CAYMAN ISLANDS DEVELOPMENT BANK

ANNUAL REPORT

FOR

THE YEAR ENDED

DECEMBER 31, 2018

CAYMAN ISLANDS DEVELOPMENT BANK

CONTENTS

GENERAL MANAGER'S STATEMENT

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

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

In order for the Bank to remain a viable entity, the Cayman Islands Government will be required to provide additional capital to increase the loan portfolio through carefully adopted and administered new lending programs. The Bank is effectively managed by the qualified and experienced key senior managers. The Bank can become a self-sufficient and relevant entity without direct support from Government, but that would require a strategic policy by the Cayman Islands Government to enable the Bank to become a key player in the development of the country.

I wish to thank the staff for their dedication and commitment as well as the achievements during the period. I also wish to thank our customers, the Government and the Board of Directors for their support during this period.

Tracy L. Ebanks

CAYMAN ISLANDS DEVELOPMENT BANK

Vision Statement

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

1) Nature and Scope of Activities

The Cayman Islands Development Bank ("CIDB" or "the Bank") was established under the Cayman Islands Development Bank Law (2004 Revision) which came into force on March 1, 2002, and is solely owned by the Cayman Islands Government. The principal function of CIDB is to mobilise, promote, facilitate, and provide finance for the expansion and strengthening of the economic development of the Islands. The Bank does this by providing financing for tertiary education, housing, agriculture and the development of small businesses.

2) Governance

The CIDB's Board of Directors is responsible for the policy of the Bank and the general administration of its affairs and business. The Bank is regulated by the Monetary Authority and is audited annually by the Auditor General's Offices. The Board of Directors is governed through Section 4 Schedule 1 of the Law.

3) Our People

For the year ended December 31, 2018, the bank had a total of 13 members of staff. CIDB's Senior Management Team was comprised as follows:

General Manager/CEO	Tracy Ebanks, AICB, pMBA (Hons)
Financial Controller	Paula Smith, FCCA
Senior Credit Risk Manager	Eustace Jeffers

During the year ended December 31, 2018, employees of the Bank participated in a number of training programs that included training in Anti-Money Laundering and Fraud, and Alpha Banking for the new banking software platform. The General Manager/CEO attended a Training and Information Sharing Program for Executives of Development Banks at Banco Financiero in Mexico City that provided valuable information on viable lending programs and risk managemnet. The Financial Controller actively participates in Meals on Wheels. Roger Bodden an Account Manager in the Risk Department, is an Advisor for the High School Key Clubs.

4) Management Discussion and Analysis

The key objectives of CIDB for the fiscal year ended December 31, 2018 were as follows:

- Increase portfolio by new business loan programs
- Increase portfolio by new Home Energy Loan Program "HELP"
- Expanded support for the student loan program via counseling
- Provision of financial counseling for customers
- Replacing existing hardware/software banking systems

i) Loan Performance

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

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

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

*comprises of insurance, legal fees and property valuations

Student loans declined for several reasons. The bulk of the Bank's student loans are essentially granted to fund shortfalls from awarded scholarships. Students are encouraged to attend local universities to obtain their Associates prior to finishing Bachelor programs overseas to keep tuition costs down. More students are availing of the local resources for cost reasons and also to improve on their GPA's to be considered for scholarships.

The majority of loans classified under Other Loans were insurance loans as the Bank had to force place home owners insurance coverage as customers were unwilling or unable to pay the premiums.

ii) Loan Delinquency

Loan delinquency continues to be a problem for the Bank. Delinquent loans were approximately CI$13.5 Million as of December 31, 2018, representing 53% of the entire loan portfolio down slightly from 56% recorded for December 31, 2017. The high levels of delinquencies are mainly attributed to loans underwritten under outdated policies and the high risk nature of the loans. The Bank continues to work with customers in an attempt to reduce delinquency levels.

iii) Financial Performance

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

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

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

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

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

5) Programmes Administered on Behalf of the Cayman Islands Government

During the fiscal year ended December 31, 2018, the Bank continued to provide administrative services to the Cayman Islands Government in respect of the various government guaranteed loan programmes as well as the administration of the funds under the Government's Scholarship Programme.

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

6) The Future

Historically the outputs received by Government to assist with the administration of various programs on their behalf and operational costs of the Bank equated to less than the provision for loan impairment and represents 35% of operating expenses. The ending results has been losses due to an underperforming loan portfolio and insufficient capital to fund good loan growth. The implementation of IFRS 9 will result in an increase to the Bank's loan loss provision and increase loss. Previously, provisions were more reactive and an impairment was booked after 90 days – non-accrual status, but under IFRS 9, provisions will be established from the moment a loan is booked.

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

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

The Bank is keen on working with the Government's Environmental initiatives to reduce the reliance on fuel and cost savings for consumers by offering a Home Energy Loan Program "HELP". The HELP program would assist with improving the thermal characteristics of a home by having proper insulation and weatherization and buying up-to-date technologies. The Cayman Islands have a strong building code to ensure better protection against the elements, but regular maintenance is required. The installation of hurricane windows and doors would not only afford costs savings through lower utility bills but could mean the difference between losing electricity for several days compared to losing your home.

The key objectives for fiscal year 2019 are:

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

7) Acknowledgements

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

AUDITED FINANCIAL STATEMENTS FOR YEAR ENDED DECEMBER 31, 2018