outstanding loan balance.

**c) Transactions with Director**

One of the directors is related to one of CIDB's customer. For the years ended June 30, 2012 and 2011, all transactions with this customer were at arm's length. As of June 30, 2012, there was one loan balance outstanding with this customer of \$610,316 (2011: \$616,109) with security provided in the form of developed and undeveloped property. Total interest earned on this loan for year ended June 30, 2012 amounted to \$45,970 (2011: \$45,886). In addition, as of June 30, 2011, the loan was classified as non-performing with total arrears of \$18,346; however, as of June 30, 2012, the loan was performing. There was no provision for doubtful debt against the outstanding loan balance as of June 30, 2012 and 2011.

The said director also guaranteed a loan for another of CIDB's customers. The guarantee is limited to \$63,700. For the year ended June 30, 2012 and 2011, all transactions with this customer were at arm's length. As of June 30, 2012, there was one loan balance outstanding with this customer of \$64,230 (2011: \$63,180). Total interest earned on this loan for year ended June 30, 2012 amounted to \$5,144 (2011: \$4,698). In addition, as of June 30, 2012 and 2011 the loan was classified as non-performing with total arrears of \$16,636 and \$7,975, respectively. As of June 30, 2012, there was provision for doubtful debt of \$51,773 (2011: \$32,637) against the outstanding loan balance.

**d) Transaction with family member of a Legislator**

During September 2009, a loan in the amount of \$30,000 was granted for a relative of a Member of the Legislative Assembly; this is in contravention of Section 13(3)(c) of the Development Bank Law (2004 Revision). On March 7, 2011, the Board of Directors of the Bank issued a directive for the loan to be transferred to another financial institution. On December 23, 2011 the loan was transferred to another financial institution.



**CAYMAN ISLANDS DEVELOPMENT BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
(Expressed in Cayman Islands Dollars)

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**12. FAIR VALUE AND RISK ASSESSMENT OF FINANCIAL INSTRUMENT**

**Risk Management**

Financial assets of the Bank include cash, cash equivalents, fixed deposits, loan and advances to customers. Financial liabilities include bank overdraft, other payables, debt issued and other borrowed funds.

**(a) Interest Rate Risk (Continued)**

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 on a semi-annual basis. Details of rates and maturities are presented in Note 13.

**(b) Credit Risk**

Credit risk is the risk that the Bank will incur a loss because its customers fail to discharge their contractual obligations.

Cash and fixed deposits are held with conventional banks.

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.

**(c) Fair Value**

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

**CAYMAN ISLANDS DEVELOPMENT BANK  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Cayman Islands Dollars)**

**13. DEBT ISSUED AND OTHER BORROWED FUNDS**

**Loans from Caribbean Development Bank (“CDB”)**

On the establishment of CIDB, three lines of credit with CDB were transferred from the former Agricultural and Industrial Development Board to CIDB.

In May 2002, CDB granted a new line of credit (9/OR-CAY) of US\$5 million (CI\$4.154 million) for mortgage financing to the Cayman Islands Government with the CIDB acting as Executing Agent. This was in addition to 7/OR-CI line of credit of \$996,960 (US\$1,200,000). In 2008, CIDB made additional drawdown of \$238,396 (US\$ 286,948). Currently there are 2 lines of credit existing.

As at June 30, 2012, the balances on these loans were as follows:

<u>Purpose</u>	<u>Year Granted</u>	<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>Balance 2012</u>	<u>Balance 2011</u>
Agricultural and Industrial	1991	2012	3.84%	\$ 47,946	\$ 111,876
Mortgage	2002	2020	3.84%	<u>2,881,995</u>	<u>3,193,562</u>
				<u>2,929,941</u>	<u>3,305,438</u>
				Current Portion: <u>437,405</u>	469,370
				Long Term Portion: <u>2,492,536</u>	<u>2,836,068</u>

**Bond Issue**

In the fiscal year 2004-05 CIDB issued bonds totaling \$9,969,600 (US\$12 million). The terms and conditions of the bonds were as follows:

US\$6,000,000 – 5-Year Variable Rate Development Bond due June 30, 2010

US\$6,000,000 – 10-year Variable Rate Development Bond due June 30, 2015

During June 2010, the Management of the Bank successfully negotiated with the bondholders of the US\$ 6 Million bond which matured on June 30, 2010 to extend maturity for another 5 years. Over 95% (US\$ 5.8 Million) of the bondholders agreed to extend the maturity date for another 5 years at an interest rate of U.S. 6 Month LIBOR, plus 2.75%. The Bank paid redemption of US\$300,000 and facilitated a transfer in the amount of US\$100,000. Net pay out under the bond was US\$200,000.

**CAYMAN ISLANDS DEVELOPMENT BANK  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Cayman Islands Dollars)**

**13. DEBT ISSUED AND OTHER BORROWED FUNDS (CONTINUED)**

Another bond was issued in July 2007 for \$16,616,000 (US\$ 20,000,000) at 6.85% fixed rate due July 2017. Interest on this bond is paid half-yearly in July and January. During April 2010, CIDB refinanced the US\$20 Million Bond, due July 2017. CIDB secured a credit facility with a local financial institution to refinance the bond at a lower rate of interest of U.S. 180-Day LIBOR, plus 235 basis points. The new credit facility is for a period of 5 years.

Interest on the 5-year and 10-year bonds accrue daily and is payable in arrears semi-annually on June 30 and December 31 based on the 6-month US\$ Libor rate (plus 2.75% and 1% for the 5 and 10-year bonds respectively) as quoted by Bloomberg at 10 am New York, USA or Reuters six months before the interest due date.

The bonds are secured by an irrevocable and unconditional guarantee issued by the Cayman Islands Government. The Guarantor promises to pay the Bondholder from time to time on demand all sums of money (of principal, interest or otherwise) which CIDB is at any time liable to pay such Bondholder.

In the event of default, (upon notification in writing by the bondholder) the bond becomes immediately due and payable.

**Terms and Principal Repayment Debt Schedule as at 30 June 2012**

	<u>TOTAL</u>	<u>1 Year</u>	<u>1-2</u>	<u>2 - 5</u>	<u>Over 5</u>
	<u>\$</u>	<u>or less</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>
	\$	\$	\$	\$	\$
<b>Secured Bank Loan (CDB)</b>					
7/OR-CI – 3.84% Variable	47,946	47,946	-	-	-
9/OR-CAY – 3.84% Variable	2,881,995	389,459	311,567	934,701	1246,268
<b>Secured Bond</b>					
US\$ 5.8 million due June 2015, Variable Rate at 6 month US\$ LIBOR plus 2.75%	4,818,640	-	-	4,818,640	-
US\$ 6 million due June 2015 Variable Rate at 6 month US\$ LIBOR plus 1%	4,984,800	-	-	4,984,800	-
US\$ 20 million due April 2015 Variable Rate at 6 month US\$ LIBOR plus 2.35%	16,616,000	-	-	16,616,000	-
US\$5 million due July 2015, Variable Rate At 6 month US\$ LIBOR plus 2.75%	4,154,000	-	-	4,154,000	-
US\$5 million due January 2016, Variable Rate At 6 month US\$ LIBOR plus 2.75%	4,154,000	-	-	4,154,000	-
<b>TOTAL</b>	<b>37,657,381</b>	<b>437,405</b>	<b>311,567</b>	<b>35,662,141</b>	<b>1,246,268</b>

During the year ended June 30, 2012 the Bank did not repurchase any of its own debt (2011: Nil).

**CAYMAN ISLANDS DEVELOPMENT BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
(Expressed in Cayman Islands Dollars)

**14. OTHER SIGNIFICANT EXPENSE ITEMS**

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

**a) Salaries and Other Staff Benefits**

	2012	2011
	\$	\$
Salaries	870,556	924,186
Pension cost – defined contribution plan	108,287	110,226
Pension cost – defined benefit plan	5,000	8,000
Medical Expenses	118,658	107,497
Recruitment and Other Related Expenses	37,114	46,506
	<u>1,139,615</u>	<u>1,196,415</u>

**b) Accommodation Costs**

	2012	2011
	\$	\$
Telephone	24,356	29,312
Electricity	34,534	35,295
Strata Fees	41,136	41,136
Insurance-Contents	10,995	10,104
Janitorial Costs	10,800	11,056
Other	17,493	7,591
	<u>139,314</u>	<u>134,494</u>

**15. STATEMENT OF CONTINGENT LIABILITIES AND COMMITMENTS**

The Bank had no known contingent liabilities at June 30, 2012 (2011: Nil)

At June 30, 2012, the Bank had commitments relating to maintenance of the RIBS/EDGE banking software by Gresham Computing Ltd. The amount committed per year is approximately \$17,600 (2011: \$17,600).

As at June 30, 2012, the Bank had loan commitments amounting to \$1,027,487 (2011: \$1,534,829). These amounts, which are not reflected in the statement of financial position, reflect the un-disbursed portion of loans, which have been approved by Management.

**16. EVENTS AFTER THE REPORTING DATE**

During February and March 2013, the Bank received \$1,000,000 in contributed capital from the Cayman Islands Government.