ANNUAL REPORT

FOR

THE YEAR ENDED

DECEMBER 31, 2020

CIDB

CAYMAN ISLANDS DEVELOPMENT BANK

Contents

CAYMAN ISLANDS DEVELOPMENT BANK

CHAIRMAN'S STATEMENT

Interest income from loans increased 7.9% over 2019 due to increased collection efforts and realization of assets that were under foreclosure. The Bank's loan portfolio declined only CI$156K compared to CI$1.8 Million in 2019 as the bank increased its loan portfolio with the introduction of the Micro and Small Business Interruption Loan Program ("MSBIL"). Interest income was not affected as the loans commenced drawdown in July 2020 with a 6 month payment moratorium inclusive of interest. During the period the Bank reduced its long term debt by CI$4.076 Million through semi-annual principal payments on its remaining CI$11.7 Million loan facility with FirstCaribbean International Bank.

The Bank's operating expenses increased 4.2% overall mainly due to an increase in salary expense due to the hiring of 2 employees to fill vacancies and an increase to depreciation expense. Despite the increase in operating expenses, the Bank posted a profit of CI$240K before transfer to reserves of CI$48K. A contributing factor was a decrease in interest expense as LIBOR fell in 2020 and the write back of CI$168K upon completion of the annual provision for credit losses.

The bank played a vital role in economic recovery during the Covid-19 pandemic. The MSBIL program provided funding for 26 local businesses. The bank also funded business loans to medium sized businesses that required more than the CI$50K maximum under the MSBIL program. Both programs remain active and as Cayman moves closer to opening its borders, the bank will be in a position to assist with providing capital to recommence operations.

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

Richard Lewis

CIDB

CAYMAN ISLANDS DEVELOPMENT BANK

MESSAGE FROM CHIEF EXECUTIVE OFFICER

The economic impact of Covid-19 for fiscal year 2020 did not result in a loss for the bank as the bank provided payment relief plans and worked diligently with its customers to find solutions based on their individual needs.

The CIDB closed to the public late March 2020 when the island was placed in a nationwide lockdown to curb the community transmission of the Covid-19 virus. Despite this, the staff was working at full capacity remotely from home thanks to our qualified and responsive IT Manager. Customers were re-directed to effect online banking transactions and the Credit Team was liaising with clients via email or video/phone calls.

Payment holidays were provided to customers to assist with their cash flow needs due to loss of income. The Bank also pledged CI$5 million of its capital to assist with providing funding to small business that were struggling due to the border closure. As one of the bank's mandate is to provide funding in times of crisis, the business relief loans provided very soft terms and conditions that would not be available for delivery by a commercial bank. Despite the "soft terms and conditions" and 100% guarantee pledged by the Government, the bank did not fully avail the funds pledged in the calendar year, however, requests are still being considered. The bank projects that another wave of requests will occur in the second quarter of 2021 to coincide with the opening of the border.

Payment holidays and related moves cannot last forever and the trickiest banking decisions on credit have yet to be taken. The basic calculation to be made is this: is a particular business temporarily in trouble because of the pandemic or has the economic reality so fundamentally changed that the business model in question is no longer viable?

The earnings outlook for banks over the next 18 months is not yet known in the Cayman Islands however, in other jurisdictions, some will take credit hits sufficiently large to take them into loss making territory. The differences in the fortunes of individual banks will depend very much on how they handle the Covid-19 credit issue going forward.

Steering a course between doing what's right for the balance sheet and what's right for the bank's reputation is the big test that CEOs face over the coming months. 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 help its people recover.

"Hard times don't create heroes. It is during hard times when the "hero" within us is revealed."

My staff revealed their inner hero and I am grateful for their hard work 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.

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Report for the Year Ended December 31, 2020

1) Nature and Scope of Activities

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

2) Governance

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

3) Our People

For the year ended December 31, 2019, the bank had a total of 13 members of staff. CIDB's Senior Management Team was comprised as follows:

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

During the year ended December 31, 2020, employees of the Bank participated in a number of training programs that included training in Anti-Money Laundering and Fraud.

The General Manager and the Financial Controller facilitated 2 Business Boot Camps free of charge for the Chamber of Commerce. The first camp in January 2020 was centered around preparing financial statements and the importance to obtain financing.

The second camp in February 2020 focused on preparing business plans. Both camps were well attended and the bank's two ladies received rave reviews.

The bank hosted its first Customer Appreciation Day December 2020. 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. This will become an annual event.

The bank has created a calendar of events for the year to become more active within the community.

CAYMAN ISLANDS DEVELOPMENT BANK

4) Management Discussion and Analysis

The key objectives for fiscal year 2020 pivoted as follows:

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

i) Loan Performance

As of December 31, 2020, the loan portfolio stood at $20,860,580 before loan loss provision of $1,480,387 compared to the loan portfolio as of year ended December 31, 2019 of $21,184,623 before loan loss provision of $1,648,631, representing a slight net decrease of 1% in the loan portfolio over year ended December 31, 2019.

Number and Value of Loans Inclusive of Restructures Approved for the Year Ended December 31, 2020. Does not include 101 disbursements totalling $154K for insurance, legal fees and property valuations.

Loan Category	Number of Loans	Limit
Business Loan	7	$1,590,925
2020 MSBIL	26	$900,000
NHDT Mortgage	2	$128,877
Student Loam	5	$151,732
Other	5	$411,874
TOTAL	46	$3,183,408

The Bank rolled out a Business Interruption Loan Program jointly with the newly formed Cayman Islands Centre for Business Development ("CICBD") to provide up to CI$50K in working capital struggling with cash flow due to the border closure. The Cayman Islands Government provided their Guarantee for CI$5 Million to shield the bank from potential losses as the loans were considered high risk. At year end there was still approximately

CI$4Million earmarked that was available for the scheme. The uptick for the program started to wane as some could not meet the collateral requirements and in addition, the CICBD rolled out a grant program providing up to CI$20K. The bank continues to receive requests and currently has CI$639K in its sales pipeline for consideration. The bank recorded loan growth in its existing Business Loan program due to its competitive rates and terms that afforded working capital for those that fell outside the MSBIL program. There was a decline in financing the Affordable Home Mortgage Program to assist customers purchasing NHDT housing units due a shortage of these homes. New student loans declined due to the uncertainty surrounding the opening of borders and high levels of Covid-19 in jurisdictions where students seek tertiary education.

ii) Loan Delinquency

Delinquent loans continued to decrease and fell to 35.5% totaling $7.4 Million as at December 31, 2020 compared to 50% the previous year totaling $10.7 Million. Despite the slowing economy, the bank's performing loan portfolio maintained its status and some customers that were severely delinquent utilized pension withdrawals to bring their loan current. In addition, the real estate market was active and several properties that were foreclosed on years ago sold in 2020 generating interest income. The Bank continues to work with customers in an attempt to reduce delinquency levels and the board has been meeting more regularly to approve write downs for fully provisioned loans.

iii) Financial Performance

As of December 31, 2020, the total assets of the Bank stood at $41,516,898 (excluding cash held on behalf of the Education Council Scholarship Fund of $2,288,437 and the Housing Recovery Grant of $180,350), a decrease of $1,046,312 attributed to a decrease in cash and a CI$167,947 write back. The loan portfolio represented approximately 46% of the Bank's assets as of December 31, 2020 the same as 2019. Liabilities decreased by $5.8 Million due to the semi-annual principal payments on the CI$11.7 Million loan facility with FirstCaribbean International Bank and funds due to Related Parties.

Gross income improved to 56% for the year ended December 31, 2020 due to an increase in interest income lower interest expense, however, this does not include credit losses.

Interest income from loans increased 18.4% from the previous year period due to increased collection efforts and the sale of several properties under foreclosure. Overall interest income increased 7.9% as interest income on fixed deposits decreased.

The Bank's operating expenses increased 4% overall mainly due to an increase in salary expense due to the hiring of 2 employees to fill vacancies. To keep operating costs down, the bank does not immediately fill vacancies until needed based on growth. The Bank posted a profit of CI$240K that records 2 consecutive years of profit.

5) Programmes Administered on Behalf of the Cayman Islands Government

During the fiscal year ended December 31, 2020, 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.

CAYMAN ISLANDS DEVELOPMENT BANK

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. The ending result was losses due to an underperforming loan portfolio and insufficient capital to fund good loan growth. Due to increased collection efforts, sales from foreclosed properties and loan growth, the bank is positioned to utilize funds held on fixed deposit for lending.

The bank together with over 50 stakeholders from various backgrounds were engaged by the Strategic Reforms Implementation Unit (SRIU), a unit within the Office of the Deputy Governor that operates at an enterprise level providing support for strategic public sector reforms and initiatives in February 2020 prior to the pandemic. This initiative was launched following the Premiers 2020/2021 Budget Policy Statement in which he identified housing as the biggest single factor impacting the cost of living in the Cayman Islands. The engagements were in the form of one on one consultations as well as a series of Think Tank sessions. The Think Tank sessions were a high level discussion of the contributing issues and potential solutions for the housing challenges. Discussions were halted and new dates have not been announced. The bank is working with the NHDT and offers an attractive competitive mortgage package to assist lower income earners to buy their own home.

The pandemic created delays in recommencing construction projects and the demand for housing has now reached a critical concern especially in view of the recent announcements of large projects that will explode the population growth in the Cayman Islands. In response, the bank will be revisiting its strategic plan with a view to offer first time home owners a mortgage package similar to the NHDT product.

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 bank's small business loan program has increased demand and the bank will continue to offer this program together with the MSBIL until funds are depleted.

The key objectives for fiscal year 2021 are 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

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.

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

Outputs Delivered to Cabinet (Financial Performance)

FINANCIAL PERFORMANCE MEASURE	2020 ACTUAL $000'S	2020 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	1,702	2,018	(316)	1
SURPLUS/DEFICIT FROM OUTPUTS				
OTHER EXPENSES	2,027	3,122	(1,095)	2
NET SURPLUS (DEFICIT)	241	(538)	779	3
TOTAL ASSETS	41,517	40,260	1,257	4
TOTAL LIABILITIES	14,351	13,525	826	5
NET WORTH	27,166	26,735	431	6
			-	
CASH FLOWS FROM OPERATING ACTIVITES	(1,292)	(4,157)	2,865	7
CASH FLOWS FROM INVESTING ACTIVITES	2,316	1,500	816	8
CASH FLOWS FROM FINANCING ACTIVITES	417	424	(7)	
CHANGE IN CASH BALANCES	1,441	(2,233)	3,674	
FINANCIAL PERFORMANCE RATIO				
CURRENT ASSETS : CURRENT LIABILITIES	315%	300%	15%	
TOTAL ASSETS : TOTAL LIABILITIES	289%	298%	-8%	

NOTES: EXPLANATION FOR VARIANCE

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

2 Expenses lower than budgeted due to loan loss provision credit. There was a decline in loan loss provision over budget. Collateral provided by customers to secure loans had a positive impact on loan loss provisioning.

3 Lower than budgeted expenses had positive impact on net surplus.

4 Total assets grew over budget due to a number of loans repaid ahead of scheduled maturity which increased cash and bank balances, in addition, 3 million in loan value was approved.

5 Total liabilities higher than budget due to a higher balance being held at year end on behalf of The Ministry of Education Scholarship Fund. It was budgeted that $1 Million would be in this fund at year end, however, there was $2 Million in this fund at year due to timing of receipts from Government and payments to students.

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

7 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.

8 The increase in cash flows from investing activities over budget can be attributed long-term fixed deposits cashed in during the year and transferred to cash at bank.

CAYMAN ISLANDS DEVELOPMENT BANK

HUMAN CAPITAL MEASURES	2020 ACTUAL $000'S	2020 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	41,517	40,260	1,257	**1**
ASSET REPLACEMENTS : TOTAL ASSETS	-	-	-	
BOOK VALUE OF ASSETS : COST OF THOSE ASSETS	60%	54%	6%	**2**
DEPRECIATION : CASH FLOW ON ASSET PURCHASES	95%	0%	95%	**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	529	487	42	**4**
Remuneration Payments made to Senior Management	420	387	33	**4**
NUMBER OF KEY MANAGEMENT PERSONNEL (BOARD)	6	6	-	
NUMBER OF KEY SENIOR MANAGEMENT (MD)	3	3	-	

CAYMAN ISLANDS DEVELOPMENT BANK

NOTES: EXPLANATION FOR VARIANCE

1 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 $3 Million in new loans approved.

2 BOOK VALUE OF ASSETS : COST OF THOSE ASSETS ratio higher than budget due to purchase of computer equipment to allow staff to work from home during the COVID-19 Pandemic and office furniture for new staff.

3 DEPRECIATION : CASH FLOW ON ASSET PURCHASES: There were no planned asset purchases in 2020, but due to the COVID-19 Pandemic the Bank had to purchase additional computers to allow staff to work from home.

4 Remuneration paid to key management personnel higher than budget due to the Government award of the COLA that was not included in the 2020 budget.

CAYMAN ISLANDS DEVELOPMENT BANK

Purchase Agreement outputs delivered (Min of Education) 2020

The outputs purchased by Cabinet and delivered by the Cayman Islands Development Bank during 2020 are documented below.

Measures	2020 Actual	2020 Budget	Variance
Quantity			
• Number of payments to facilitate Education Council scholarship recipients (inclusive of: local & overseas, & direct institutions)	997	400-525	472
• Number of performance reports	12	10-12	0%
Quality			
• Ensure that Education Council scholarships payments are administered in accordance with agreed arrangements as submitted from time to time by the Ministry of Education.	100%	100%	0%
• Submit required performance reports with accuracy and relevance of reports as agreed with the Ministry of Education.	100%	100%	%
Timeliness			
• Administer all scholarships in a timely manner to ensure that recipients are in receipt of funds as requested & submitted by the Ministry of Education to CIDB.	100%	100%	0%
• Maximum time of 7 working days between end of month and submission of reports	40%	100%	60%
Location Cayman Islands	100%	100%	0%
Cost	**$40,451**	**$40,451**	**$0**

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Variance Explanation

CIDB processed 472 more scholarship payments than budgeted due to increased number of annual scholars. Monthly reporting also lagged behind. However, all disbursements to students are recorded in a timely manner and fund reconciliation reports prepared monthly and there was constant communication between CIDB representatives and the Ministry of Education representatives who were made aware of the balance in the fund at all times.

Purchase Agreement Outputs Delivered 2020

The outputs purchased by Cabinet and delivered by the **Cayman Islands Development Bank** during the 2020

CIB 1	Programme of Direct Lending for Human Resource Development		
Description Administer a programme of direct lending for Human Resource Development at the tertiary level and for vocational training by: • promoting the programme through media advertising • providing a counseling and information service • appraising loans considered for financing • ensuring adequate loan documentation • monitoring the loan portfolio • enforcing debt collection measures • generating periodic performance reports			
Measures	**2020 Actual**	**2020 Budget**	**Variance**
Quantity			
• Number of enquiries responded to	250	45-55	205
• Number of loans processed	5	25-35	(20)
• Number of new loans approved	5	30-40	(25)
• Number of counseling sessions	150	20-30	130
• Number of loans under special debt service arrangements	30	15-20	10
• Number of loans under litigation	35	15-20	15
• Number of performance reports (FMI submissions)	4	4	-

Quality			
• Minimum percent of customers expressing satisfaction with service when surveyed	92%	90-100%	-
• Percent accuracy and relevance of reports as determined by internal peer review	95%	90-100%	-
• Percent of borrowers over 90 days in arrears	36%	30-35%	-
• Percent value of loan portfolio over 90 days in arrears	32%	35-40%	(2)
• Percent of loan portfolio written off annually	3%	3-5%	-
Timeliness			
• Maximum turn-around time of two working days between receipt of all application particulars and the approval of loan	80%	80-100%	-
• Maximum time of 15 days between end of quarter and submission of reports	90%	80-100%	-
Location			
Grand Cayman		100%	
Cost	**$121,353**	**$121,353**	**$0**

Variance Explanation

The number of enquiries increased substantially mainly due to queries for extensions to existing terms and workouts for NALs. Significant drop in new loan requests as some opting to attend UCCI locally. In addition, it has become more difficult to obtain a Second Charge for security. No write offs for 2020

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CIB 2	Programme of Direct Lending for Micro and Small Business Development	

Description
Administer a programme of direct lending for micro and small business development by:

- promoting the programme through media advertising
- providing a counseling and information service
- appraising loans considered for financing
- ensuring adequate loan documentation
- monitoring the loan portfolio
- enforcing debt collection measures
- generating periodic performance reports

Measures	2020 Actual	2020 Budget	Variance
Quantity			
• Number of loans approved	33	10-20	13
• Number of enquiries responded to	600	50-100	500
• Number of on-site technical assistance	20	10-20	-
• Number of counseling sessions	100	10-20	80
• Number of loans under special debt service arrangements	27	22-30	-
• Number of loans under litigation	26	35-40	-
• Number of performance reports (FMI submissions)		4	
Quality			
• Minimum percent of customers expressing satisfaction with service when surveyed	95%	90-100%	-
• Percent accuracy and relevance of reports as determined by internal peer review	90%	90-100%	-
• Percent of borrowers over 90 days in arrears	29%	50-60%	(21)
• Percent value of loan portfolio over 90 days in arrears	20%	40-50%	(20)
• Percent of loan portfolio written off annually	0%	5-10%	5
Timeliness			
• Maximum turn-around time of two working days between receipt of all application particulars and the approval of loan	80%	80-100%	-
• Maximum time of 15 days between end of quarter and submission of reports	90%	80-100%	-
Location			
Grand Cayman		100%	
Cost	**$156,025**	**$156,025**	**$0**

Variance Explanation

Significant increase in enquiries re business interruption loans and relief payments. No write downs occurred in 2020.

CAYMAN ISLANDS DEVELOPMENT BANK

CIB 3	Mortgage Finance Programme	

Description

Administer a mortgage finance programme including direct lending and support services to assist:

- Low to middle income Caymanians in owning their own homes
- Owners of sub-standard housing in improving their housing accommodation by:

- promoting the programme through media advertising
- monitoring projects in progress
- providing a counseling and information service
- appraising loans considered for financing
- ensuring adequate loan documentation
- monitoring the loan portfolio
- enforcing debt collection measures
- generating periodic performance reports

Measures	2020 Actual	2020 Budget	Variance
Quantity			
• Number of enquiries responded to	95	35-40	45
• Number of projects appraised	2	15-25	(13)
• Number of new loans approved	2	15-20	(13)
• Number of site visits	0	15-20	(15)
• Number of counseling sessions	225	20-35	205
• Number of loans under special debt servicing arrangements	26	20-25	(1)
• Number of loans under litigation	21	25-30	4
• Number of performance reports	4	4	4
			-
Quality			
• Minimum percent of customers expressing satisfaction with service when surveyed	95%	90-100%	-
• Percent accuracy and relevance of reports as determined by internal peer review	95%	90-100%	-
• Percent of borrowers over 90 days in arrears	39%	40-45%	(1)
• Percent value of loan portfolio over 90 days in arrears	49%	40-45%	4
• Percent of loan portfolio written off annually	0%	5-10%	5
Timeliness			
• Maximum turn-around time of two working days between receipt of all application particulars and the approval of loan	85%	80-100%	-
• Maximum time of 15 days between end of quarter and submission of reports	95%	80-100%	-
Location			
Grand Cayman		100%	
Cost	**$231,152**	**$231,152**	**$0**

Variance Explanation

Counselling and queries increased due to moratoriums. Due to the pandemic, housing projects were on hold.

CIB 4	Government Guaranteed Student/Home Loan Schemes	

Description

Administer, as Executing Agent for the Government, a government guaranteed student/mortgage loan scheme funded by leading local commercial banks by:

- providing a secretarial service for the scheme
- monitoring loan portfolio
- monitoring Government's exposure and liability
- enforcing debt collection measures against defaulting borrowers
- generating periodic performance reports

Measures	2020 Actual	2020 Budget	Variance
Quantity			
• Number of items of correspondence with participating banks	10	8-12	-
• Number of loans under special debt servicing arrangements	N/A	1	-
• Number of performance reports	4	4	-
Quality			
• Percent accuracy and relevance of reports as determined by internal peer review	95%	90-100%	-
• Percent of borrowers over 90 days in arrears	N/A		-
• Percent value of loan portfolio over 90 days in arrears	N/A		-
• Percent of loan portfolio written off annually	N/A		-
Timeliness			
• Maximum time of 15 working days between end of quarter and submission of reports	95%	90-100%	-
Location			
Grand Cayman		100%	
Cost	**$17,787**	**$17,787**	**$0**

Variance Explanation

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

AUDITED FINANCIAL STATEMENTS FOR YEAR ENDED DECEMBER 31, 2020

Cayman Islands Development Bank
Statement of Responsibility for the Financial Statements
December 31, 2020

These financial statements have been prepared by the Cayman Islands Development Bank in accordance with the provisions of the *Public Management and Finance Law (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 Law (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 law, and properly record the financial transactions of the Cayman Islands Development Bank.

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

The financial statements fairly present the financial position of the Cayman Islands Development Bank as at 31 December 2020, 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 2020;

(b) fairly reflect the financial position as at 31 December 2020 and financial performance for the year ended 31 December 2020; and

(c) comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.

Richard Lewis	*Tracy Ebanks*
Chairman of the Board of Directors	*General Manager*
Cayman Islands Development Bank	*Cayman Islands Development Bank*
Date: April 29, 2021	Date: April 29, 2021

CAYMAN ISLANDS DEVELOPMENT BANK

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020
(Expressed in Cayman Islands Dollars)

	Notes	2020 $	2019 $
ASSETS			
Cash and Cash Equivalents	3, 13	9,222,372	7,781,606
Term Deposit, Loan Interest and Other Receivable	5	209,447	239,414
Fixed Deposit, Net of Allowance for Expected Credit Losses	4	11,763,374	14,115,275
Loans to Customers, Net of Allowance for Expected Credit Losses	6	19,380,193	19,535,992
Prepaid Expenses	5	42,458	34,980
Deposit on Assets	5	5,500	5,500
Property and Equipment	7	884,917	836,048
Lease Right-of-Use Asset	8	8,637	14,395
TOTAL ASSETS		**41,516,898**	**42,563,210**
LIABILITIES AND EQUITY			
Accounts Payable and Accrued Liabilities	9	175,415	176,868
Due to Related Parties	13	2,468,787	4,261,097
Lease Liability - Current Portion	8	6,168	5,883
Lease Liability - Long-Term Portion	8	3,196	9,363
Interest Payable – Long Term Debt		-	1,352
Current Portion of Long Term Debt	15	4,076,458	4,076,458
Long Term Debt	15	7,621,206	11,697,665
TOTAL LIABILITIES		14,351,230	20,228,686
EQUITY			
Contributed Capital	10	28,319,185	23,819,185
Statutory Reserve Fund	11	176,923	128,814
Revaluation Reserve – Property and Equipment	7	465,287	374,687
Retained Earnings (Accumulated Losses)		(1,795,727)	(1,988,162)
TOTAL EQUITY		27,165,668	22,334,524
TOTAL LIABILITIES AND EQUITY		**41,516,898**	**42,563,210**

Approved on behalf of Management:

Tracy Ebanks
General Manager

Date: April 29, 2021

Paula R. Smith
Financial Controller

Date: April 29, 2021

CAYMAN ISLANDS DEVELOPMENT BANK

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020
(Expressed in Cayman Islands Dollars)

	Notes	2020 $	2019 $
INCOME			
Interest Income			
Loans	6	1,554,293	1,312,838
Fixed Term Deposits	3, 4	133,458	251,417
		1,687,751	**1,564,255**
Interest Expense			
Long Term Debt	15	(319,454)	(685,659)
Lease Liability	8	(597)	(870)
		(320,051)	**(686,529)**
Net Interest Income		**1,367,700**	**877,726**
Credit Loss / Credit (expense)	3, 4, 6	167,947	666,099
Services Provided to Cayman Islands Government	13	526,317	526,317
Ministry of Education Payments for Output	13	40,451	40,451
Other Income		318	11,157
Loan Commitment Fees		11,451	2,723
Gain (Loss) on Foreign Currency Conversion		(14,199)	(11,375)
Net Income from Operations		**2,099,985**	**2,113,098**
ADMINISTRATIVE EXPENSES			
Salaries and Other Staff Benefits	12, 16	1,396,614	1,282,399
Professional Fees		124,301	166,160
Accommodation Costs	16	95,806	104,145
Office Expenses		80,345	84,100
Depreciation - Property and Equipment	7	77,315	66,541
Computer Maintenance		61,710	57,089
Depreciation - Lease Right-of-Use Asset		5,758	5,758
Directors' Fees		5,150	5,700
Advertising and Promotion		5,615	5,025
Bad Debt Written Off		-	-
Other		6,827	6,978
Total Administrative Expenses		**1,859,441**	**1,783,895**
Net Income (Loss)		240,544	329,203
Transfer to Reserves	11	(48,109)	(65,841)
Net Income (Loss) after Transfer to Reserves		**192,435**	**263,362**
Other Comprehensive Income			
Revaluation Surplus (Deficit) – Property and Equipment	7	-	-
Total Comprehensive Income (Loss)		**192,435**	**263,362**

CAYMAN ISLANDS DEVELOPMENT BANK

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
(Expressed in Cayman Islands Dollars)

	Notes	2020 $	2019 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income (Loss) after Transfer to Reserves		192,435	263,362
Adjustments for:			
Transfer to Reserve Fund	**11**	48,109	65,841
Bad Debt Written Off		-	-
Depreciation - Property and Equipment	**7**	77,315	66,541
Depreciation - Right-of-Use Asset	**8**	5,758	5,758
Interest expense - lease liability		597	
Credit Loss (Credit) Expense	**3, 4, 6**	(167,947)	(666,099)
		156,267	(264,597)
Changes in Operating Assets and Liabilities			
(Increase) Decrease in Prepaid Expenses		(7,478)	(4,917)
(Increase) Decrease in Deposit on Assets		-	74,576
(Increase) Decrease in Term Deposit and Loan Interest and Other Receivables		29,967	114,277
(Increase) Decrease in Loans to Customers		324,043	2,538,832
Increase (Decrease) in Accounts Payable and Accrued Liabilities		(1,451)	54,016
Increase (Decrease) in Due to Related Parties		(1,792,310)	741,323
Increase (Decrease) in Interest Payable – Long Term Debt		(1,352)	(1,441)
Net Cash Provided by Operating Activities		**(1,292,314)**	**3,252,069**
CASH FLOWS FROM INVESTING ACTIVITIES			
(Increase) Decrease in Fixed Deposits	**4**	2,351,603	(2,345,289)
Purchase of Property and Equipment	**7**	(35,584)	(101,519)
Net Cash Used in Investing Activities		**2,316,019**	**(2,446,808)**
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)	(4,076,458)
Net Cash Provided by (Used in) Financing Activities		**417,061**	**417,062**
Net Increase / (Decrease) Increase in Cash and Cash Equivalents		1,440,766	1,222,323
Cash and Cash Equivalents at Beginning of the Year		7,781,606	6,559,283

CAYMAN ISLANDS DEVELOPMENT BANK

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020
(Expressed in Cayman Islands Dollars)

	Notes	Contributed Capital	Statutory Reserve Fund	Revaluation Reserve	Retained Earnings (Accumulated Losses)	Total
		$	$	$	$	$
Balance as at December 31, 2018	**10**	19,319,185	62,973	374,687	(2,250,819)	17,506,026
Net impact of change in accounting policy					(705)	(705)
Net Income (Loss) for the Year		-	-	-	329,203	329,203
Transfer to Reserves	**11**	-	65,841	-	(65,841)	-
Revaluation Surplus – Property & Equipment	**7**	-	-	-	-	-
Capital Contribution	**10**	4,500,000	-	-	-	4,500,000
Balance as at December 31, 2019		23,819,185	128,814	374,687	(1,988,162)	22,334,524
Net Income (Loss) for the Period		-	-	-	240,544	240,544
Transfer to Reserves	**11**	-	48,109	-	(48,109)	-
Revaluation Surplus – property& equipment	**7**	-	-	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**

The accompanying notes are an integral part of these financial statements

1. GENERAL INFORMATION

The Cayman Islands Development Bank ("CIDB" or the "Bank") was established under the *Cayman Islands Development Bank Law (2018 Revision)* which came into force on March 1, 2002, and is solely owned by the Cayman Islands Government. Upon the enactment of the *Cayman Islands Development Bank Law (2018 Revision)*, two former statutory financial institutions, the Agricultural and Industrial Development Board and the Housing Development Corporation were dissolved and their functions as well as their assets and liabilities were transferred to the Bank.

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

The registered office of the Bank is at 36B Dr. Roy's Drive, P.O. Box 2576, George Town, Grand Cayman, KY1-1103, Cayman Islands. As at December 31, 2020, the Bank had fifteen (15) employees (2019: 13).

2. ACCOUNTING POLICIES

2.1 Basis of Preparation

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

Statement of Compliance

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

2.2 Significant Accounting Judgments and Estimates

In the process of applying the Bank's accounting policies, Management has exercised judgment and estimates in determining the amounts recognized in the financial statements. Actual results could differ from these estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are considered to be reasonable under the circumstances. The estimates and judgements that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within one year from the date of these financial statements are listed below. 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.

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.

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies

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

a) Recognition of Income

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

Interest Income

Interest income is recorded on an accrual basis using the effective interest rate (EIR) until such time as a loan is classified as impaired. Any accrued interest on credit impaired loans is reversed against income for the current period. Thereafter, interest income on impaired loans is recognized in the period it is collected.

Fee Income

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

b) Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line method at rates considered adequate to write-off the cost over their estimated useful lives as listed below. The cost model is used for measurement after initial recognition for property and equipment except for building. The revaluation model is used for building. Under the revaluation model, the accumulated depreciation on building is eliminated against the gross carrying amount of the asset.

Office Furniture/Equipment	5 years
Computer Equipment	3 years
Motor Vehicles	5 years
Building	50 years

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

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, 2020, 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 2019 and 2020 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.

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

c) Foreign Currency Transactions

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

d) Use of Estimates

The preparation of financial statements in conformity with IFRS requires management to make certain significant estimates and judgements that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

e) Employee Benefits

CIDB participates in the Public Service Pension Plan, a defined benefit and contribution pension fund, in accordance with the Public Service Pension Law. The Public Service Pension Fund is administered by the Public Service Pension Board and is operated as a multi-employer non-contributory Fund, whereby the employer pays both the employer and employee contributions.

f) Financial Instruments

(i) Classification

The classification of financial instruments at initial recognition depends on their contractual terms and business model for managing the instruments. 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, 2020, 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, 2020, financial liabilities comprise of accounts payable and accrued liabilities and long-term loan. All financial assets and liabilities as of December 31, 2020 are non-derivative financial instruments and are measured at amortized cost based on the conditions above.

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.

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.

Impairment of Financial Assets
For the years ended December 31, 2020 and 2019, 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:

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

- **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.

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.

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 18.86%. The forecast unemployment rate for Cayman Islands is 7.1%, which given the strength of the correlation, equates to a forward-looking 12-month PD of 9.68%.

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 2020 of 0.76% - weighted at 6.49%
- Base case – Stable economic position, the PD will remain at its 2020 level of 0.76% - weighted at 88.46%
- Worst case – Degrading economic position, in line with the expectation of increasing unemployment, resulting in a PD of 9.68% - weighted at 5.05%

The scenario weightings were determined by assuming the macroeconomic factor (i.e. unemployment rate) will vary following a normal distribution around the 8-year average. The best case weighting was calculated as the probability that the unemployment rate will be less than 3.40%, the base case where the unemployment rate would be between 3.40% and 7.1% and the worst case where the unemployment will exceed 7.1%

The scenario weighted 12-month PD is 1.21%.

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.

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

g) New and Amended International Financial Reporting Standards

IFRS 9 – Amendments: Prepayment Features with Negative Compensation
Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are solely payments of principal and interest on the principal amount outstanding (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Bank.

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

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

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

2. ACCOUNTING POLICIES (CONTINUED)

In summary, the adoption of IFRS 16 had minimal impact on retained earnings. The recognized right-of-use asset and lease liability at initial application in 2019 both equal approximately $28,789.

2.3 Summary of Significant Accounting Policies (continued)

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

Covid-19 related Rent Concessions – Amendments to IFRS 16
As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions may take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted. Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions. An entity applies the amendments for annual reporting periods beginning on or after 30 June 2020, with early application permitted. The Bank did not receive any rent concessions during the year, and as such, this amendment to IFRS16 is not expected to have any impact on the financial statements of the Bank and no specific disclosures are required.

Amendments to IAS 1 and IAS 8: Definition of Material
In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, '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. An entity applies the amendments for annual reporting periods beginning on or after 1 January 2020, with early application permitted. The amendments to the definition of material do not have a significant impact on the Bank's financial statements.

IFRS 15 – Revenue from Contracts with Customers
IFRS 15 is effective for entities with an annual reporting period beginning on or after January 1, 2018.
IFRS 15 establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. In applying IFRS 15, an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The principles in IFRS 15 apply a five-step model: (1) Identify the contract(s) with a customer (2) Identify the performance obligations in the contract (3) Determine the transaction price (4) Allocate the transaction price to the performance obligations in the contract (5) Recognise revenue when (or as) the entity satisfies a performance obligation. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The Bank is a lending institution only and not deposit taking and does not offer any other forms of paid services to its customers (borrowers). The only contracts in force between the Bank and customers are loan agreements, the accounting

3. ACCOUNTING POLICIES (CONTINUED)

treatment of which are already covered under IFRS 9 – Financial Instruments. Management believes the impact of IFRS 15 is negligible on the operations on the Bank.

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:

	2020 $	2019 $
Current and Savings Accounts	6,933,935	1,128,116
Fixed Deposit less than three months	-	2,572,107
Credit loss allowance	-	(319)
Cash held on behalf of the Education Council Scholarship Fund	2,288,437	4,081,702
Total	**9,222,372**	**7,781,606**

The effective interest rate on call deposits for the year ended December 31, 2020 was 0.94% (2019: 1.64%). The deposits had an average maturity of 135 days (2019: 135 days). Interest income earned on fixed deposits for the year ended December 31, 2020 amounted to $133,458 (2019: $251,417).

4. FIXED DEPOSIT

Deposit accounts reflect term deposits, which are placed with approved financial institutions. Such deposits have maturity between three months and six months from the date of acquisition. The carrying amount of total fixed deposit approximates to fair value. The table below shows an analysis of the expected maturity of the fixed deposit amounts.

	Total $	Matures Within 91 Days and 180 Days $	Matures Within 181 Days and 365 Days $
As of December 31, 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**	**-**
As of December 31, 2019			
Fixed Deposit	14,117,147	14,117,147	-
Expected credit loss allowance	(1,872)	(1,872)	-
Net Balance	**14,115,275**	**14,115,275**	**-**

Expected credit loss allowance on fixed deposits

Total expected credit loss on fixed deposits, all with maturities of 6 months or less is $2,488 (2019: $2,191). 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 2019 Moody's Default study and the EAD derived based on the actual deposits held with financial institutions at year end.

5. TERM DEPOSITS, LOAN INTEREST AND OTHER RECEIVABLES

The balances as of December 31 are as follows:

	December 31, 2020	December 31, 2019
Loan interest receivable	56,015	23,459
Deposit interest receivable	10,470	58,114
Late fee receivable	(36)	439
Receivable for CIG Output	131,579	131,579
Receivable for Ministry of Education Output	10,113	10,113
Receivable from Public Service Pension (pension over payment)	-	13,622
Other	1,306	2,088
Total	**209,447**	**239,414**

DEPOSITS ON ASSETS

Total deposit on assets relates to purchase of property and equipment during the year ended December 2018 for which projects were still in progress as of December 31, 2020. Subsequent to year end, amounts for completed projects will be transferred to the relevant property and equipment cost account.

	December 31, 2020 $	December 31, 2019 $
Computer software	-	-
Furniture and equipment	5,500	5,500
Total	**5,500**	**5,500**

PREPAID EXPENSES

Prepaid expenses as of December 31 comprise the following:

	December 31 2020 $	December 31 2019 $
Software maintenance	20,392	19,188
Insurance	14,924	11,135
Permanent residence fee	1,725	1,294
Other	5,417	3,363
Total	**42,458**	**34,980**

6. LOANS TO CUSTOMERS

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

	2020	2019
	$	$
Mortgages	7,324,623	8,322,776
Business Loans	3,487,031	4,285,949
Student Loans	2,752,895	3,044,100
Debt Consolidation	2,734,927	2,906,331
Staff Loans	1,114,731	544,252
2020 Micro & Small Business Loan Interruption Program	841,316	-
SME 2015 Loan Program	811,222	108,002
NHDT Mortgages	694,895	575,259
Financial Stimulus	624,306	653,728
2015 Debt Consolidation Loan Program	453,766	720,166
Personal Financial Assistance	17,531	20,531
Other Loans	3,337	3,529
	20,860,580	**21,184,623**
Less: Expected Credit Loss Allowance	(1,480,387)	(1,648,631)
Total Net Balances	**19,380,193**	**19,535,992**

	2020	2019
	$	$
Short Term Portion	1,594,804	2,221,726
Long Term Portion	19,265,776	18,962,897
Total	**20,860,580**	**21,184,623**

Loans to customers' maturity analysis

	2020	2019
	$	$
0 – 3 Months	1,307,619	1,641,702
3 – 12 Months	287,185	580,024
1 – 5 Years	3,117,316	4,249,814
Over 5 Years	16,148,460	14,713,083

6. LOANS TO CUSTOMERS (CONTINUED)

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**

Expected Credit Loss Allowances as of December 31, 2019

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

As at December 31, 2020, the Bank had loan commitments amounting to $452,485 (2019: $320,379 (amended)). 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

	2020 $	2019 $
Balance at beginning of year	1,648,631	4,302,811
Remeasurement	(168,244)	(666,782)
Loans previously provided for written off	-	(1,987,398)
Balance at end of year	**1,480,387**	**1,648,631**

Interest Income on Loans to Customers

	2020 $	2019 $
Peforming loans	764,483	827,696
Non-performing loans	789,810	485,142
Total	**1,554,293**	**1,312,838**

6. LOANS TO CUSTOMERS (CONTINUED)

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**

Performing and Non-Performing Loans December 31, 2019

	Mortgages $	NHDT Mortgages	Business Loans $	Debt Consolidation $	SME 2015 Loan Program $	2015 Debt Consolidation $	Student Loans $	Financial Stimulus $	Staff Loans $	Personal Financial Assistance $	Other Loans $	Total $
Performing Loans	4,083,782	575,259	437,153	1,635,177	96,356	584,101	1,883,477	620,036	544,252	-	3,529	**10,463,122**
Non-Performing Loans	4,238,994	-	3,848,796	1,271,154	11,646	136,065	1,160,623	33,692	-	20,531	-	**10,721,501**
Gross Total Loans	**8,322,776**	**575,259**	**4,285,949**	**2,906,331**	**108,002**	**720,166**	**3,044,100**	**653,728**	**544,252**	**20,531**	**3,529**	**21,184,623**

The average interest yield during the period on loans to customers was 7.39% (2019: 5.60%). Impaired loans as of December 31, 2020 amounted to $7,411,535 (2019: $10,721,501) and interest taken to income on impaired loans during the period amounted to $789,810 (2019: $485,142).

6. LOANS TO CUSTOMERS (CONTINUED)

Ageing Analysis of Past Due but not Impaired Loans

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**
	582,899	**801,558**	**550,000**	**8,647**	**495,597**	**137,571**	**118,214**	**2,694,486**

As of December 31, 2019

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

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 $999,395 (2019: $334,936). Subsequent to December 31, 2020 and as of the date of these financial statements, none of the loans restructured during the fiscal year is delinquent.

Repossessed Collateral

In the normal course of business, the security documentation which governs the collateral charged in favour of the Bank to

7. LOANS TO CUSTOMERS (CONTINUED)

secure the debt, gives the Bank express authority to repossess collateral in the event of default by customers. Repossessed collateral is sold as soon as practicable, with proceeds used to reduce the outstanding indebtedness. Repossessed collateral is not recognized on the Bank's statement of financial position. Repossessed collateral as of December 31, 2020 amounted to $4,256,000 (2019: $5,371,000).

8. PROPERTY AND EQUIPMENT

	Building	Motor Vehicles	Computers	Furniture and Office Equipment	Total
Cost	$	$	$	$	$
At January 1, 2020	760,000	29,880	507,514	105,027	1,402,421
Additions	-	-	25,967	9,617	35,584
Cost adjustment - revaluation	45000				45,000
Disposals	-	-	-	-	-
At December 31, 2020	805,000	29,880	533,481	114,644	1,483,005
Accumulated Depreciation					
At January 1, 2020	30400	24,402	414,527	97,044	566,373
Depreciation charge for the year	15,200	5,478	52,957	3,680	77,315
Depreciation written back due to revaluation surplus	(45,600)				(45,600)
Disposals	-	-	-	-	-
At December 31, 2020	-	29,880	467,484	100,724	598,088
Net Book Value – December 31, 2020	**805,000**	**0**	**65,997**	**13,920**	**884,917**
Net Book Value – December 31, 2019	**729,600**	**5,478**	**92,987**	**7,983**	**836,048**

As of December 31, 2020, the fair value of the building is estimated at $805,000 based on an independent valuation report prepared by DDL Studio Ltd as of October 2, 2020. The valuation was prepared in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Global Standards (incorporating the IVSC International Valuation Standards), November 2019 as well as the International Financial Reporting Standards (IFRS). The resulting net revaluation surplus of $90,600 is recorded in other comprehensive income and also included in revaluation reserve balance on the statement of financial position of $465,287. The valuation report did not include the componentization breakdown of the building as required under IAS16, and as such, depreciation reflected in the financial statements is based on the overall value of the building. The carrying amount of building before revaluation is $714,400.

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

	2020	2019
	$	$
Balance brought forward	374,687	374,687
Revaluation surplus (deficit)	90,600	-
Revaluation reserve balance carried forward	**465,287**	**374,687**

9. 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

	2020
	$
Cost - warehouse storage unit	28,789
Less accumulated depreciation January 1	(14,394)
Less depreciation for current year	(5,758)
Balance at December 31	**8,637**

Lease Liability
Maturity Analysis

	2020
	$
Due in less than one year	6,168
Due in one to two years	3,196
Due in two to five years	-
Due over five years	-
Total	**9,364**

Interest expense recognized on lease liability for the year amounted to $597.

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

10. 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:

	2020 $	2019 $
Funds in hand for payment of fees on behalf of customers	62,192	61,317
Professional fees	74,000	87,140
Accrued leave liability	19,443	10,661
Credit card	2,217	1,051
Other payables	17,563	16,699
Total	**175,415**	**176,868**

11. AUTHORIZED AND CONTRIBUTED CAPITAL

The authorized capital of CIDB is CI$50 million as stated in Section 14(1) of the *Cayman Islands Development Bank Law, (2018 Revision).* At December 31, 2020, the amount of contributed capital of $28,319,185 (2019: $23,819,185) amounted to 57% (2019: 48%) of the $50 million authorized capital in accordance with Section 14(3) of the *Cayman Islands Development Bank Law, (2018 Revision)* which requires that the paid up portion of authorized capital should not be less than 3% of the authorized capital. During year ended December 31, 2020 the Bank received $4,500,000 in contributed capital from the Cayman Islands Government (2019: $4,500,000).

12. STATUTORY RESERVE FUND

Under Section 20 of the *Cayman Islands Development Bank Law, (2018 Revision)*, the Bank is required to establish a reserve. The Bank transfers 20% of its annual net income until the balance reaches the paid-up portion of the authorized capital of the Bank (currently $28.3 Million). There was a transfer of $48,109 to the Reserve Fund for year ended December 31, 2020 as the Bank made a net profit of $240,544 (2019: $65,841). As of December 31, 2020, the Statutory Reserve Fund has a balance of $176,923 (2019: $128,814).

13. 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.

12. PERSONNEL (CONTINUED)

Defined Contribution Plan

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

CIDB contributes 12% of the employees' monthly pensionable earnings to the Public Service Pension Fund. The total amount contributed by CIDB for the year ended December 31, 2020 was $121,942 (2019: $107,513).

Pension contributions are paid for all eligible employees on their pensionable emoluments. The Bank's 15 employees (2019: 13) 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:

		2020	2019
Defined Contribution Plans	- Employee	6%	6%
	- Employer	6%	6%

Defined Benefit Plan

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

13. RELATED PARTY TRANSACTIONS

a) Cayman Islands Government Dividend Policy

The Cayman Islands Government has a policy for the payment of annual dividends by Statutory and Government Owned Companies (SAGCs). Dividends are calculated and paid to Government based on the higher of 5% of operating revenue and 50% of operating surplus. An SAGC is exempt from paying dividends in accordance with Section 19 of the policy. CIDB is, therefore, claiming exemption under Section 19a of the policy (and which has been approved by the Accountant General), which allows exemption if "*the operations of the SAGC are not self-sustainable (i.e. the SAGC is reliant on core government subsidies, capital injections or charitable donations to fund its operating activities)*". CIDB is currently economically dependent upon Government to meet annual operating expenses and receives an annual output from Government in the amount of $526,317. In addition, CIDB currently receives annual capital injection of $4.5 Million from Government to help repay an existing long-term debt held with a local financial institution. As such, no dividends have been accrued in these financial statements for year ended December 31, 2020 (2019: Nil).

14. PERSONNEL (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. For the year ended December 31, 2020, CIDB received payments of $526,317 (2019: $526,317) for providing these services as outlined in a purchase agreement between CIDB and the Cayman Islands Government. Currently, CIDB is economically dependent upon Government to meet its operational expenditure.

13. RELATED PARTY TRANSACTIONS (CONTINUED)

a) Transaction with the Cayman Islands Government (continued)

The amounts received and disbursed on behalf of the programs are recorded on a timely basis by CIDB and the cash balances as of December 31, 2020 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, 2020 and 2019 are as follows:

	2020	2019
	$	$
Education Council Scholarship Fund	2,288,437	4,081,702
Housing Recovery Grant	180,350	179,395
Total	**2,468,787**	**4,261,097**

b) Transactions with Members of Management and Staff

During the year ended December 31, 2020, 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, 2020 totaled $528,837 (2019: $489,448), 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, 2020 amounted to $47,912 (2019: $35,508).

As at December 31, 2020, Senior Management held loans totaling $14,861 (2019: $31,179). Income earned on Senior Management loans for year ended December 31, 2020 amounted $1,136 (2019: $1,865).

13. RELATED PARTY TRANSACTIONS (CONTINUED)

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

As of December 31, 2020, the total staff loan balance is $1,114,731 (2019: $544,252). 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, 2020, the Bank has not made any provision for impairment losses relating to amounts owed by Senior Management or staff (2019: Nil).

14. FAIR VALUE AND RISK ASSESSMENT OF FINANCIAL INSTRUMENT

Risk Management

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

a) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest will affect future cash flows or the fair values of financial instruments. CIDB provides loans and technical assistance in the areas of human resource development, housing and small business, in particular in the agricultural, tourism, and industrial sectors. The Bank minimizes interest rate risk principally by on-lending at variable rates of interest from funding provided by long-term debts with variable interest rates.

The Bank manages the interest rate risk by securing funds from international financial institutions which review their lending rates to CIDB quarterly. Details of rates and maturities are presented in Note 15.

b) Credit Risk

Credit risk is the risk that the Bank will incur a loss because its customers fail to discharge their contractual obligations. The net carrying amount of loans to customers of $19,380,193 represents the maximum exposure to credit risk as of December 31, 2020 (2019: $19,535,992) 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, 2020, the total net cash and equivalents of $9,222,372 (2019: $7,781,606) and net fixed deposit of $11,763,374 (2019: $14,115,275) 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.

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 US28.8 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, 2020 amounted to $319,454 (2019: $685,659). All borrowing costs incurred during the period have been expensed.

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**	**-**

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

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

16. OTHER SIGNFICANT EXPENSE ITEMS

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

a) Salaries and Other Staff Benefits

	2020	2019
	$	$
Salaries	1,033,512	951,142
Medical Expenses	232,795	213,622
Pension Cost – Defined Contribution Plan	121,942	107,513
Recruitment and Other Related Expenses	8,365	10,122
	1,396,614	**1,282,399**

b) Accommodation Costs

	2020	2019
	$	$
Strata Fees	34,280	37,708
Electricity	19,934	25,763
Telephone	14,995	14,501
Insurance-Contents	5,731	5,934
Janitorial Costs	9,350	10,800
Other	11,516	9,439
	95,806	**104,145**

17. STATEMENT OF CONTINGENT LIABILITIES AND COMMITMENTS

The Bank had no known contingent liabilities at December 31, 2020 (2019: Nil).

At December 31, 2020 and 2019, 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 $21,859 (2019: $21,181).

As at December 31, 2020, the Bank had loan commitments amounting to $452,485 (2019: $320,379 (amended)). 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 $880,000 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 $117,960 over 2019. Fixed deposit effective interest rates 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; $16,434,739 (78%) of the Bank's loan portfolio is secured by first charge over property. 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 $168,244, resulting in a write back of loan loss provision, which impacted the Bank's profitability for 2020. Despite the negative impacts of the pandemic, the Bank was able to post a net profit of $240,544. The Cayman Islands Tourism Sector has been impacted significantly by the pandemic. As a result, Management performed a review of the loan portfolio to determine the percentage of tourism-related loans. Based on a review, it was determined that there are 7 tourism-related loans, with combined total principal balances of $522,446, representing 2.5% of the loan portfolio. Two of these loans are mortgages with a combined loan balance of $353,755. However, Management is unsure of the number of customers with loans that maybe impacted indirectly or directly by the fallout in the tourism sector and what impact this had on loan collections due to loss of income by those customers.

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.

IMPACT OF COVID-19 PANDEMIC (continued)

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.

19. EVENTS AFTER THE REPORTING DATE

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