Federated States of Micronesia Development Bank

Annual Report 2005

VISION

The FSM DEVELOPMENT BANK is a key player in the development of the private sector in the Federated States of Micronesia that enjoys the confidence of the national and state leaders, its customers, regulators and stakeholders.

FSMDB services and performance are comparable to the best-managed development financial institutions in the Pacific region.

MISSION

FSM Development Bank actively promotes the growth of micro, small and medium enterprises in the Federates States of Micronesia and supports programs designed to help business achieve greater efficiency in their operations.

The policies of the FSMDB are constantly aligned with the overall socio-economic goals of the nation and it continues to coordinate closely with the governments and community leaders in defining its strategic directions.

FSMDB processes are designed to deliver efficient and timely services to its customers, and ensure effective exchange of information at all levels of the organization.

The FSMDB organization is characterized by a high level of teamwork and morale. FSMDB supports its people with appropriate equipment and technology, ensures that its compensation and reward programs are competitive within the industry, and implements a conscious program for the continuous professional growth and personal development of its people.

FSMDB maintains a consistently healthy and growing financial portfolio and continues to earn the respect and support of the general public, the various governments, donor agencies and the international financial community.

Table of Contents

6 INTRODUCTION
Letter to Shareholders

8-11 THE BANK AND ITS OPERATION
Shareholders and Board of Directors

Organizational Chart

Federated States of Micronesia Development Bank

Management Staff

12-21 MANAGEMENT REPORT
Financial Performance

Strategic Plan

Computer Information System

Lending Activity

Administered Funds

Human Resources

Programs

Acknowledgements

Special Acknowledgements

22 2005 STATISTICS REPORT

25 FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

39 TRUST FUNDS ADMINISTERED BY THE FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK

51 STAFF LISTING & BANK'S ADDRESSES

Manufacturing Project-Water Bottling, Kosrae State

››› Letter to Shareholders

Anna Mendiola
President/CEO

Ihlen Joseph
Chairman

Dear Shareholders:

We are pleased to submit the Annual Report for the year ending December 31, 2005 and Statement of Accounts of the FSM Development Bank (the Bank) for the 12 months ended December 31, 2005 and 2004.

We are happy to report that the Bank continues to achieve favorable financial results. It exceeded its $535 thousand target and reported a net income of $1.59 million for the 12 months ended December 31, 2005, a considerable increase from the $821 thousand that was reported in 2004. Total loan approval was recorded at $6.52 million for the year, slightly surpassing the $6.35 million target, but lower than the 2004 approvals of $6.77 million. The Bank did relatively well in its effort to disburse loans. It disbursed $9.6 million during the year enabling the Bank to realize a 14.4% growth in its loan portfolio. The gross outstanding loan portfolio balance at year end 2004 was $21.5 million. At year end 2005 it grew to $24.6 million.

Bank expenses were satisfactorily kept under control. It incurred less than 70% of the expense budget for the year and was significantly less than the 2004 expense level. Contributing to this favorable performance, the Bank did not provision for loan loss during the latter half of the year. Development Bank's generally extends financing to high risk undertakings. It is therefore, normal that the loan portfolio is provided relatively high provision for loan loss. As of June 30, 2005, the Bank's accumulated Allowance for Loan Loss (ALL) was more than sufficient to cover potential losses. As of said date, the Bank's ALL was over provided for $1.9 million.

During the year a new 10-year Strategic Plan (2005-2014) was put in place. The new plan called for a new vision and a mission statement. The Bank's new vision focus on making the Bank" a key player in the development of the private sector in the Federated States of Micronesia that enjoys the confidence of the national and state leaders, its customers, regulators and stakeholders". Furthermore, its "services and performance are comparable to the best-managed development financial institution in the Pacific region". The Bank's new vision and mission is envisaged to meet the challenges ahead, improve customer service and move the Bank down a path of self-sustainability.

Also during the year, work began on a new computer information system, funded under an Asian Development Bank Loan. The new system is believed to be more efficient and user friendly than the current system and is expected to improve loan processing and report quality. The new system is expected to be fully implemented by the middle of 2006.

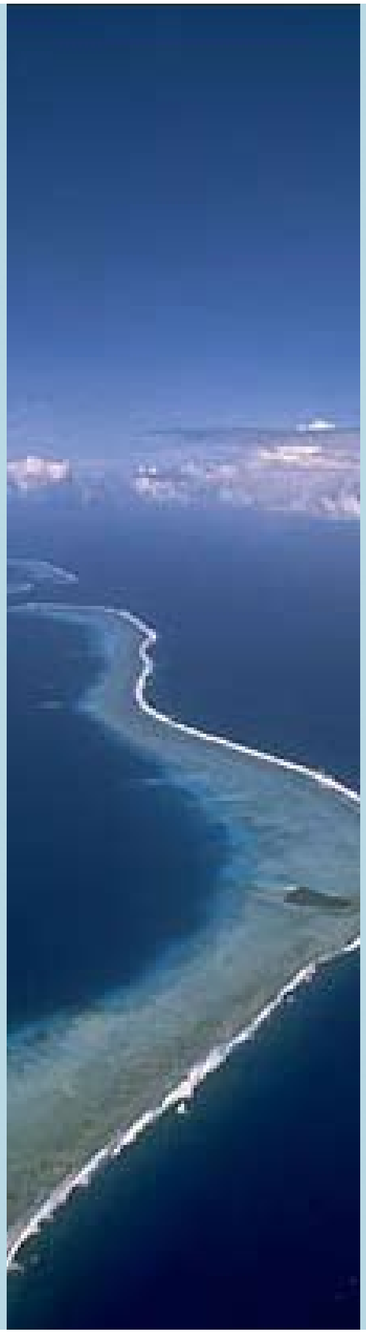
While the Bank has enjoyed financial success these past years, many challenges lay ahead. The most immediate challenge is that of funding for the Bank's Business Development Loan Fund (BDLF). As indicated in earlier reports, contributions to the BDLF from the Bank's principal shareholder, the National Government, have been declining in recent years. For this reason, Management per the Board's authorization has proactively begun to explore other funding sources. Various sources have been identified and dialogue has begun. It is expected that some of the identified funding sources are likely to materialize in 2006. However, despite the somewhat positive outlook for funding sources, continued financial support from the Bank's major shareholder, the National Government, is critical and will continue to be pursued.

In closing, we wish to extend our sincere gratitude and appreciation for your continued support and confidence in your Development Bank. We further extend the same to our esteem colleagues, the members of the Board of Directors, for their unwavering commitments and valuable insights that they have contributed throughout the years toward the advancement of this institution. We wish to also thank our employees for their hard work and their firm commitments to put our words into actions. And finally, we thank our customers for their continued loyalty and confidence in the FSMDB. Thank you for giving us the opportunity to serve you. We shall always remain your partner in development and we hope that you will continue to allow us to be a part of your future business endeavors.

Sincerely,

Anna Mendiola
President/CEO

Ihlen Joseph
Chairman



Director Ihlen Joseph
Chairman,
FSM National Government

Director Hilary Tacheliol
Vice Chairman,
Yap State

Director Ramon Falcam
FSM National Government

Director John Sohl
Pohnpei State

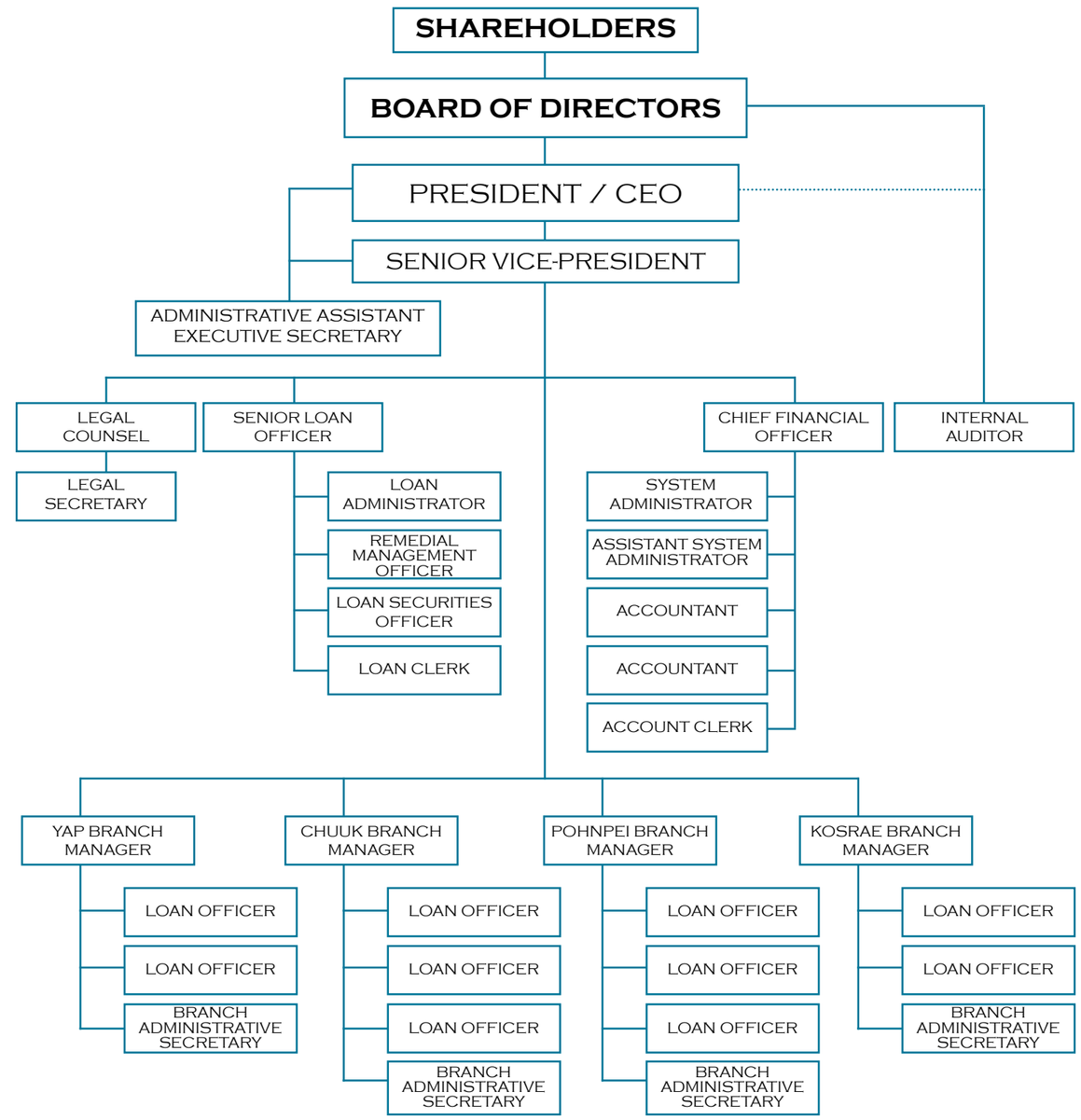
Director Wilson Waguk
Kosrae State

Shareholders and The Board of Directors

The FSM National Government is the major shareholder of the Bank with 98.7% of the outstanding shares that were issued. The remaining shares are owned by the states of Chuuk and Kosrae with 1.0% and 0.3% respectively.

The Bank is supervised by a seven member Board of Directors. Six members are elected by the shareholders. The seventh member is the President and Chief Executive Officer (CEO), who serves as an Ex-Officio to the board with full voting rights. Aside from the President and Chief Executive Officer, Board Members serve a 3-year term on a staggered basis.

Organizational Chart



Pohnpei Branch Staff

Chuuk Branch Staff

Yap Branch Staff

Kosrae Branch Staff

Corporate Staff

Federated States of Micronesia Development Bank

The Federated States of Micronesia Development Bank (FSMDB) was chartered in 1979 by the First Congress of the Federated States of Micronesia (FSM). It began its operations in 1980 but did not start its lending operations until 1982. In 1994, The FSMDB was reorganized by Public Law 8-47 of the Eighth Congress of the FSM. Although authorized to engage in all banking functions, the Bank remained engaged in lending only, extending loan funds to the people of the FSM for any creditworthy purpose that directly leads to the economic development of the FSM.

Branch offices are located in all four FSM states (Pohnpei, Chuuk, Kosrae and Yap). The Corporate Office is located in the state of Pohnpei, the capital of the FSM. At year end December 31, 2005, the Bank employed 35 people.

Management Staff

The President and Chief Executive Officer is the head of the Bank and is charge with the Bank's overall operations. Assisting the President and the CEO in the overall management of the Bank are a Senior Vice President, a Chief Financial Officer and a Senior Loan Officer. These four officers make up the Senior Management of the Bank. Assisting Management and the Board on legal matters and compliance issues, the Bank employs an in house Legal Counsel and an Internal Auditor respectively. Each of the branch offices in the four FSM state has a Branch Manager who is charged with the day to day branch activities. As of December 31, 3005, the Bank employed 35 people and they were all indigenous FSM citizens.

Anna Mendiola
President and
Chief Executive Officer

Stevenson Joseph
Senior Vice President

Sihna Lawrence
Chief Financial Officer

Peter Aldis
Senior Loan Officer

Management Report

FINANCIAL PERFORMANCE

We are pleased to report successful financial results for the year ending December 31, 2005. The favorable performance is encouraging as 2005 marked the first full year of operations of the Bank under the newly developed 10-year Strategic Plan. The financial achievements during the year were generally aligned with what was expected of the Bank to achieve by the end of 2005.

The Bank posted a net income of $1.5 million for the year ending December 31, 2005. This was an improvement from the $821,000 thousand posted in 2004. The increased profitability was achieved from a total revenue of $3.1 million (budget was $2.8 million) and total operating expenses of $1.6 million (budget was $2.5 million). Expenses were not only incurred below the budget for the year, it was also less than the $2.2 million that was incurred in 2004. The significant reduction in the Bank's expenses was mainly due to the Bank suspending loan loss provision for the latter half of the year. Loan loss provision for the year declined from $860,000 in 2004 to $236,000 in 2005.

Performance Indicators	2000	2001	2002	2003	2004	2005
Earnings						
Total Revenue	$2,843,649	$2,924,540	$2,961,253	$3,454,163	$3,027,339	$3,058,692
Total Expenditures	$2,201,024	$1,466,352	$1,976,808	$2,157,416	$2,206,190	$1,593,578
Net Profit/Loss	$642,625	$1,458,188	$984,445	$1,296,581	$821,149	$1,465,114
Loan Approvals						
Amount of Approval	$5,078,923	$4,353,319	$5,991,590	$7,255,759	$6,774,832	$6,526,341
Number of Approval	252	161	89	107	65	65
Financial Resources						
Net Assets	$28,978,830	$28,587,244	$29,571,689	$30,868,270	$31,689,419	$33,154,533
Total Assets	$27,646,006	$28,393,602	$32,056,246	$33,143,715	$32,628,017	$33,723,486

	2000	2001	2002	2003	2004	2005
Loan Repayments						
Regular	$3,056,676	$3,218,310	$3,459,834	$3,802,373	$4,343,901	$4,175,021
IDF	$556,563	$568,093	$642,129	$272,778	$296,892	$422,827
Charged-Off	$172,955	$287,833	$406,730	$107,163	$96,773	$108,920
Total	$3,786,194	$4,074,236	$4,508,693	$4,182,314	$4,737,566	$4,706,768
Financial Performance						
Return on Net Assets	2.4%	5.1%	3.3%	4.2%	2.6%	4.4%
Return on Assets	2.3%	5.1%	3.1%	3.9%	2.5%	4.3%
Real Interest Rate of Return	8.6%	7.3%	8.2%	8.2%	8.0%	7.8%
Loan Portfolio						
Gross Outstanding Loan Receivable:						
Regular	$19,938,920	$19,925,249	$21,222,771	$21,214,218	$21,402,989	$22,424,442
Managed Funds	$8,402,879	$8,280,155	$7,908,947	$7,635,152	$6,481,445	$7,364,591
Total	$28,341,799	$28,205,404	$29,131,718	$28,849,370	$27,884,434	$29,789,033
Loan Arrears						
By Percentage of Dollar Volume	7%	4%	5%	5%	6%	3%
By Number of Bad Accounts	25%	35%	34%	34%	28%	26%
By Outstanding Balance					28%	17%

Tourism project

The decision not to provision for loan loss for the latter half of 2005 is largely based on the following:

The Bank's Allowance for Loan Loss (ALL) at mid year June 30, 2006 was more than enough to absorb all probable losses with excess reserve amounting to approximately $2 million. Without the loan loss provision during the latter half of the year, the Bank's ALL position remained adequate at year end December 31, 2005 with an excess reserve of $1.3 million. The Bank's ALL position at year end was $3.1 million compared to the $5.1 million reported at year end 2004.

The delinquency ratio by the outstanding loan balance showed a positive trend as it continued to decline during the year. This was a strong indication that the quality of the loan portfolio was improving. By the end of 2005 the outstanding loans in arrears was reduced to17% overall from the 28% that was reported for the same period in 2004. Contributing to this marked improvement in the loan delinquency were, 1) improved collection efforts on delinquent accounts, 2) Loan work-outs by restructuring and 3) charge-off of non-performing loans in the Direct Portfolio totaling $497,054. It should be noted that collection on these charged-off loans will continue to be pursued through legal means.

Because of the strong financial performance during the year, the Bank's Net Assets (Equity) and Total Assets position remained healthy posting favorable returns of 4.4% and 4.3% respectively.

STRATEGIC PLAN

During the year we implemented the new 10-year Strategic Plan (Plan). The new Plan will cover the years 2005 to 2014 and is envisaged to move the Bank down a path of becoming a self sustainable development finance institution. The strategic plan was among other initiatives that were developed and implemented during the year with the assistance of a Banking Advisor that was hired in 2004 on a Technical Assistance (TA) Consultancy funded by the FSM National Government with a loan from the Asian Development Bank (ADB). The Senior Banking Advisor under the above mentioned TA facilitated the development of the Plan with the collaborative effort of all the levels of management and staff of the Bank. The plan was completed in 2004 and was adopted by the Board in January of 2005.

COMPUTER INFORMATION SYSTEM

During the year, we have begun to implement a new information system. The new system is envisaged to improve the management of the Bank's loan and financial information. This project is funded by the National Government with a loan from the ADB. The new system will provide among other benefits, an online connection between the Head Office and the Branches, full and automated integration of the loan data base with the general ledger and quality and efficient management reports. The system is expected to be fully implemented by July of 2006.

LENDING ACTIVITY

We approved 65 loans during the year which amounted to a total of $6.5 million. The number of loans approved was the same as last year's but the amount was slightly less. The amount approved in 2004 was $6.7 million. However, despite the slight drop in the approvals, the loan portfolio showed a modest increase of 14.4% or $3.1 million in 2005. The balance of the loan portfolio at the end of the year was $24.6 million compared to the $21.5 million at year end 2004. The modest growth in the loan portfolio was due to total loan disbursement of $9.6 million during the year.

Portfolio Growth and Outstanding Balance By Sector
As of December 31, 2004 and 2005

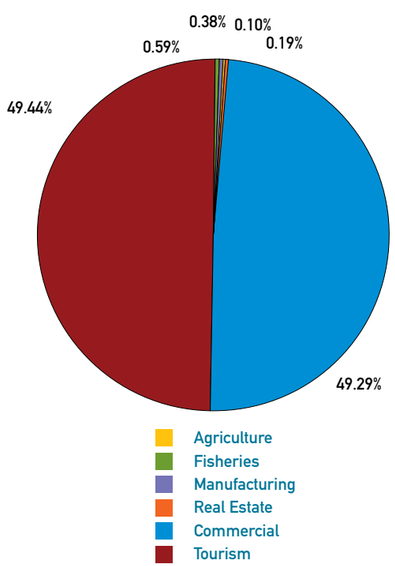
	2004		2005		Growth	
Sector	Outstanding Balance		Outstanding Balance		$ Change	% Change
Agriculture	$39,962	0.19%	$51,465	0.21%	$11,503	28.8%
Commercial	8,013,408	37.22%	10,202,823	41.43%	2,189,415	27.3%
Fisheries	1,404,067	6.52%	1,134,004	4.60%	(270,063)	-19.2%
Manufacturing	1,712,790	7.96%	1,622,109	6.59%	(90,681)	-5.3%
Real Estate	1,743,322	8.10%	2,067,821	8.40%	324,499	18.6%
Tourism	8,614,926	40.02%	9,548,440	38.77%	933,514	10.8%
Gross outstanding loan receivables	$21,528,475	100.00%	$24,626,662	100.00%	$3,098,187	14.4%

Loan Approval During 2005 by Sector

	2005		
Sector	#	$	%
Agriculture	1	$6,300	0.10%
Fisheries	12	38,751	0.59%
Manufacturing	4	25,000	0.38%
Real Estate	1	12,500	0.19%
Commercial	45	3,216,950	49.29%
Tourism	2	3,226,840	49.44%
Total	65	$6,526,341	100.00%

The Bank extends financing in six main economic sectors. A brief activity report on each of the sector follows:

Loan Chart



Agriculture – There was only one agriculture loan approved during the year in the amount of $6,300. As of December 31, 2005, the total outstanding loan balance in this sector was the least of all the sectors.

Commercial – 45 loans were approved in this sector accounting for 49% or $3.2 million of the total approvals in 2005. The sector grew 27% or $2.2 million and ended the year with a $10.2 million total outstanding balance accounting for 41% of the total loans outstanding as of December 31, 2005. This sector is so far the largest and the most active.

Fishery – 12 loans were approved in this sector totaling $38,000. These were mostly small artisenal fishing projects.

Manufacturing – Activity in this sector was also slow with a total of 4 loans approved amounting to $25,000.

Real Estate – 1 loan in the amount of $12,500 was approved in this sector.

Tourism – Only 2 loans were approved in this sector but it accounted for 49% of the total approvals for the year. At year end this sector absorbed 38% of the total outstanding loan balance making it the second largest portfolio next to the commercial sector.

Commercial - Retail Project

ADMINISTERED FUNDS

Aside from the Bank's Business Development Loan Fund (BDLF), we administer in trust three non-propriety type funds: 1) the Investment Development Fund (IDF), 2) the Pohnpei Loan Development Fund (PDLF) and 3) the Yap Loan Development Fund (YDLF). The fund status and balances for each of the funds types mentioned above are reported in the financial section of the report.

The IDF was a special fund established in first Compact agreement between the United States and the FSM. Its primary objective was to finance large-scale development projects through joint ventures between FSM citizens and interested U.S. investors. The fund was pledged $60 million but only $20 million was availed. The $20 million was allocated and divided into five sub accounts.

Loan decisions for the states' IDF sub-accounts are made with a body called the Federal Development Authority (FDA) made up of the executives of the five governments – the President of the FSM and the Governors of the four states. FSMDB's role, aside from being the custodian of the funds, is limited to reviewing project proposals and presenting its findings to the FDA for their decision. The FSMDB maintains approval authority on the Private Reserve sub-account.

The PDLF and the YDLF are set up similar to that of the IDF. All loan decisions are made by the executives of the respective state governments.

Service Project - Medical Clinic

HUMAN RESOURCES

FSMDB began the year with 35 full time employees in 2005. Early on during the year, our Executive Secretary - Catherine (Cathy) Ioanis – unexpectedly succumbed to illness and sadly passed away shortly after. The Bank had 34 employees at year end.

There were some personnel changes at the Kosrae Branch and the Head Office. At the Kosrae Branch, Andriet Tilfas was initially hired as a loan officer to replace Ruben Charley who was promoted to Branch Manager. However, later on during the year Andriet Tilfas became the Branch Manager while Ruben Charley resumed his duties as a Loan Officer. At the Head Office, Rohma Silbanuz, formerly the Legal Secretary was reclassified and assumed the role of the Executive Secretary to fill up the vacancy left by the untimely passing of Catherine Ioanis. The Legal Secretary position was abolished because the Bank had no in-house Legal Counsel after the departure of James Woodruff in late 2004. For the entire year of 2005, the Bank utilized the services of the Law Office of Michael Sipos for its legal needs.

Acknowledging the fact that its human resources are the most valuable resource, continued training of our employees remains a priority and is highly imperative. We will continue to improve our ability to service the people of the FSM by taking advantage of training opportunities through our associations with various regional organizations and training institutions.

During the year, the Senior Vice President and the Chief Financial Officer attended an Executive Development program in Manila, Philippines conducted by the Asian Center for Banking (ACB). Training was also provided to all of the Branch Managers and Loan Officers including the Credit personnel at the Head Office during the year. The training was conducted by Mr. Rey Feria, a Senior Banking Advisor hired under the ADB TA consultancy program.

Commercial - Hardware Store

PROGRAMS

Community Services – Investing back into the community has always been and will continue to be an important objective for the bank, whether through its lending program or sponsorships and contributions to civic activities such as sports, government sponsored functions and conferences, community programs and so forth. During the year the Bank extended both financial and in-kind contributions to various civic activities throughout the communities.

Scholarship Program - the Bank continues to offer scholarships to students pursuing graduate degrees in business, economics, accounting or any related field. During the year, we awarded two (2) $5,000 scholarships totaling $10,000.

Loan Guaranty Program – the Bank had a loan guaranty program which it extends to the commercial banks in which it guarantees loans made through the commercial banks up to 90% of the loan amount, with a maximum of $100,000.

Technical Assistance (TA) – The Banking Advisor TA was an 18-month consultancy which ended in December 2005. The Computer Information System TA is work in progress and is expected to terminate in April of 2005. Both TA's were funded by the FSM National Government with a loan from the ADB.

New Enterprise Lending Program - aside from training the Bank's credit personnel, the Senior Banking Advisor developed and implemented a New Enterprising Lending Program which caters to first time borrowers. This is a special loan program with a maximum loan up to $30,000. Under this program loan evaluations are conducted using a credit scoring system to speed up the process.

Residential Housing Loan Program – the Board has authorized Management to explore the viability for the Bank to establish a housing loan program. To fund this program, the Bank may need to look elsewhere for funding as the funding source presently available may not be sufficient to support such a program. To jumpstart this program, but more so to gain experience in this type of financing, we submitted an application to the U.S.

Sunset in Chuuk.

Rural Economic Community Development Services (RECDS) to participate in one of their many housing programs called the Self-Help Housing Loan Program. This is more or less a community service program where the Bank will serve as the Administrator of housing loans between low-income families and RECDS. The cost of administering the program will be paid by a grant which will be given to the Bank should RECDS grant the application.

Micro-Finance Lending – We are also looking into Micro Financing Lending. A concept paper was developed by the Senior Banking Advisor on the subject for the Bank's consideration. We will continue to research this program to fully determine its viability.

Regional Associations – the bank is an active member of various regional professional organizations such as the Association of Developmental Financial Institutions of the Pacific also known as the ADFIP, the Association of the Pacific Island Public Auditor (APIPA) and Asia Pacific Regional Investment Institute (APRII), to name a few. The Bank's President/CEO is currently a board member of APRII.

Term Borrowing – with future financial contributions from the FSM Congress uncertain, we have begun to explore funding sources that will be able to provide loan funds either on a grant basis or in the form of loans from various agencies outside of the FSM.

ACKNOWLEDGEMENTS

We extend our deep appreciation to the FSMDB stockholders for the continued financial support and confidence in us.

We thank our Board of Directors for the steadfast support of our plans, programs and initiatives. Amidst all the challenges in the operating environment, the steadying hand of the Board and its collective wisdom enabled us to stay the course with focus and persistence.

We thank the hard working staff for their perseverance and patience and for their judicious implementation of their assigned tasks. Without them nothing would have happened.

Finally, we thank our clients for the trust and confidence they have in us and for allowing the FSMDB the opportunity to serve and assist in their business ventures.

SPECIAL ACKNOWLEDGEMENTS

We would like to take this opportunity and extend our deepest appreciation and thanks to Mr. Nakama Sana. Mr. Sana served on the Board for many years representing the State of Chuuk. He served as the Vice Chairman the last two years. Mr. Sana stepped down from the Board during the year to pursue other opportunities. We will always be grateful for his guidance and the many contributions during his tenure on the Board.

TABLE I. TOTAL CUMULATIVE FSMDB LOAN APPROVALS SINCE 1982
As of December 2005

	OLD EDLF LOANS		FSMDB-APPROVED LOANS		TOTAL	
	NO.	AMOUNT	NO.	AMOUNT	NO.	AMOUNT
YAP	6	146,550	175	22,344,733	181	22,491,283
CHUUK	18	111,739	481	37,159,402	499	37,271,141
POHNPEI	10	148,202	627	44,678,672	637	44,826,874
KOSRAE	1	93,299	427	12,990,410	428	13,083,709
TOTAL	35	$499,790	1,710	$117,173,217	1,745	$117,673,007

TABLE 2. FSMDB CUMULATIVE LOAN APPROVAL BY BRANCH AND SECTOR SINCE 1982
As of December 2005

	AGRICULTURE		FISHERY		MANUFACTURING		REAL ESTATE		COMMERCIAL		TOURISM		TOTAL	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
YAP	8	187,591	39	9,769,271	11	559,584	9	776,067	84	4,037,225	24	7,014,995	175	22,344,733
CHUUK	18	383,257	61	8,569,532	147	5,500,805	17	1,918,567	206	7,970,683	32	12,816,558	481	37,159,402
POHNPEI	138	1,690,947	152	8,375,388	55	9,377,249	69	5,633,089	178	12,933,531	35	6,668,469	627	44,678,673
KOSRAE	174	297,046	72	263,270	51	1,280,633	9	193,986	90	8,507,113	31	2,448,362	427	12,990,410
TOTAL	338	$2,558,841	324	$26,977,461	264	$16,718,271	104	$8,521,709	558	$33,448,552	122	$28,948,384	1710	$117,173,218
Percentage	20%	2%	19%	23%	15%	14%	6%	7%	33%	29%	7%	25%		

TABLE 3. FSMDB LOAN APPROVAL DURING YEAR 2005
As of December 2005

	AGRICULTURE		FISHERY		MANUFACTURING		REAL ESTATE		COMMERCIAL		TOURISM		TOTAL	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
YAP	0	0	2	7,350	1	7,300	0	0	5	261,899	0	0	8	276,549
CHUUK	0	0	0	0	2	2,200	0	0	9	518,004	2	3,226,840	13	3,747,044
POHNPEI	1	6,300	8	22,901	0	0	1	12,500	21	2,196,009	0	0	31	2,237,710
KOSRAE	0	0	2	8,500	1	15,500	0	0	10	241,038	0	0	13	265,038
TOTAL	1	$6,300	12	$38,751	4	$25,000	1	$12,500	45	3,216,950	2	3,226,840	65	$6,526,341
PROJECTIONS	16	492,000	7	56,383	7	879,000	9	1,406,462	23	1,485,732	8	4,140,000	70	5,000,000
VARIATIONS	15	485,700	-5	17,632	3	854,000	8	1,393,962	-22	-1,731,218	6	913,160	5	-1,526,341

TABLE 4. FSMDB CUMULATIVE LOAN APPROVAL BY WOMEN SINCE 2000
As of December 2005

	AGRICULTURE		FISHERY		MANUFACTURING		REAL ESTATE		COMMERCIAL		TOURISM		TOTAL	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
YAP	1	3,930	0	0	1	5,270	0	0	21	720,872	1	36,000	24	766,072
CHUUK	0	0	1	25,174	78	139,086	0	0	57	1,247,394	5	659,795	141	2,071,449
POHNPEI	2	23,875	10	66,332	5	12,846	3	84,368	36	2,251,684	0	0	56	2,439,105
KOSRAE	3	17,396	6	12,500	7	42,400	3	39,500	14	753,978	0	0	33	865,774
TOTAL	6	$45,201	17	$104,006	91	$199,602	6	$123,868	128	$4,973,928	6	$695,795	254	$6,142,400
Percentage	2%	1%	7%	2%	36%	3%	2%	2%	50%	81%	2%	11%		

TABLE 5. AGRICULTURAL LOANS BY PRODUCTS

CROP	NUMBER	AMOUNT APPROVED
Black Pepper	73	331,000
Banana Farm	3	16,500
Vegetable	39	295,783
Citrus Farm	2	38,500
LIVESTOCK/POULTRY		
Egg Poultry	27	563,057
Broiler Poultry	26	587,106
Poultry Breeding Farm	5	96,900
Cattle Raising	1	4,000
Piggery	162	625,995
TOTAL	338	$2,558,841

TABLE 6. FISHERY LOANS BY PURPOSE

PURPOSE	NUMBER	AMOUNT APPROVED
Artisenal Fishing *	296	2,871,656
Fish Transhipment	11	8,844,756
Purse seine Fishing	7	12,278,278
Longline Vessel	7	2,596,020
Export of Sea Cucumber	1	15,000
Fish Aquaculture	1	167,750
Trochus Harvesting	1	204,000
TOTAL	324	$26,977,460

* Artisenal fishing combines bottom, net, spear and trolling.
* Includes additional loan.

TABLE 7. MANUFACTURING LOANS BY PURPOSE

PURPOSE	NUMBER	AMOUNT APPROVED	
Bakery/Ice-cream	66	938,974	
Sawmill/Lumber	5	195,659	
Fiberglass Manufacturing	2	45,000	
Furniture Making	5	118,000	
Rock Crushing	9	2,128,859	*
Sand Mining	15	2,793,735	*
Manufacturing Concrete Products	8	1,210,469	
Button Manufacturing	3	722,000	*
Handicraft	5	66,500	
Tailoring	108	356,213	
Printing Shop	1	45,000	
Logging, Firewood, Charcoal	2	15,000	
Pepper Processing Plant	3	129,700	
Coconut Processing	3	1,167,131	*
Water Processing Plant	3	162,400	
Dredging	1	800,000	
Fabricating	1	32,500	
Ice Mfg.	8	222,291	
Brewry & Food Processing	1	1,500,000	
Garment Factory	1	1,500,000	
Blast Freezer	1	200,000	
Purchase of Equipments	5	333,040	
Garment Factory	1	1,800,000	
Tank Manufacturing	1	46,000	
Food Processor	2	22,500	
Breadfruit Manufacturing	1	700	
Manufacturing of Lime	2	12,600	
Metal Sheet Production	1	154,000	
TOTAL	264	$16,718,271	

* Including refinancing/additional loan

TABLE 8. REAL ESTATE LOANS BY PURPOSE

PURPOSE	NUMBER	AMOUNT APPROVED
House-for-rent	46	2,588,090
Commercial Building	9	1,128,251
Apartment	49	4,805,368
TOTAL	104	$8,521,709

* Including additional loan

TABLE 9. COMMERCIAL LOANS BY PURPOSE

PURPOSE	NUMBER	AMOUNT APPROVED
Repair Shop	21	564,796
Construction Loan	3	78,004
Gas/Oxygen Services	119	2,820,799
Bus Service/Taxi Service	36	610,018
Sea/Land Transportation	12	212,900
Laundromat	48	995,620
Mail Delivery Service	1	4,000
Paint Shop/Photo Processing	3	142,884
Shopping Center/Commercial Building	36	5,862,443
Marketing Local Products/Export	37	457,512
Equipment Leasing	4	458,815
Printing Shop	5	146,120
Optical Shop	1	20,000
Security Agency	1	12,300
Working Capital	10	1,917,440
Purchase of Walk-in Freezer/Generator & Blast Freezer, Prefab Bldg.	2	465,000
Transportation/Land Transport	1	200,000
Computer Dealership	5	258,700
Warehouse Space Rental	9	919,524
Law Office/Firm	3	104,850
Ice Making	1	29,332
Retail Store	42	446,985
Fish Marketing/Retail Store Exp.	16	160,281
Health Clinic/Pharmacy	7	727,243
Multi -Purpose Commercial	87	11,844,001
Day Care Center	1	46,000
Xerox Repair & Services	1	23,000
Pizza Eatery	2	29,907
Purchase Eq. & Buy-Out Business	1	145,000
Construction Business	8	254,016
Hauling of Fish/Purchase of Vehicle	2	21,000
U-Drive for commercial uses	13	1,203,496
Purchase of Vessel/C. Bldg.	2	1,074,704
Vedeo Rental	6	84,054
Airport Renovation	1	264,600
Ice Cream Palor	1	7,000
Supermarket	1	293,800
Coffe Shop	1	13,799
Renovation Comm. Bldg	3	207,662
Sakau Market	4	23,223
Cargo Ship	1	297,724
TOTAL	558	$33,448,552

* Including additional loan **Guarantee Loan

TABLE 10. TOURISM - ORIENTED LOANS BY PURPOSE

PURPOSE	NUMBER	AMOUNT APPROVED
Dive Shop/Sea Transport	8	819,455
Land Transport/Car Rental/U-Drive	35	1,922,774
Restaurant	9	1,260,718
Hotel/Apartel	57	18,803,450
Dive Resort	2	932,000
Sports Fishing	2	135,000
Marine Park	1	26,000
Tour & Dive Shop	7	5,031,645
Hotel Conference Room	1	17,341
TOTAL	122	$28,948,384

TABLE 11. COMPARATIVE STATEMENT OF LOANS APPROVED BY ENTERPRISE AND YEAR
December 2005

	AGRICULTURE		FISHERY		MANUFACTURING		REAL ESTATE		COMMERCIAL		TOURISM-ORIENTED*		TOTAL	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1982	0	0	0	0	1	42,000	0	0	0	0	2	65,100	3	107,100
1983	5	61,500	9	53,300	4	101,400	0	0	5	97,400	4	108,800	27	422,400
1984	7	65,000	2	7,200	1	12,200	2	200,840	7	117,200	4	163,500	23	565,940
1985	19	161,379	0	0	10	271,700	9	972,000	9	197,885	2	26,200	49	1,629,164
1986	12	70,831	1	5,200	6	141,672	5	571,000	8	69,100	3	139,655	35	997,458
1987	0	0	1	1,540	1	7,800	3	78,840	3	41,200	0	0	8	129,380
1988	9	108,035	4	298,000	9	342,500	7	279,733	5	209,000	11	563,103	45	1,800,371
1989	16	229,957	6	309,720	13	1,452,436	0	0	7	534,060	6	590,450	48	3,116,623
1990	41	631,500	7	64,975	3	510,202	1	22,500	7	314,453	9	2,311,500	68	3,855,130
1991	7	39,050	10	4,377,904	7	1,353,990	10	381,781	4	50,955	6	1,183,504	44	7,387,184
1992	24	295,466	23	4,493,679	7	294,580	15	1,807,962	23	1,311,867	7	1,587,839	99	9,791,393
1993	6	263,700	26	7,173,720	10	2,130,100	8	785,659	30	1,524,935	12	2,850,539	92	14,728,653
1994	7	128,400	19	138,168	18	4,441,542	9	1,034,450	35	1,615,753	7	584,100	95	7,942,413
1995	3	9,998	2	28,000	7	1,304,709	4	343,270	16	1,987,295	5	691,164	37	4,364,436
1996	3	56,995	5	576,422	4	1,882,200	5	351,104	6	489,500	4	1,882,195	27	5,238,416
1997	3	140,216	6	727,091	5	488,967	5	96,353	16	1,561,915	8	4,346,536	43	7,361,078
1998	47	61,000	5	685,979	9	1,048,491	4	734,340	19	1,728,610	2	463,781	86	4,722,221
1999	91	85,100	19	1,127,034	9	222,341	2	88,463	13	757,302	7	1,237,503	141	3,517,743
2000	19	54,163	85	364,145	58	325,274	2	179,346	81	3,203,272	7	952,722	252	5,078,922
2001	7	34,375	17	4,200,893	49	128,460	2	35,500	81	2,124,109	6	1,829,982	162	8,353,319
2002	3	14,000	20	1,483,669	9	39,100	6	343,927	48	2,983,793	4	2,057,101	90	6,921,590
2003	5	11,750	34	773,983	18	133,807	1	40,000	48	6,152,562	1	143,657	107	7,255,759
2004	3	30,126	11	48,087	2	17,800	3	162,121	42	3,159,435	4	3,357,263.45	65	6,774,832
2005	1	6,300	12	38,751	4	25,000	1	12,500	45	3,216,950	2	3,226,840	65	6,526,341
TOTAL	338	2,558,841	324	26,977,461	264	16,718,271	104	8,521,709	558	33,448,551	123	30,363,034	1,711	118,587,866

NOTE: FSMDB started lending operations during FY 1982
Re-classification of FSMDB loans including tourism-oriented projects commenced January, 1988.
As of December 2000
* YSPSC (Yap State Public Service Corp) D5E-2489 approved loan of $930,000 in February has been cancelled on 5/20/02
** 2003 Figures includes 2 IDF loans approved for Chuuk Public Fisheries & Tropical Waters Kosrae Inc. for $$612.00 & $2,945,115 respectively. However, loan for Chuuk Public Fisheries has been cancelled on August 22, 2003.
*** 2004 Figures include 1 IDF loan approve for ESA Family Corporation in the amount of $1.414,650.45

TABLE 12. LENDING ACTIVITIES BY STATE AND YEAR
December-05

	YAP		CHUUK		POHNPEI		KOSRAE		TOTAL	
YEAR	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1982	0	0	0	0	3	107,100.00	0	0	3	107,100
1983	1	1,800	6	127,200	12	125,130.00	9	168,270	28	422,400
1984	4	25,500	7	207,400	9	282,040.00	3	51,000	23	565,940
1985	2	255,000	12	347,700	31	952,764.00	4	73,700	49	1,629,164
1986	4	41,200	8	489,100	19	315,503.00	4	151,655	35	997,458
1987	1	1,540	3	60,080	4	67,760.00	0	0	8	129,380
1988	5	166,200	9	251,731	20	976,710.00	11	405,730	45	1,800,371
1989	4	45,820	14	1,404,666	23	1,216,777.00	7	447,360	48	3,116,623
1990	8	1,324,625	8	796,453	47	1,549,250.00	4	184,802	67	3,855,130
1991	7	2,808,614	7	3,036,797	26	1,163,773.00	4	378,000	44	7,387,184
1992	9	4,527,839	18	1,700,058	59	3,419,090.00	13	144,405	99	9,791,392
1993	11	2,205,215	27	7,577,706	44	3,682,367.00	10	1,263,365	92	14,728,653
1994	16	439,700	29	1,869,950	41	5,277,301.00	9	355,462	95	7,942,413
1995	3	119,500	9	1,679,900	18	1,937,241.00	7	627,795	37	4,364,436
1996	5	1,465,695	5	993,517	11	2,601,204.25	6	178,000	27	5,238,416
1997	5	91,080	9	4,283,703	19	2,735,194.55	10	251,100	43	7,361,078
1998	6	521,920	7	781,649	14	1,937,107.41	59	1,481,545	86	4,722,221
1999	7	795,083	18	298,411	18	2,274,849.30	98	149,400	141	3,517,743
2000	15	793,847	122	1,769,946	64	1,172,777.19	51	1,342,352	252	5,078,922
2001	12	516,560	100	838,997	31	6,823,713	19	174,050	162	8,353,320
2002	15	3,865,347	20	859,233	29	1,820,410	26	376,600	90	6,921,590
2003	12	272,106	20	3,447,056	34	242,602	41	3,293,995	107	7,255,759
2004	16	3,198,644	10	589,105	20	1,760,298	19	1,226,786	65	6,774,832
2005	8	276,549	13	3,747,044	31	2,237,710	13	265,038	65	6,526,341
TOTAL	176	23,759,384	481	37,159,402	627	44,678,672	427	12,990,410	1,711	118,587,866

Note: 2003 Figures include 2 IDF loans for Chuuk Public Fisheries & Tropical Waters Kosrae Inc.in the amount of $612,000 & $2,945,115 respectively.
However, IDF loan for Chuuk Public Fisheries has been cancelled on August 22, 2003.
2004 Figures include 1 IDF loan for ESA Family Corporation in the amount of $1,414,650.45

TABLE 13. DISTRIBUTION OF ALL LOANS BY SIZE AND ENTERPRISE
As of December 31, 2005

SIZE OF LOANS	AGRICULTURE		FISHERIES		MANUFACTURING		REAL ESTATE		COMMERCIAL		TOURISM		TOTAL	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
5,000 & Below	249	468,026	154	357,898	123	179,991	4	15,853	145	365,821	1	4,600.00	676	1,387,589
5,001 - 10,000	25	195,365	89	649,123	33	242,167	7	54,121	85	621,382	1	7,300.00	240	1,762,158
10,001 - 15,000	17	225,725	33	431,393	17	216,110	7	97,801	73	975,173	3	41,200.00	150	1,946,202
15,001 - 20,000	6	103,846	7	122,799	14	268,650	7	293,346	35	628,531	7	122,677.00	76	1,417,172
20,001 - 30,000	25	697,122	5	127,014	12	285,444	9	588,700	52	1,327,007	6	140,939.00	109	3,025,287
30,001 - 50,000	10	384,821	5	193,580	16	598,388	25	919,773	59	2,473,796	27	1,229,361.00	142	4,570,358
Over 50,000	6	483,936	31	25,095,653	49	14,927,521	45	6,552,115	109	27,056,841	77	27,402,307.00	317	74,116,066
TOTAL	338	$2,558,841	324	$26,977,460	264	$16,718,271	104	$8,521,709	558	$33,448,551	122	$28,948,384	1710	$117,173,216

TABLE 14. LOANS BY SIZE AND SECTOR UNDER BRANCH AUTHORITY
KOSRAE BRANCH CY 2005
As of December 2005

SIZE OF LOANS	AGRICULTURE		FISHERIES		MANUFACTURING		REAL ESTATE		COMMERCIAL		TOURISM		TOTAL	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
$5,000 & Below	0	0	2	8,500	0	0	0	0	4	15,950	0	0	6	24,450
5,001 - 10,000	0	0	0	0	0	0	0	0	3	19,313	0	0	3	19,313
10,001 - 15,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
15,001 - 20,000	0	0	0	0	1	15,500	0	0	0	0	0	0	1	15,500
20,001 - 30,000	0	0	0	0	0	0	0	0	1	20,575	0	0	1	20,575
30,001 - 50,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	0	$0	2	$8,500	1	$15,500	0	$0	8	$55,838	0	$0	11	$79,838
Note #1: Loans Approved Above $50,000	0	0	0	0	0	0	0	0	2	185,200	0	0	2	185,200
Note#2: Since Branch Authority Beginning 10/28/1997	0	$0	2	$8,500	1	$15,500	0	$0	8	55,838	0	0	11	$79,838

TABLE 15. LOANS BY SIZE AND SECTOR UNDER BRANCH AUTHORITY
POHNPEI BRANCH CY 2005

SIZE OF LOANS	AGRICULTURE		FISHERIES		MANUFACTURING		REAL ESTATE		COMMERCIAL		TOURISM		TOTAL	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
$5,000 & Below	0	0	7	15,901	0	0	0	0	4	14,300	0	0	11	30,201
5,001 - 10,000	1	6,300	1	7,000	0	0	0	0	1	6,051	0	0	3	19,351
10,001 - 15,000	0	0	0	0	0	0	1	12,500	1	15,000	0	0	2	27,500
15,001 - 20,000	0	0	0	0	0	0	0	0	2	39,000	0	0	2	39,000
20,001 - 30,000	0	0	0	0	0	0	0	0	2	49,242	0	0	2	49,242
30,001 - 50,000	0	0	0	0	0	0	0	0	1	35,300	0	0	1	35,300
TOTAL	1	6,300	8	22,901	0	0	1	12,500	11	158,893	0	0	21	200,594
Note #1: Loans Approved Above $50,000	0	0	0	0	0	0	0	0	10	2,037,116	0	0	10	2,037,116
Note#2: Since Branch Authority Beginning 10/28/1997	1	6,300	8	22,901	0	0	1	12,500	11	158,893	0	0	21	200,594

Federated States of Micronesia Development Bank

Financial Statements
and Independent Auditor's Report

Years ended December 31, 2005 and 2004

Deloitte.

Deloitte & Touche LLP
361 South Marine Drive
Tamuning, GU 96913-3911
USA
Tel: +1 671 646 3884
Fax: +1 671 649 4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Chairman
Board of Directors
Federated States of Micronesia
Development Bank:

We have audited the accompanying statements of net assets of the Federated States of Micronesia Development Bank, a component unit of the National Government of the Federated States of Micronesia, as of December 31, 2005 and 2004, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Federated States of Micronesia Development Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Federated States of Micronesia Development Bank as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 3-4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Federated States of Micronesia Development Bank's management. We have applied certain limited procedures, which consisted principality of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2006, on our consideration of the Bank's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

April 15, 2006

Member of
Deloitte & Touche Tohmatsu

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK

Statements of Net Assets
December 31, 2005 and 2004

	(Proprietary Fund Type) FSMDB		
	2005	2004	Variance
ASSETS			
Current assets:			
Cash and equivalents	$3,444,057	$7,541,541	$(4,097,484)
Accounts receivable	1,611	15,392	(13,781)
Receivable from trust funds	219,516	180,045	39,471
Prepaid expenses	2,000	1,000	1,000
Interest and other receivables	95,733	142,008	(46,275)
Current portion of loans receivable	1,332,138	1,628,513	(296,375)
Total current assets	5,095,055	9,508,499	(4,413,444)
Noncurrent assets:			
Fixed assets, net	123,127	107,588	15,539
Investments	9,885,832	7,699,921	2,185,911
Equity investment, at cost	662,188	662,188	-
Loans receivable, net of current portion	17,957,284	14,649,821	3,307,463
Total noncurrent assets	28,628,431	23,119,518	5,508,913
Total assets	$33,723,486	$32,628,017	$1,095,469
LIABILITIES			
Current liabilities:			
Accounts payable	$150,368	$70,318	$80,050
Credit life payable	57,608	61,868	(4,260)
Payable to trust funds	360,977	806,412	(445,435)
Total liabilities	568,953	938,598	(369,645)
Commitments and contingencies			
Net assets:			
Invested in fixed assets	123,127	107,588	15,539
Unrestricted	33,031,406	31,581,831	1,449,575
Total net assets	33,154,533	31,689,419	1,465,114
Total liabilities and net assets	$33,723,486	$32,628,017	$1,095,469

See accompanying notes to financial statements.

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK

Statements of Activities and Changes in Net Assets
Years Ended December 31, 2005 and 2004

	(Proprietary Fund Type) FSMDB		
	2005	2004	Variance
Operating revenues:			
Loan interest	$1,700,275	$1,634,986	65,289
Investment income	613,309	307,754	305,555
Loan fees	144,840	22,964	121,876
Miscellaneous	24,214	25,449	(1,235)
Total operating revenues	2,482,638	1,991,153	491,485
Operating expenses:			
Personnel services	816,946	858,561	(41,615)
Provision for doubtful loans	235,748	860,000	(624,252)
Rent	106,665	113,067	(6,402)
Contractual services	81,032	34,687	46,345
Travel	73,329	98,540	(25,211)
FSM retirement plan	47,096	44,273	2,823
Training	42,455	38,156	4,299
Communication	41,199	32,406	8,793
Depreciation	30,226	28,771	1,455
Supplies	14,305	17,871	(3,566)
Printing	6,217	7,432	(1,215)
Insurance	4,441	4,060	381
Miscellaneous expenses	93,919	68,366	25,553
Total operating expenses	1,593,578	2,206,190	(612,612)
Earnings (loss) from operations	889,060	(215,037)	1,104,097
Non-operating revenues:			
IDF reimbursement	250,000	250,000	-
Allocations from managed funds	28,470	21,846	6,624
Contributions	250,000	750,000	(500,000)
Other income	47,584	14,340	33,244
Total non-operating revenues	576,054	1,036,186	(460,132)
Increase in net assets	1,465,114	821,149	643,965
Net assets at beginning of year	31,689,419	30,868,270	821,149
Net assets at end of year	$33,154,533	$31,689,419	1,465,114

See accompanying notes to financial statements.

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK

Statements of Cash Flows
Year Ended December 31, 2005 and 2004

	(Proprietary Fund Type) FSMDB	
	2005	2004
Increase (decrease) in cash and equivalents		
Cash flows from operating activities:		
Cash received from customers	$2,788,107	$3,089,349
Cash paid to suppliers for goods and services	(4,102,530)	(2,682,364)
Cash paid to employees	(801,385)	(858,561)
Net cash used for operating activities	(2,115,808)	(451,576)
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(45,765)	(62,286)
Net cash used for capital and related financing activities	(45,765)	(62,286)
Cash flows from investing activities:		
(Increase) decrease in investments	(2,185,911)	2,072,122
Net cash (used for) provided by investing activities	(2,185,911)	2,072,122
Cash flows from noncapital financing activities:		
Cash contribution from the FSM National Government	250,000	750,000
Net change in cash and equivalents	(4,097,484)	2,308,260
Cash and equivalents at beginning of year	7,541,541	5,233,281
Cash and equivalents at end of year	$3,444,057	$7,541,541
Reconciliation of operating earnings (loss) to net cash used for operating activities:		
Earnings (loss) from operations	$889,060	$(215,037)
Other earnings from merged funds and other	326,055	286,186
Adjustment to reconcile earnings (loss) from operations to net cash used for operating activities:		
Depreciation	30,226	28,771
(Increases) decreases in assets:		
Receivables	(2,990,503)	785,350
Prepaid expenses	(1,000)	-
(Decrease) in liabilities:		
Accounts payable and other liabilities	(369,646)	(1,336,846)
Net cash used for operating activities	$(2,115,808)	$(451,576)

See accompanying notes to financial statements.

1) Summary of Significant Accounting Policies

Reporting Entities

The Federated States of Micronesia Development Bank (the Bank) was created in 1979 by Public Law 1-37 of the First Congress of the Federated States of Micronesia. The FSM Development Bank began its operations on October 1, 1980. The Bank was reorganized in January 1994 by Public Law 8-47 of the Eighth Congress of the Federated States of Micronesia. The purpose of the FSM Development Bank is to provide loans for economic development of the FSM. Such loans may otherwise be too risky for commercial banks to underwrite. Additionally, the Bank's repayment terms tend to be longer than those offered by commercial banks.

The Investment Development Fund (IDF) was established by Public Law 5-122 in January 1989. The purpose of the IDF is to finance projects which will (1) have their operations primarily located within the FSM; (2) improve the balance of payments position of the FSM; (3) increase the value of visible and invisible exports or result in import substitutions; (4) demonstrate positive economic returns; (5) contribute to the furtherance of close economic relations with the USA.

The Pohnpei Development Loan Fund (PDLF) and the Yap Development Loan Fund (YDLF) are administered by the Bank in a Trust capacity. All loan decisions are made by executives of the respective state governments.

The Bank is a component unit (a discretely presented proprietary fund type) of the FSM National Government. The financial statements in this report do not represent the financial position, results of operations or cash flows of the FSM National Government as a whole. The financial statements of the Bank are not obligations of the FSM National Government unless specifically authorized by the FSM National Government. To date, no such authorizations have been made.

The Bank has opted to establish itself more in line with a corporate model. The Bank, through this process, hopes to be able to attract additional capital through non-FSM sources. To that end, the Bank as of December 31, 2005, has issued 2,997,883 shares to the FSM National Government (98.7%), Kosrae State (.3%) and Chuuk State (1.0%).

Fund Structure and Basis of Accounting

The accounts of the Bank are organized as a discretely presented component unit - proprietary fund of the FSM National Government. Proprietary funds are used by governmental units to account for operations that are financed and operated in a manner similar to a private business. This accounting is appropriate when costs of providing goods or services to the general public are to be financed primarily through user charges or where the periodic determination of net income is appropriate for accountability purposes. The accrual basis of accounting is utilized by proprietary funds. Under the accrual basis, revenues are recorded when earned, and expenses are recorded at the time the liabilities are incurred.

The accounts of the IDF, PDLF and YDLF are accounted for as governmental fund types (capital projects funds) as the amounts are to be reported on the respective entities' financial statements (the FSM National Government, Pohnpei State and Yap State, respectively).

The Bank utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting" requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Bank has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK

Notes to Financial Statements
December 31, 2005 and 2004

The Bank has adopted GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" (GASB 34) as amended by GASB Statement No. 37. GASB Statement No. 34 established standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

- Invested in capital assets, net of related debt:

  Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

  Nonexpendable – Net assets subject to externally imposed stipulations that require the Bank to maintain them permanently. For the years ended December 31, 2005 and 2004, the Bank does not have nonexpendable net assets.
  Expendable – Net assets whose use by the Bank is subject to externally imposed stipulations that can be fulfilled by actions of the Bank pursuant to those stipulations or that expire by the passage of time.

- Unrestricted:

  Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Cash and Cash Equivalents

For the purposes of the statements of net assets and the statements of cash flows, cash and equivalents are defined as cash in bank checking and savings accounts, money market funds, and commercial paper with original maturities of three months or less from the date of acquisition.

Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Loans and Allowance for Loan Losses

Loans are stated at unpaid principal balance less the allowance for loan losses.

Management maintains the allowance for loan losses at a level adequate to absorb probable losses. Management determines the adequacy of the allowance based upon reviews of individual loans, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Loans deemed uncollectible are charged to the allowance. Provisions for losses and recoveries on loans previously charged off are added to the allowance.

Interest on loans is accrued and credited to income based on the principal amount outstanding. The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, all unpaid accrued interest is reversed.

Fixed Assets

Fixed assets are stated at cost, less accumulated depreciation. Depreciation is based on the straight-line method over the estimated useful lives of the respective assets. All of the assets have an estimated useful life of three to five years.

The Bank's policy on fixed assets requires that assets with a purchase value of $5,000 and over are capitalized and depreciated based on its useful life. Any asset with purchase value below $5,000 is expensed fully in the year of purchase.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the FSM Development Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and loan guarantees. Such financial instruments are recorded in the financial statements when they become payable.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

(2) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

The deposit and investment policies of the Bank are governed by its enabling legislation. The Board is required to engage one or more fund custodians to assume responsibility for the physical possession of the Bank's investments. Legally authorized investments are as follows:

(i) Government obligations - Obligations issued or guaranteed as to principal and interest by the National Government and/or State governments of the Federated States of Micronesia or by the Government of the United States, provided that the principal and interest on each obligation are payable in the currency of the United States.

(ii) Corporate obligations and mortgage-backed securities - Obligations of any public or private entity or corporation created or existing under the laws of the Federated States of Micronesia or of the United States or any state, territory or commonwealth thereof, or obligations of any other government or economic community which are payable in United States dollars, or pass through and other mortgage-backed securities provided that the obligation is an agency of the United States Government, the National Government of the Federated States of Micronesia, or is rated in one of the three highest categories by two nationally recognized rating agencies. No investment under this heading shall exceed ten percent of the market value of the Fund or ten percent of the outstanding value of the issue at the time of purchase.

(iii) Preferred and common stocks - Shares of preferred or common stocks of any corporation created or existing under the laws of the Federated States of Micronesia or under the laws of the United States or any state, territory or commonwealth thereof provided that the purchase of such shares shall be considered reasonable and prudent by the Bank's investment advisor at the time of purchase, that not more than five percent of the market value of its investments shall be invested in the stock of any one corporation, and that not more than ten percent of the market value of its investments shall be invested in any one industry group.

(iv) Insurance company obligations - Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in the Federated States of Micronesia or in any state, territory or commonwealth of the United States provided that the total market value of these investments at no time shall exceed ten percent of all investments.

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK

Notes to Financial Statements
December 31, 2005 and 2004

A. Deposits:

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

Category 1 — Deposits that are federally insured or collateralized with securities held by the Bank or its agent in the Bank's name;

Category 2 — Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the Bank's name; or

Category 3 — Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Bank's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Bank's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Bank does not have a deposit policy for custodial credit risk.

As of December 31, 2005 and 2004, the carrying amount of the Bank's total cash and cash equivalents was $3,444,057 and $7,541,541, respectively, and the corresponding bank balances were not materially different. Of the bank balance amounts, all are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of December 31, 2005 and 2004, bank deposits in the amount of $200,000 were FDIC insured. Accordingly, these deposits are exposed to custodial credit risk. The Bank does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Management's confidence in the financial strength of their banking institutions was the basis of the decision to not require collateralization. No losses as a result of this practice were incurred for the years ended December 31, 2005 and 2004.

B. Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1 — Investments that are insured or registered, or securities held by the Bank or its agent in the Bank's name;

Category 2 — Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Bank's name; or

Category 3 — Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Bank's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

As of December 31, 2005 and 2004, investments at fair value are as follows:

	2005	2004
Fixed income securities:		
Domestic fixed income	$ 2,532,476	$ 2,326,005
Other investments:		
Domestic equities	7,353,356	5,373,916
	$ 9,885,832	$ 7,699,921

As of December 31, 2005, the Bank's fixed income securities had the following maturities:

	Less Than 1 Year	1 to 5 Years	6 to 10 Years	Greater Than 10 Years	Fair Value
U.S. Treasury obligations	$ -	$ 834,447	$ 191,398	$ 431,564	$ 1,457,409
U.S. Government agency obligations	-	703,468	371,599	-	1,075,067
	$ -	$ 1,537,915	$ 562,997	$ 431,564	$ 2,532,476

As of December 31, 2004, the Bank's fixed income securities had the following maturities:

	Less Than 1 Year	1 to 5 Years	6 to 10 Years	Greater Than 10 Years	Fair Value
U.S. Treasury obligations	$ -	$ 1,229,583	$ -	$ -	$ 1,229,583
U.S. Government agency obligations	356,422	740,000	-	-	1,096,422
	$ 356,422	$ 1,969,583	$ -	$ -	$ 2,326,005

B. Investments, Continued

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Bank's exposure to credit risk at December 31, 2005, was as follows:

Moody's Rating	Total	Domestic	International
AAA $	2,532,476	$ 2,532,476	$ -
Total credit risk debt securities	$ 2,532,476	$ 2,532,476	$ -

The Bank's exposure to credit risk at December 31, 2004, was as follows:

Moody's Rating	Total	Domestic	International
AAA	$ 2,326,005	$ 2,326,005	$ -
Total credit risk debt securities	$ 2,326,005	$ 2,326,005	$ -

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Bank will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Bank's investments are held and administered by trustees. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in the Bank's name by the Bank's custodial financial institutions at December 31, 2005 and 2004.

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK

Notes to Financial Statements
December 31, 2005 and 2004

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Bank. As of December 31, 2005, the Bank's investment in agency obligations of the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association constituted 14% and 28%, respectively, of its total investments. As of December 31, 2004, the Bank's investment in agency obligations of the Federal National Mortgage Association constituted 12% of its total investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The Bank does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

(3) Equity Investment, at Cost

Equity investment in Bank of the FSM, carried at cost, represents 100,000 common shares and approximately 11% interest. Since the book value of the shares exceeds the carrying value, management believes that the equity investment has not become impaired.

(4) Loans Receivable

A summary of loans receivable at December 31, 2005 and 2004 follows:

	2005	2004
Unpaid principal balance	$ 22,424,442	$ 21,402,989
Allowance for loan losses	(3,135,020)	(5,124,655)
	$ 19,289,422	$ 16,278,334

Movements in the allowance for loan losses during the years ended December 31, 2005 and 2004, are as follows:

	2005	2004
Balance at beginning of year	$ 5,124,655	$ 4,130,359
Provision for loan losses	235,748	860,000
Loans charged off	(2,477,789)	(302,689)
Loan recoveries from previously charged off loans	109,421	436,985
Loan reactivations from previously charged off loans	142,985	-
Balance - December 31, 2005	$ 3,135,020	$ 5,124,655

(5) Fixed Assets

A summary of fixed assets as of December 31, 2005 and 2004, is as follows:

	Beginning Balance January 1, 2005	Additions	Deletions	Ending Balance December 31, 2005
Office furniture, fixtures and equipment	$ 191,972	$ -	$ (1,707)	$ 190,265
Home furniture, fixtures and equipment	13,608	-	-	13,608
Vehicles	170,961	20,897	-	191,858
Computers and software	268,207	26,575	-	294,782
	644,748	47,472	(1,707)	690,513
Less accumulated depreciation	(537,160)	(30,226)	-	(567,386)
Net fixed assets	$ 107,588	$ 17,246	$ (1,707)	$ 123,127

(5) Fixed Assets, Continued

	Beginning Balance January 1, 2004	Additions	Deletions	Ending Balance December 31, 2004
Office furniture, fixtures and equipment	$ 180,472	$ 11,500	$ -	$ 191,972
Home furniture, fixtures and equipment	13,608	-	-	13,608
Vehicles	122,286	48,675	-	170,961
Computers and software	266,096	2,111	-	268,207
	582,462	62,286	-	644,748
Less accumulated depreciation	(508,389)	(28,771)	-	(537,160)
Net fixed assets	$ 74,073	$ 33,515	$ -	$ 107,588

(6) Related Party Transactions

As of December 31, 2005 and 2004, the Bank has direct loans with an outstanding balance of $173,986 and $147,956, respectively to employees of the Bank and project loans extended to businesses owned by or affiliated with the employees with an outstanding balance of $3,227,274 and $3,067,455, respectively. These loans are made under similar terms and conditions as exist with other borrowers. Officers and Board members are not eligible to borrow from the Bank.

(7) Commitments and Contingencies

Guaranty

The Bank, from time-to-time, is contingently liable on loan guarantees ranging from 50% to 90% of the outstanding loan balances for commercial projects within the FSM. There were no outstanding guaranteed loan balances as of December 31, 2005 and 2004.

Loan Commitments

The Bank has made loan commitments for loans approved but undisbursed in the amount of $3,277,844 at December 31, 2005.

Litigation

The Bank is a party to various legal proceedings, the ultimate impact of which is not currently predictable. Therefore, no liability has been recorded in the accompanying financial statements due to management's inability to predict the ultimate outcome of these proceedings.

Self Insurance

The FSM Development Bank carries insurance to cover its potential risks from fire on its building and the contents and full coverage on property damage. FSM Development Bank is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice.

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK

Notes to Financial Statements
December 31, 2005 and 2004

Lease Commitments

The FSM Development has six operating leases as of December 31, 2005. Two are residential real estate leases for contract employees. Four represent leases for the branch offices in each state (one with a lease term of two years, two for five years and one for fifteen years). All leases have an attached option allowing FSMDB to renew the lease upon expiration of the current term. It is likely that these options will be utilized by FSMDB and the leases renewed. The approximate future minimum annual lease payments payable by FSMDB are as follows:

Fiscal year ending December 31,	Total
2006	$ 108,660
2007	108,660
2008	108,660
2009	108,660
2010	108,660
2011 – 2015	434,640
2016 – 2020	434,640
2021 – 2025	434,640
2026 – 2030	434,640
	$ 2,281,860

(8) Contribution From The FSM National Government

The FSM Development Bank receives periodic subsidies of its operations from appropriations received from the Congress of the FSM. During the years ended December 31, 2005 and 2004, the Bank received $250,000 and $750,000, respectively, from the FSM Congress and the Bank was reimbursed for expenses incurred in administering the IDF program from the IDF Private Sub Account for $250,000 in both years.

(9) Retirement Plan

The Bank's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees received from FSM Social Security System. The Plan is a contributory plan in which the Bank contributes 10 percent of the participant's annual salary, and the participant contributes 3 or more percent from his or her annual salary. Participation is optional. The Bank's controller is the designated Plan administrator. Contributions to the Plan during the years ended December 31, 2005 and 2004 were $47,096 and $44,273, respectively. Management is of the opinion that the plan does not represent an asset or a liability of the Bank.

TRUST FUNDS ADMINISTERED BY THE

Federated States of Micronesia Development Bank

Financial Statements
and Independent Auditor's Report

December 31, 2005

Deloitte.

Deloitte & Touche LLP
361 South Marine Drive
Tamuning, GU 96913-3911
USA
Tel: +1 671 646 3884
Fax: +1 671 649 4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Chairman
Board of Directors
Federated States of Micronesia
Development Bank:

We have audited the accompanying statement of net assets of the Investment Development Fund (IDF), the Pohnpei Development Loan Fund (PDLF), and the YAP Development Loan Fund (YDLF) (the Funds) as of December 31, 2005, and the related statement of activities and changes in net assets for the year then ended. The Funds are administered by the Federated States of Micronesia Development Bank (FSMDB), a component unit of the National Government of the Federated States of Micronesia. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates mad by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Funds at December 31, 2005, and the changes in their net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have issued our report dated April 15, 2006, on our consideration of the Fund's internal control over financial reporting and our tests of their compliance with certain laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That a report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

April 15, 2006

Member of
Deloitte & Touche Tohmatsu

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK

Trust Funds
Statement of Net Assets
December 31, 2005
(With Comparative Totals as of December 31, 2004)

	Trust Funds			Totals (Memorandum Only)		
	IDF	PDLF	YDLF	2005	2004	Variance
ASSETS						
Current assets:						
Held by FSMDB:						
Cash in bank and on hand	$-	$174,206	$60,151	$234,357	$182,446	51,911
Time certificate of deposits	-	503,127	129,006	632,133	619,568	12,565
Held by trustee:						
Investments	5,743,084	-	-	5,743,084	7,270,802	(1,527,718)
Total cash and equivalents	5,743,084	677,333	189,157	6,609,574	8,072,816	(1,463,242)
Receivable from FSMDB	360,977	-	-	360,977	806,412	(445,435)
Interest and other receivables	6,099	5,764	344	12,207	60,395	(48,188)
Loans receivable, net	7,081,571	137,504	144,315	7,363,390	6,481,445	
Total receivables	7,448,647	143,268	144,659	7,736,574	7,348,252	388,322
	$13,191,731	$820,601	$333,816	$14,346,148	$15,421,068	#REF!
LIABILITIES AND NET ASSETS						
Current liabilities:						
Payable to FSMDB	$-	$100,686	$118,830	$219,516	$180,045	39,471
Credit life payable	-	-	2,073	2,073	2,074	(1)
Total liabilities	-	100,686	120,903	221,589	182,119	39,470
Commitments						
Net assets:						
Restricted	7,081,571	137,504	144,315	7,363,390	6,481,445	881,945
Unrestricted	6,110,160	582,411	68,598	6,761,169	8,757,504	(1,996,335)
Total net assets	13,191,731	719,915	212,913	14,124,559	15,238,949	#REF!
	$13,191,731	$820,601	$333,816	$14,346,148	$15,421,068	#REF!

See accompanying notes to financial statements.

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK

Trust Funds
Statement of Activities and Net Assets
Year Ended December 31, 2005
(With Comparative Totals for the Year Ended December 31, 2004)

	Governmental Fund Types (Trust Funds)			Totals (Memorandum Only)		
	IDF	PDLF	YDLF	2005	2004	Variance
Operating revenues:						
Investment interest	$152,144	$12,243	$2,639	$167,026	$74,382	$92,644
Loan interest	269,823	9,925	9,087	288,835	146,015	142,820
Miscellaneous	1,474	426	28	1,928	63,815	(61,887)
Total operating revenues	423,441	22,594	11,754	457,789	284,212	173,577
Operating expenditures:						
Doubtful loan expense	-	-	-	-	412,468	(412,468)
Total operating expenditures	-	-	-	-	412,468	(412,468)
Revenues over expenditures	423,441	22,594	11,754	457,789	(128,256)	586,045
Other sources (uses):						
Investment management fee	(250,000)	-	-	(250,000)	(250,000)	-
Transfer to Kosrae State Government	(293,708)	-	-	(293,708)	(151,292)	-
Transfer to Pohnpei State Government	(1,000,000)	-	-	(1,000,000)	(500,000)	
Transfer to Chuuk State Government	-	-	-	-	(528,503)	
Transfers to FSMDB fund	-	(22,594)	(5,877)	(28,471)	(21,847)	(6,624)
Total other uses, net	(1,543,708)	(22,594)	(5,877)	(1,572,179)	(1,451,642)	(120,537)
Revenues and other sources over expenditures and other uses	(1,120,267)	-	5,877	(1,114,390)	(1,579,898)	465,508
Net assets at beginning of year	14,311,998	719,915	207,036	15,238,949	16,818,847	(1,579,898)
Net assets at end of year	$13,191,731	$719,915	$212,913	$14,124,559	$15,238,949	$(1,114,390)

See accompanying notes to financial statements.

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK

Notes to Financial Statement
December 31, 2005

1.) Purpose and Summary of Significant Accounting Policies

Purpose

The Investment Development Fund (IDF), the Pohnpei Development Loan Fund (PDLF), and the Yap Development Loan Fund (YDLF), are administered by the Federated States of Micronesia Development Bank (the Bank). The Bank utilizes the Funds to carry out its stated purpose of providing loans for the economic development of the FSM. The specific purpose of each fund is as follows:

IDF – IDF was created to finance projects which will (1) have their operations primarily located within the FSM; (2) improve the balance of payments position of the FSM; (3) increase the value of visible and invisible exports or result in import substitutions; (4) demonstrate positive economic returns; (5) contribute to the furtherance of close economic relations with the USA.

The Pohnpei Development Loan Fund (PDLF) and the Yap Development Loan Fund (YDLF) are administered by the Bank in a Trust capacity. All loan decisions are made by executives of the respective state governments.

Fund Structure and Basis of Accounting

The accounts of the IDF, PDLF and YDLF are accounted for as governmental fund types (capital projects funds) as the amounts are to be reported on the respective entities' financial statements (the FSM National Government, Pohnpei State and Yap State, respectively).

Cash and Cash Equivalents

For the purposes of the statement of financial condition and the statement of cash flows, cash and equivalents are defined as cash in bank checking and savings accounts, money market funds, and commercial paper with original maturities of three months or less from the date of acquisition. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified on the statement of net assets.

Loan and Allowance for Loan Losses

Loans under the trust funds are reported at gross unpaid principal balances, without an allowance for loan losses. The loans are reserved in fund balance as a reserve for related assets. Loans are written off directly against income based on discussions with the owners of the managed funds.

Interest on loans is accrued and credited to income based on the principal amount outstanding. The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, all unpaid accrued interest is reversed.

Totals - Memorandum Only

The "Totals-Memorandum Only" column represents an aggregate of the individual financial statements. The total column is presented only for information purposes and does not represent consolidated financial information.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

The deposit and investment policies of the Funds are governed by its enabling legislation. The Bank is required to engage one or more fund custodians to assume responsibility for the physical possession of the Funds' investments. Legally authorized investments are as follows:

(i) Government obligations - Obligations issued or guaranteed as to principal and interest by the National Government and/or State governments of the Federated States of Micronesia or by the Government of the United States, provided that the principal and interest on each obligation are payable in the currency of the United States.

(ii) Corporate obligations and mortgage-backed securities - Obligations of any public or private entity or corporation created or existing under the laws of the Federated States of Micronesia or of the United States or any state, territory or commonwealth thereof, or obligations of any other government or economic community which are payable in United States dollars, or pass through and other mortgage-backed securities provided that the obligation is an agency of the United States Government, the National Government of the Federated States of Micronesia, or is rated in one of the three highest categories by two nationally recognized rating agencies. No investment under this heading shall exceed ten percent of the market value of the Funds' investments or ten percent of the outstanding value of the issue at the time of purchase.

(iii) Preferred and common stocks - Shares of preferred or common stocks of any corporation created or existing under the laws of the Federated States of Micronesia or under the laws of the United States or any state, territory or commonwealth thereof provided that the purchase of such shares shall be considered reasonable and prudent by the Funds' investment advisor at the time of purchase, that not more than five percent of the market value of its investments shall be invested in the stock of any one corporation, and that not more than ten percent of the market value of its investments shall be invested in any one industry group.

(iv) Insurance company obligations - Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in the Federated States of Micronesia or in any state, territory or commonwealth of the United States provided that the total market value of these investments at no time shall exceed ten percent of all investments.

A. Deposits:

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK

Notes to Financial Statement
December 31, 2005

Category 1 Deposits that are federally insured or collateralized with securities held by the Funds or its agent in the Funds' name;

Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the Funds' name; or

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Funds' name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Funds' deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Funds do not have a deposit policy for custodial credit risk.

As of December 31, 2005, the carrying amount of the Funds' total cash and cash equivalents and time certificates of deposits was $866,490 and the corresponding bank balances approximated the same amount. All of the bank balances are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of December 31, 2005, bank deposits in the amount of $200,000 were FDIC insured. Accordingly, these deposits are exposed to custodial credit risk. The Funds do not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Management's confidence in the financial strength of their banking institutions was the basis of the decision to not require collateralization. No losses as a result of this practice were incurred for the year ended December 31, 2005.

B. Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1 Investments that are insured or registered, or securities held by the Funds or its agent in the Funds' name;

Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Funds' name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Funds' name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

As of December 31, 2005, investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	$ 5,208,000
Other investments:	
Money market funds	535,084
	$ 5,743,084

As of December 31, 2005, the Funds' fixed income securities had the following maturities:

	Less Than 1 Year	1 to 5 Years	6 to 10 Years	Greater Than 10 Years	Fair Value
U.S. Government agency Obligations	$5,208,000	$ -	$ -	$ -	$5,208,000

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Funds' exposure to credit risk at December 31, 2005, was as follows:

Moody's Rating	Total	Domestic	International
AAA	$ 5,208,000	$ 5,208,000	$ -
Total credit risk debt securities	$ 5,208,000	$ 5,208,000	$ -

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Funds will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Funds' investments are held and administered by trustees. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in the Funds' name by the Funds' custodial financial institutions at December 31, 2005.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Bank. As of December 31, 2005, the Funds' investment in agency obligations of Federal Home Loan Mortgage Corporation, Federal National Mortgage Association and Federal Home Loan Bank constituted 57%, 29% and 14%, respectively, of its total investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The Funds do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK

Notes to Financial Statement
December 31, 2005

(3) Loans Receivable

The following is a schedule of loans receivable as of December 31, 2005:

	Loan Balance	Allowance	Net Amount
State Development Funds (Pohnpei and Yap)	$ 281,819	$ -	$ 281,819
IDF	7,082,772	1,201	7,081,571
	$ 7,364,591	$ 1,201	$ 7,363,390

Management is of the opinion that since these are trust funds, they are unable to provide against these balances, and therefore these loans have been presented as restricted net assets.

(4) Commitments

Loan commitments for loans approved but undisbursed approximated $1,594,467 at December 31, 2005.

Deloitte.

Deloitte & Touche LLP
361 South Marine Drive
Tamuning, GU 96913-3911
USA
Tel: +1 671 646 3884
Fax: +1 671 649 4932
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Federated States of Micronesia Development Bank:

We have audited the financial statements of the Federated States of Micronesia Development Bank, as of December 31, 2005 and for the year then ended, and have issued our report thereon dated April 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

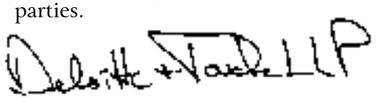
In planning and performing our audit, we considered the Federated States of Micronesia Development Bank's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Federated States of Micronesia Development Bank's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Federated States of Micronesia Development Bank's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

This report is intended for the information of Board of Directors and management of the Federated States of Micronesia Development Bank, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be used by anyone other than those specified parties.



April 15, 2006

Member of
Deloitte & Touche Tohmatsu

Deloitte.

Deloitte & Touche LLP
361 South Marine Drive
Tamuning, GU 96913-3911
USA
Tel: +1 671 646 3884
Fax: +1 671 649 4932
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Board of Directors
Federated States of Micronesia Development Bank:

Compliance

We have audited the compliance of the Federated States of Micronesia Development Bank with the types of compliance requirements described in the U.S. *Office of Management and Budget* (OMB) *Circular A-133 Compliance Supplement* that are applicable to its one major federal program for the year ended December 31, 2005. Federated States of Micronesia Development Bank's major federal program is identified in the Schedule of Expenditures of Federal Awards (page 26). Compliance with the requirements of laws, regulations, contracts and grants applicable to its one major federal program is the responsibility of Federated States of Micronesia Development Bank's management. Our responsibility is to express an opinion on Federated States of Micronesia Development Bank's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect Federated States of Micronesia Development Bank's compliance with those requirements and performing such other procedures basis for our opinion. Our audit does not provide a legal determination on Federated States of Micronesia Development Bank's compliance with those requirements.

In our opinion, the Federated States of Micronesia Development Bank complied, in all material respects, with the requirements referred to above that are applicable to its once major federal financial assistance program for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the Federated States of Micronesia Development Bank is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing the audit, we considered the Federated States of Micronesia Development Bank's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be

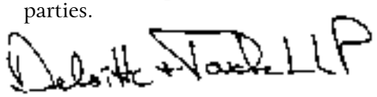
Member of
Deloitte & Touche Tohmatsu

material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Federated States of Micronesia Development Bank, as of and for the year ended December 31, 2005. And have issued our report thereon dated April 15, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. This schedule is the responsibility of the management of the Federal States of Micronesia Development Bank. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended for the information of Board of Directors and management of the Federated States of Micronesia Development Bank, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be and should not be, used by anyone other than those specified parties.



April 15, 2006

Branches

PONHPEI BRANCH
PO BOX 648
KOLONIA, POHNPEI 96941
Phone : (691) 320-2624/5223
Fax : (691) 320-5798
E-mail : PFSMDB@mail.fm

Branch Manager
Rendy Abraham
Loan Officer
Franky Edward
Yoster Johnny
Richard Jano
Administrative Secretary
Peterika White

CHUUK BRANCH
PO BOX 786
WENO, CHUUK 96941
Phone : (691) 330-2760/4245
Fax : (691) 330-4149
E-mail : CFSMDB@mail.fm

Branch Manager
Anselmo Daniel
Loan Officer
Curley Sos
Sardis Betwel
Jonas Paul
Jayleen Killion
Administrative Secretary
Jacinta Aisek

CORPORATE OFFICE
PO BOX M
KOLONIA, POHNPEI 96941
Phone : (691)320-2840/2419/5300
Fax : (691) 320-2842
E-mail : FSMDB@mail.fm

President/CEO
Anna Mendiola
Senior Vice President
Stevenson Joseph
Chief Financial Officer
Sihna Lawrence
Senior Loan Officer
Peter Aldis
Internal Auditor
Brandon Tara
Loan Administrator
Alik Alik
System Administrator
Grabriel Ramoloilug
Accountant
Kedise Villazon
Melshihner Hadley
Loan Security Officer
Lucille Martinez
Asst. System Manager
Leilani Felix
Administrative Assistant
Senyorina Yang
Legal Secretary
Rohma Sibanuz
Account Clerk
Carmihna Abraham
Loan Clerk
Dahlia Phillips

KOSRAE BRANCH
PO BOX 104
LELU, KOSRAE 96944
Phone : (691) 370-3070/2323
Fax : (691) 370-2170
Email : KFSMDB@mail.fm

Branch Manager
Ruben Charley
Loan Officer
Larson George
Andriet Tilfas
Administrative Secretary
Sonia Kehpas

YAP BRANCH
PO BOX 81
COLONIA, YAP 96943
Phone : (691)350-2165/3837
Fax : (691) 350-2249
E-mail : YFSMDB@mail.fm

Branch Manager
Peter Tharngan
Loan Officer
Christopher Buchun
Robert Finginam
Administrative Secretary
Wenifred Tamangided