CAYMAN ISLANDS DEVELOPMENT BANK

REPORT TO THOSE CHARGED WITH GOVERNANCE ON THE 2025 AUDIT

JULY 2026

To help the public service spend wisely

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REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 31 December 2025, financial statements of the Cayman Islands Development Bank (the "Bank"). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Bank in sufficient time to enable them to take appropriate action. The matters we are required to communicate under ISAs include:

   - Auditors' responsibilities in relation to the audit
   - The overall scope and approach to the audit, including any expected limitations, or additional requirements
   - Relationships that may bear on our independence, and the integrity and objectivity of our staff
   - Expected modifications to the audit report
   - Significant findings from our audit.

2. This report sets out for the consideration of those charged with governance, those matters arising from the audit of the 2025 financial statements that we consider worthy of drawing to your attention.

3. This report has been prepared for the sole use of those charged with governance, and we accept no responsibility for its use by a third party. Under the *Freedom of Information Act* (*2021 Revision*), it is the policy of the Office of the Auditor General to proactively release all final reports through our website: www.auditorgeneral.gov.ky.

AUDITOR'S RESPONSIBILITIES IN RELATION TO THE AUDIT

AUDITOR'S RESPONSIBILITY UNDER INTERNATIONAL STANDARDS ON AUDITING (ISAs)

4. ISAs require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters, and this report includes only those matters of interest that came to our attention during the performance of our audit.

Office of the Auditor General
CAYMAN ISLANDS

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

5. Management's responsibilities are detailed in the engagement letter dated 19 August 2025. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

6. While we have no responsibility to perform any audit work on other information, including forward-looking statements containing audited financial statements, we have read the other information contained in the Bank's annual report and noted that it is materially consistent with information appearing in the financial statements or our knowledge of the operations of the Bank. We have not reviewed other documents containing the Bank's audited financial statements.

CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT

7. Information on the integrity and objectivity of the Office of the Auditor General and audit staff and the nature and scope of the audit were outlined in the engagement letter presented to the General Manager and follow the requirements of the ISAs. We are not aware of any impairment to our independence as auditors.

AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATIONS

8. We have issued an unmodified audit report with an emphasis of matter paragraph on the 31 December 2025 financial statements. Note 6 in the financial statements outlines those impaired loans as at December 31, 2025, amounted to $$2,949,934 (2024: $3,547,996). This represents 12% (2024: 13%) of the overall loan portfolio excluding allowances for credit losses.

   According to note 10 of the financial statements, the Bank received $1,000,000 (2024: $3,000,000) in contributed capital from the Cayman Islands Government during the year ended December 31, 2025. We also draw your attention to Note 13, which indicates that the Bank received payments amounting to $605,043 (2024: $605,267) for providing services to the Cayman Islands Government.

   The ability of the Bank to meet its mandate and capacity to sustain its operational expenditures are significantly reliant on continued Government support from the proceeds of capital injection and services provided to the Government. Continued support from the Government is necessary for the Bank to carry out its principal function to mobilize, promote, facilitate, and provide finance for the expansion and strengthening of the economic development of the Islands. Additionally, the support would include obtaining the necessary waivers highlighted under note 13 (b).

9. A summary of audit adjustments made to the financial statements is attached in Appendix 1. A summary of unadjusted misstatements is attached in Appendix 2.

10. As part of the completion of our audit, we obtained written representations from management on aspects of the accounts, judgments, and estimates made. These representations were provided to us on 27 April 2026.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Bank's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

12. Generally accepted accounting principles provide for the Bank to make accounting estimates and judgments about accounting policies and financial statement disclosures. We are, however, not aware of any new or controversial accounting practices reflected in the Bank's financial statements.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. Management has made judgments and estimates with regard to the following financial statement items:

- Impairment of property, plant and equipment
- Useful lives of property, plant and equipment
- Expected Credit Losses
- Provisions and contingent liabilities
- Actuarial valuations, including assumptions, e.g. discount rates

GOING CONCERN DOUBTS

14. As a result of our audit, we did not become aware of any events and conditions that may cast significant doubt on the Bank's ability to continue as a going concern.

INTERNAL CONTROL MATTERS AND SIGNIFICANT FINDINGS

15. Internal control matters and significant findings are noted in Appendix 3, along with management's response.

FRAUD OR ILLEGAL ACTS

16. Applicable auditing standards recognize that the primary responsibility for the prevention and detection of fraud and compliance with applicable acts and regulations rests with both those charged with governance of the entity and with management. It is important that management, under the oversight of those charged with governance, places a strong emphasis on fraud prevention and deterrence.

17. They are also responsible for establishing and maintaining controls pertaining to Bank's objective of preparing financial statements that are presented fairly, in all material respects, in accordance with the applicable financial reporting framework and managing risks that may give rise to material misstatements in those financial statements. When exercising oversight responsibility, those charged with governance should consider the potential for management to override controls or exert other inappropriate influences over the financial reporting process.

18. As auditors, in planning and performing the audit, we are required to reduce audit risk to an acceptably low level, including the risk of undetected misstatements in the financial statements due to fraud.

19. However, we cannot obtain absolute assurance that material misstatements in the financial statements will be detected because of such factors as the use of judgment, the use of testing, the inherent limitations of internal control and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature.

20. No fraud or illegal acts came to our attention as a result of the 2025 audit.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

21. No difficulties were encountered in the performance of our audit.

DISAGREEMENTS WITH MANAGEMENT

22. We have had no disagreements with management resulting from our audit.

ANY OTHER SIGNIFICANT MATTERS

23. There were no other significant matters noted during the audit.

ACKNOWLEDGEMENTS

24. We would like to express our thanks to the staff of the Cayman Islands Development Bank for their help and assistance during the audit of this year's financial statements. This enabled us to provide an audit report within the agreed timetable.

Yours Sincerely,

Patrick O. Smith CPA, CFE
Auditor General

APPENDIX 1 – SUMMARY OF ADJUSTED MISSTATEMENTS

Number	Adjustment details	Account description	Account Number	Debit	Credit	Identified by: (Client/ OAG)
1.	To record the net movement in Post-Retirement Healthcare Benefit obligation	Post-retirement healthcare liability Post-retirement healthcare benefit expense Post-retirement healthcare - remeasurements	9101107 9301905 9301906	136,000 66,000	 (202,000) 	Client
2.	To clear an outstanding balance in lease liability	Lease – Right of Use Liability Retained Earnings	9101508 9101908	 626	(626) 	Client
	Total			**202,626**	**(202,626)**	

APPENDIX 2 – SUMMARY OF UNADJUSTED MISSTATEMENTS

Ref no.	Description	Account description	Assets	Liabilities	Equity	Income	Expenses
1	To correct the overstatement of interest income from Stage 3 loans in line with IFRS 9 requirements. IFRS 9 requires that interest income for Stage 3 loans should be calculated by applying the effective interest rate to the amortized cost (Gross Carrying Amount Less Expected Credit Losses). In its banking system, the Bank accrues but does not recognise interest income on Stage 3 loans. When interest income from the Stage 3 loans is recovered, the bank recognises the interest income. At the end of the year, the Bank performs a comparison between the total interest income recognised against the expected amount under IFRS 9. The unadjusted amount was the difference for the year. Note: Since the interest income had not been initially recognised, it would be corrected as a reclassification to other income.	Interest income from loans Other income				56,105 (56,105)	
	Total					-	

APPENDIX 3 – INTERNAL CONTROL MATTERS AND SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
Financial Management					
1. Outdated Loan Internal Credit Reviews A review of the Bank's loan portfolio revealed that internal credit assessments for 26 loan accounts were outdated. Section 8.1.18 of the Bank's lending policy and procedures manual stipulates that all credits must be rated both at the time of application and during each interim or annual review. However, compliance with this requirement has not been consistently maintained. Based on our evaluation, the ECL assessment for the year remained unchanged, as the loan accounts were appropriately classified within their respective stages. However, looking ahead, there is a potential risk that future assessments may be materially affected if qualitative factors such as borrower financial health,	**<u>Risk/Implication</u>** Failure to conduct timely credit reviews undermines the Bank's ability to assess and mitigate credit risk effectively. This oversight could result in undetected deterioration in asset quality, potentially leading to increased credit losses. Additionally, non-compliance with internal	Yes	Yes	All credit reviews are now current. 20 of the 26 loans are non-accrual loans and deterioration of asset quality already factored into rating and provisions applied	Ongoing

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
macroeconomic conditions, and industry-specific risks are not adequately captured and integrated into the credit risk modelling process.	policies may attract scrutiny from regulators and other stakeholders, potentially damaging the Bank's reputation or leading to enforcement actions. **<u>Recommendation</u>** In the absence of an automated system to flag upcoming review deadlines and provide alerts for overdue assessments, the Bank should request that its assigned personnel ensure that all manual credit reviews are completed as required			therefore no increase of credit loss. Of the remaining 6 only 1 account was required to have an annual review. Reviews are not conducted on all loans and ratings are adjusted as needed. An assigned member of the Risk Team	

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
	and that system records are updated promptly.			circulates an email reminder every month to the Credit and Risk Teams to perform the necessary reviews.	
2. Matured Loans within the Loan Portfolio The Bank's loan portfolio included 16 matured loans with material aggregate balances. Notably, one of these loans reached maturity as far back as 2018. According to sound lending practices, loans that retain a balance at maturity should be subject to immediate corrective action, either through restructuring, foreclosure, or write-off, depending on the borrower's financial standing and repayment	**Risk/Implication** Failure to take timely corrective action on matured loans increases the risk of default, potentially causing financial losses for the Bank. Retaining non-	Yes	Yes	The corrective actions on matured loans are applied on a case-by-case basis with judicial foreclosure	Ongoing

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
capacity. The prolonged status of these matured loans indicates gaps in loan management and recovery processes, potentially undermining the Bank's ability to mitigate credit risk effectively.	performing matured loans impairs the Bank's ability to optimise capital allocation, thereby reducing opportunities for reinvestment and profitable lending. **<u>Recommendation</u>** Perform a review of the 16 matured loans, prioritising the three oldest accounts for urgent resolution. Additionally, implement stricter monitoring controls to ensure timely			pursued as the last resort. In some cases, the Bank may reach an agreement in which the borrower agrees to take steps in return for the Bank delaying legal action to collect the loan. In other cases, the loan may be restructured in accordance	

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
	intervention when loans approach maturity.			with the Bank's underwriting standards. This agreement is usually accompanied by changes to the terms of the loan to reduce the financial burden on the borrower through extending the loan term and adjusting the	

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
				payment arrangements. The Credit & Risk Teams will continue to review and monitor the performance of these loans.	
3. Inappropriate Revenue Recognition Policy for Output Revenue International Financial Reporting Standard 15 (IFRS 15) - Revenue from Contracts with Customers requires revenue to be recognised when, or as, performance obligations are satisfied — that is, when specified outputs are delivered to the customer. Where a purchase agreement defines specific outputs, revenue should be recognised based on actual outputs delivered using the output method, or	**Risk/Implication** There is a risk that revenue may be recognised in an inappropriate accounting period due to the use of a fixed quarterly allocation method that does not reflect actual performance obligations	No	Yes	The major expenses of the Bank are salaries, and other staff benefits that are incurred uniformly over the year.	Ongoing

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
where the output method cannot be reliably applied, based on cost incurred. The Bank recognised output revenue based on the appropriation amount, allocated on a straight-line quarterly basis, rather than by reference to actual outputs delivered or costs incurred. This approach does not reflect the substance of the purchase agreement and is not compliant with IFRS 15.	satisfied. This increases the risk of material misstatement in revenue, profit, and related balances. As a result, revenue and profit may be overstated or understated in specific reporting periods, there may be non-compliance with applicable accounting standards relating to revenue recognition, and there is an increased risk of audit adjustments. **Recommendation** Management should reassess the revenue			This category of expenses accounted for over 70% of the total administrative expenses in both 2024 & 2025. Given the uniqueness of SAGCs a fixed quarterly allocation method is synonymous with recognition	

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
	recognition methodology applied to output revenue arrangements to ensure compliance with the applicable accounting framework. Revenue should be recognised using an appropriate basis, such as actual output delivered or recoverable costs incurred in the 2026 financial year.			based on cost incurred.	
Governance					
4. Inadequately Constituted Board	**Risk/Implication**	Yes	Yes	The adequate constitution of the Board	September 2025

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
As at 31 December 2025, the Board was inadequately constituted, in breach of both the Development Bank Act and the Public Authorities Act (PAA). One Director's term expired in April 2024, and two Directors resigned in April and December 2025, respectively, reducing the Board's appointed membership to four, excluding the two ex-officio members. Section 4 of the Development Bank Act requires the Board to consist of seven Cabinet-appointed Directors and two ex-officio non-voting members, totalling nine. Section 8(1) of the PAA requires a public authority's board to comprise a chairperson and not fewer than four other members.	The absence of a full board may hinder effective governance, decision-making, and regulatory compliance, thereby affecting the Bank's strategic direction and oversight functions. **Recommendation** Management should engage the Cabinet to bring this non-compliance to their attention and request that steps be taken as soon as possible to rectify it.			of Directors comprising individuals with diverse backgrounds, expertise, and experience relevant to the financial industry and the Bank's operations will be discussed with the new Cabinet through the Minister for Finance &	

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
				Economic Development and Minister for Education & Training.	
5. Inadequate Board Attendance by Ex-Officio Members A review of Board and Committee meeting minutes revealed a pattern of inconsistent attendance among ex-officio board members. These members hold crucial advisory roles as representatives of the Ministry, responsible for the Bank and the Financial Secretary. Their irregular participation has weakened the effectiveness of governance discussions and decision-making. Notably, one director did not attend any board meetings throughout the year, further exacerbating the issue.	**Risk/Implication** The absence of key ex-officio board members hinders institutional oversight, reduces engagement in critical strategic matters, and results in a missed opportunity to align the Bank's strategy with the	Yes	Yes	*The ex-officio members are non-voting members of the Board. They are also the designate of the Chief Officer in the Ministry with responsibility for the Bank*	September 2025

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
	Government's strategic goals. **<u>Recommendation</u>** The Board, through the Chairman, should engage the Cabinet to bring this non-compliance to their attention and request that steps be taken as soon as possible to rectify it.			*and the delegate of the Financial Secretary respectively. This matter will be discussed with the new Cabinet through the Minister for Finance & Economic Development and Minister for Education & Training.*	