MARSHALL ISLANDS DEVELOPMENT BANK

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2003
AND NINE MONTHS ENDED SEPTEMBER 30, 2002

Deloitte.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Development Bank:

We have audited the accompanying statements of net assets of the Marshall Islands Development Bank (MIDB), a component unit of the Republic of the Marshall Islands, as of September 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and of cash flows for the year ended September 30, 2003 and for the nine months ended September 30, 2002. These financial statements are the responsibility of MIDB's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 MIDB'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.

We were unable to determine the propriety of loans receivable as of September 30, 2003 and 2002 (stated at $17,664,057 and $12,080,923, respectively) and accrued interest receivable as of September 30, 2003 and 2002 (stated at $514,865 and $465,106, respectively) as MIDB did not adequately assess the allowance for loan and interest receivable losses. We were unable to satisfy ourselves as to the carrying value of loans and accrued interest receivable by means of other auditing procedures. The allowances for loan and interest receivable losses materially affect the determination of the results of operations for the year ended September 30, 2003 and for the nine months ended September 30, 2002.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about the carrying value of loans and accrued interest receivable as of September 30, 2003 and 2002, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of MIDB as of September 30, 2003 and 2002, and the changes in its net assets and its cash flows for the year ended September 30, 2003 and for the nine months ended September 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the accompanying financial statements, MIDB adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements -and Management's Discussion and Analysis -for State and Local Governments*.

The Management's Discussion and Analysis on pages 3 and 4 is not a required part of the basic financial statements but is supplementary information required by GASB. This supplementary information is the responsibility of MIDB's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of MIDB taken as a whole. The accompanying Combining Statement of Net Assets and Combining Statement of Revenues, Expenses and Changes in Net Assets as of and for the year ended September 30, 2003 (pages 20 and 21) and the Schedule of Operating Expenses and Capital Expenditures - Budget and Actual for the year ended September 30, 2003 (page 22) are presented for purposes of additional analysis and are not a required part of the basic financial statements of MIDB. This additional information is the responsibility of the management of MIDB. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, except as discussed in the third paragraph above, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2006, on our consideration of MIDB's internal control over financial reporting and our tests of its compliance with certain provisions of 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

November 9, 2006

MARSHALL ISLANDS DEVELOPMENT BANK

Management's Discussion and Analysis
Year Ended September 30, 2003

Marshall Islands Development Bank (MIDB), as a development finance institution, has been providing assistance to the people of the Republic of the Marshall Islands by providing loans to both businesses and individuals since its inception in 1988. The Bank's activities are geared towards improving the standard of living of the people by adopting strategies that will develop and mobilize human, natural, capital, technical, entrepreneurial and other resources of the country.

Management's Discussion and Analysis will give you an overview of the Bank's financial highlights and activities for the fiscal year ended September 30, 2003.

Summary of Statements of Net Assets

		2003	2002
Assets	Cash and cash equivalents	$ 13,373	$ 122,056
	Loans receivable, net	17,664,057	12,080,923
	Premises and equipment, net	1,758,791	113,778
	Other assets	1,871,909	2,183,604
	Total Assets	$ 21,308,130	$ 14,500,361
Liabilities	Long-term debt	$ 4,400,000	$ 5,100,000
	RepMar deposit	7,503,382	470,366
	Other liabilities	1,219,032	767,885
	Total Liabilities	13,122,414	6,338,251
Net Assets	Invested in capital assets	1,758,791	113,778
	Restricted	5,827,511	5,869,157
	Unrestricted	599,414	2,179,175
	Total Net Assets	$ 8,185,716	$ 8,162,110

- MIDB's total net assets remained virtually unchanged over the course of this year's operation. However, while net assets of funds coming from Section 111 Compact of Free Association, Section 211 Compact of Free Association, and Housing Preservation Grant increased by $1,405,976, $77,192, and $41,037, respectively, this was offset by a decrease of $1,500,599 in the net assets of funds from the Government of the Marshall Islands.

- Loan approvals for the year were approximately $15.7M, broken down by projects, $7M was released under business loans, including $4M to Robert Reimers Enterprises (RRE) and $3M to Pacific Marshalls, Inc. (PMI), with the remaining $8.7M being released for various consumer loans. Overall, loans receivable net of allowance for loan losses increased by 46.21% or $5.58M.

- The Government of the Marshall Islands invested $7M in Time Certificate of Deposit (TCD) at the rate of 4% on May 9, 2003, maturing May 8, 2018. The money received from such TCD was used to finance the loans granted to RRE and PMI.

- Allowance for loan losses slightly decreased this year from $13.20M as of September 30, 2002 to $12.09M as of September 30, 2003. This was due to the loan of Pan Pacific Development, Inc. being charged off due to foreclosure of the collateral property. The provision for loan losses of $2.16M of the above mentioned charged off loan was offset by an increase in provision for loan losses of $1.03M for various housing and consumer loans.

- Premises and equipment increased by $1.64M due to transfer of ownership and title of the Majuro Central Building from Kabua Development Foundation (KDF) to MIDB. KDF having a long outstanding loan with MIDB agreed to enter into a Memorandum of Agreement to settle all outstanding loan obligations and thereby transfer title of Majuro Central Building to MIDB on May 14, 2003.

- The Bank paid off its short term loan with First Hawaiian Bank in the amount of $0.3M. Consequently, the Bank continuously liquidates its long-term loan with International Commercial Bank of China (ICBC) by paying approximately $0.4M on principal every year. The loan with ICBC amounting to $5M was granted on August 6, 1999 with an interest rate of 5% per annum, maturing on August 6, 2014, no collateral or security was provided. As of September 30, 2003 outstanding principal balance on ICBC loan was $4.4M.

Summary of Statements of Revenues, Expenses and Changes in Net Assets

	2003	2002
Operating Revenues	$ 2,114,164	$ 1,625,708
Operating Expenses	2,306,701	2,866,822
Earnings (Loss) from Operations	(192,537)	(1,241,114)
Non-operating Revenues(Expenses) Net	216,143	202,603
Change in Net Assets	23,606	(1,038,511)
Net Assets at Beginning of Year	8,162,110	9,200,621
Net Assets at End of Year	$ 8,185,716	$ 8,162,110

- The Bank's total revenues (excluding non-operating revenues) increased by 30% or $0.49M. More than 90% of the Bank's revenue comes from interest income on loans. With the substantial growth in loans receivable, interest on loans released increased by $0.32M.

- The total cost incurred decreased by 19% or $0.56M. The Bank's expenses cover a range of operating, general and administrative expenses, with provision on loan losses amounting to $1.0M and $1.9M or 44% and 66% of total operating expenses for the fiscal year ended September 30, 2003 and the nine months ended September 30, 2002, respectively.

- Interest expense increased by 74% or $0.17M due to increase on interest on loans payable and savings accounts. General and administrative expenses increased by 20% or $0.15M due to repairs and maintenance, office supplies, and salaries and employee benefits. Salaries and employee benefits increased by 48% due to increase in manpower. Repairs and maintenance substantially increased due to repairs made on repossessed properties, particularly the MIDB Building which ownership was transferred to the Bank in 2003 and MIDB Long Island Housing which was repossessed in 2002.

MARSHALL ISLANDS DEVELOPMENT BANK

Statements of Net Assets
September 30, 2003 and 2002

ASSETS	2003	2002
Cash and cash equivalents	$ 13,373	$ 122,056
Restricted time certificates of deposit	500,000	833,954
Investments	397,106	397,106
Receivables:		
Loans, net	17,664,057	12,080,923
Accrued interest, net	514,865	465,106
Other	182,855	175,355
Premises and equipment, net	1,758,791	113,778
Foreclosed assets, net	277,083	312,083
	$ 21,308,130	$ 14,500,361

LIABILITIES AND NET ASSETS		
Liabilities:		
Bank overdraft	$ 33,103	$ 44,097
Long-term debt	4,400,000	5,100,000
RepMar deposit	7,503,382	470,366
Accounts payable	2,101	4,561
Accrued interest payable	210,601	85,330
Accrued expenses	375,635	238,166
Deposits pledged	597,592	395,731
Total liabilities	13,122,414	6,338,251
Commitments and contingency		
Net assets:		
Invested in capital assets	1,758,791	113,778
Restricted	5,827,511	5,869,157
Unrestricted	599,414	2,179,175
Total net assets	8,185,716	8,162,110
	$ 21,308,130	$ 14,500,361

See accompanying notes to financial statements.

MARSHALL ISLANDS DEVELOPMENT BANK

Statements of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2003 and Nine Months Ended September 30, 2002

	2003	2002
Operating revenues:		
Interest income on loans (net of bad debts of $594,428 and $334,993 as of September 30, 2003 and 2002, respectively)	$ 1,851,696	$ 1,534,650
Loan fees	86,904	28,489
Interest income on time certificates of deposit	30,532	27,853
Other	145,032	34,716
Total operating revenues	2,114,164	1,625,708
Provision for loan losses	1,027,546	1,904,498
Operating expenses:		
Interest expense:		
Interest on loans payable	241,280	197,939
Interest on deposits	160,986	33,023
Total interest expense	402,266	230,962
General and administrative expenses:		
Salaries and employee benefits	537,779	364,090
Depreciation	68,085	27,347
Repairs and maintenance	60,609	6,336
Insurance	39,242	26,371
Foreclosed assets, net	35,000	37,917
Professional fees	34,092	21,386
Printing, stationery and advertising	25,061	14,981
Communications	21,930	17,697
Office rental	20,000	64,607
Travel and training	19,850	35,829
Bad debts	406	97,588
Miscellaneous	14,835	17,213
Total general and administrative expenses	876,889	731,362
Operating loss	(192,537)	(1,241,114)
Nonoperating revenues (expenses), net:		
Contributions from RepMar	165,029	151,489
Investment earnings	51,114	51,114
Total nonoperating revenues (expenses), net	216,143	202,603
Change in net assets	23,606	(1,038,511)
Net assets at beginning of period	8,162,110	9,200,621
Net assets at end of period	$ 8,185,716	$ 8,162,110

See accompanying notes to financial statements.

MARSHALL ISLANDS DEVELOPMENT BANK

Statements of Cash Flows
Year Ended September 30, 2003 and Nine Months Ended September 30, 2002

	2003	2002
Cash flows from operating activities:		
Cash received from customers	$ 1,981,365	$ 1,143,611
Cash payments to suppliers for goods and services	(238,079)	(202,558)
Cash payments to employees for services	(483,661)	(320,486)
Net cash provided by operating activities	1,259,625	620,567
Cash flows from noncapital financing activities:		
Net repayments under bank overdraft	(10,994)	(20,294)
Net change in RepMar deposit	7,033,016	-
Contributions from RepMar	165,029	151,489
Net cash provided by noncapital financing activities	7,187,051	131,195
Cash flows from capital and related financing activities:		
Net repayment of short-term borrowings	(300,000)	-
Principal repayment of long-term debt	(400,000)	(200,000)
Additions to equipment	(90,350)	(71,520)
Net cash used in capital and related financing activities	(790,350)	(271,520)
Cash flows from investing activities:		
Loan originations and principal collections, net	(8,150,077)	(563,372)
Net change in restricted time certificates of deposit	333,954	11,505
Dividends received	51,114	90,114
Net cash used in investing activities	(7,765,009)	(461,753)
Net change in cash and cash equivalents	(108,683)	18,489
Cash and cash equivalents at beginning of period	122,056	103,567
Cash and cash equivalents at end of period	$ 13,373	$ 122,056
Cash flows from operating activities:		
Operating loss	$ (192,537)	$ (1,241,114)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Provision for loan losses and bad debts	1,622,380	2,337,079
Depreciation	68,085	27,347
Provision for foreclosed asset losses	35,000	37,917
Increase in assets:		
Receivables:		
Accrued interest	(644,187)	(592,312)
Other	(7,906)	(82,073)
Increase (decrease) in liabilities:		
Accounts payable	(2,460)	1,862
Accrued interest payable	125,271	(35,025)
Accrued expenses	54,118	43,604
Deposits pledged	201,861	123,282
Net cash provided by operating activities	$ 1,259,625	$ 620,567

See accompanying notes to financial statements.

MARSHALL ISLANDS DEVELOPMENT BANK

Statements of Cash Flows, Continued
Year Ended September 30, 2003 and Nine Months Ended September 30, 2002

	2003	2002
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 276,995	$ 265,987
Summary disclosure of noncash activities:		
Transfer of foreclosed real estate from loans:		
Loans receivable	$ -	$ (768,424)
Accrued interest receivable	-	(85,766)
Allowance for loan and interest receivable losses	-	504,190
Foreclosed real estate	-	350,000
	$ -	$ -
Transfer of premises from loans:		
Loans receivable	$ (3,780,975)	$ -
Accrued interest receivable	(2,762,943)	-
Allowance for loan and interest receivable losses	4,921,170	-
Premises and equipment	1,622,748	-
	$ -	$ -
Transfer of completed project to premises and equipment:		
Premises and equipment	$ 39,411	$ -
Construction work-in-progress	(39,411)	-
	$ -	$ -

See accompanying notes to financial statements.

(1) Organization

The Marshall Islands Development Bank (MIDB), a component unit of the Republic of the Marshall Islands (RepMar), was incorporated under the laws of RepMar as a non-stock corporation pursuant to the Marshall Islands Development Bank Act of 1988 (Public Law 1988-1). MIDB was established to promote the development and expansion of the economy of the Marshall Islands in order to improve the standard of living of the people and is governed by a seven-member Board of Directors appointed by the Cabinet of RepMar. The primary activities of MIDB have been designed to strengthen the nation's economic base, increase employment and production, improve the standards of housing, promote exports, and reduce the country's dependence on imports and foreign aid through the approval of viable development loans. MIDB has received funds under Sections 111 and 211 of the Compact of Free Association (the Compact), direct contributions from RepMar and funds from the U.S. Department of Agriculture under the Rural Housing and Community Development Service Housing Preservation Grant. MIDB also assumed the assets and liabilities of the former Marshall Islands Economic Development Loan Office, Inc.

(2) Summary of Significant Accounting Policies

The accounting policies of MIDB conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statements 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 Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. MIDB has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The preparation of MIDB's financial statements conform to general practices within the banking industry, which includes the presentation of an unclassified statement of net assets.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net assets. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan and interest receivable losses.

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents and Time Certificates of Deposit

For purposes of the statements of net assets and cash flows, cash and cash equivalents is defined as amounts in demand deposits as well as short-term investments maturing within three months of the date acquired. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified. As of September 30, 2003 and 2002, the carrying amounts of cash and cash equivalents and time certificates of deposit are $513,373 and $956,010, respectively, and the corresponding bank balances are $635,513 and $1,038,228, respectively. Of the bank balance amounts, $5,246 and $344,214, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2003 and 2002, bank deposits in the amount of $5,246 and $125,140, respectively, are FDIC insured. MIDB does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Investments

Investments in companies that exceed 20% and which MIDB exercises significant influence over are accounted for using the equity method.

Loans Receivable, Interest Receivable and Allowances for Losses

Loans and interest receivables are due from customers, both individuals and businesses, located within the Republic of the Marshall Islands and are stated at the unpaid balances less the allowances for losses. Interest on loans is calculated using the simple interest method on daily balances of the principal amount outstanding. The allowances for loan losses and interest receivable losses are established through a provision for losses charged to expense. Loans and interest receivables are charged against the allowance for losses when management believes that collection is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans and interest receivables that may be uncollectible, based on evaluations of the collectibility and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrowers' ability to pay.

Premises and Equipment

Premises and equipment with a cost that equals or exceeds $200 are capitalized. Such assets are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets. The estimated useful lives of these assets are as follows:

Building and houses	10 - 15 years
Computer systems	5 years
Motor vehicles	3 years
Office furniture	5 years
Office equipment	2 - 10 years

(2) Summary of Significant Accounting Policies, Continued

Foreclosed Assets

Assets acquired through, or in lien of, loan foreclosures are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross revenue tax of 3% on revenues. MIDB is specifically exempt from gross revenue tax pursuant to Section 817 of Public Law 1988-1.

Adoption of New Accounting Standards

During fiscal year 2003, MIDB implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Disclosures*. These statements establish financial reporting standards for governmental entities which required that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB Statement No. 34, the following changes have been made to MIDB's financial statements:

- Retained earnings have been reclassified into the following net assets categories:
    - Investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
    - Restricted:

      Nonexpendable - Net assets subject to externally imposed stipulations that require MIDB to maintain them permanently. At September 30, 2003 and 2002, MIDB does not have nonexpendable net assets.

      Expendable - Net assets whose use by MIDB is subject to externally imposed stipulations that can be fulfilled by actions of MIDB 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 of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

(2) Summary of Significant Accounting Policies, Continued

Adoption of New Accounting Standards, Continued

- The statement of cash flows has been presented using the direct method.

For fiscal year 2004, MIDB will be implementing GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* GASB Statement No. 39 amends GASB Statement 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3).* 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, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed. The provisions of this Statement are effective for periods beginning after June 15, 2004. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

In June 2003, GASB issued Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, which clarifies guidance on derivative disclosures, pending the results of GASB's project on reporting and measurement of derivatives and hedging activities. This Technical Bulletin applies to derivatives that are not reported at fair value on the statement of net assets. The provisions of this Technical Bulletin are effective for periods beginning after June 15, 2003. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

(3) Restricted Time Certificates of Deposit

As of September 30, 2002, MIDB has a time certificate of deposit in the amount of $300,000 with a correspondent bank, which guarantees a $300,000 available credit line. On December 31, 2002, the credit line was paid in full with funds from the time certificate of deposit. In addition, MIDB has time certificates of deposit as of September 30, 2003 and 2002 in the amount of $500,000 and $533,954, respectively, with an affiliate bank that are restricted to secure loans funded by Rural Housing Service (RHS). The Memorandum of Understanding signed with the RHS requires MIDB to create and maintain an escrow account with an initial deposit of $500,000. If the account falls below $500,000, MIDB shall deposit in the escrow account 5% of all RHS loans issued until such time that the account has reached $500,000.

(4) Investments

A summary of MIDB's investments as of September 30, 2003 and 2002 is as follows:

	2003	2002
Bank of Marshall Islands	$ 397,106	$ 397,106
Air Marshall Islands, Inc.	-	-
	$ 397,106	$ 397,106

The investment in Bank of Marshall Islands (BOMI) is recorded at cost as MIDB does not exercise significant influence over the operating and financial policies of the investee. The investment comprises approximately 16% of outstanding BOMI shares as of September 30, 2003 and 2002. During the year ended September 30, 2003 and the nine months ended September 30, 2002, dividend income earned from BOMI amounted to $51,114.

On December 23, 1994, MIDB accepted an offer from Air Marshall Islands, Inc. (AMI) to convert loans and interest receivables to an equity interest. The equity interest comprises approximately 30% of the outstanding shares of AMI and is considered fully impaired as of September 30, 2003 and 2002.

MIDB's investments are categorized as either (1) insured or registered or for which the securities are held by MIDB or its agent in MIDB's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in MIDB's name or (3) uninsured and unregistered for which the securities are held by the broker or dealer or by its trust department or agent but not in MIDB's name. All of MIDB's investments are classified in category (1).

(5) Loans Receivable

Loans receivable as of September 30, 2003 and 2002 are summarized as follows:

	2003		
	Loans Receivable	Allowance	Net Loans
Compact Section 111	$ 4,564,594	$ (4,123,891)	$ 440,703
Compact Section 211	1,451,892	(1,047,853)	404,039
Republic of the Marshall Islands	23,724,545	(6,923,774)	16,800,771
Housing Preservation Grant	22,425	(3,881)	18,544
	$ 29,763,456	$ (12,099,399)	$ 17,664,057

(5) Loans Receivable, Continued

	2002		
	Loans Receivable	Allowance	Net Loans
Compact Section 111	$ 8,183,347	$ (7,867,450)	$ 315,897
Compact Section 211	1,544,510	(1,047,853)	496,657
Republic of the Marshall Islands	15,559,953	(4,310,896)	11,249,057
Housing Preservation Grant	23,193	(3,881)	19,312
	$ 25,311,003	$ (13,230,080)	$ 12,080,923

An analysis of the change in the allowance for loan losses during the year ended September 30, 2003 and the nine months ended September 30, 2002 is as follows:

	2003	2002
Beginning balance	$ 13,230,080	$ 11,744,004
Provision for loan losses	1,027,546	1,904,498
Loans charged off	(2,158,227)	(418,422)
Ending balance	$ 12,099,399	$ 13,230,080

(6) Accrued Interest Receivable

Accrued interest receivable as of September 30, 2003 and 2002 is summarized as follows:

	2003		
	Interest Receivable	Allowance	Net Interest Receivable
Compact Section 111	$ 1,470,617	$ (1,336,831)	$ 133,786
Compact Section 211	485,717	(419,648)	66,069
Republic of the Marshall Islands	1,360,022	(1,049,344)	310,678
Housing Preservation Grant	4,713	(381)	4,332
	$ 3,321,069	$ (2,806,204)	$ 514,865

	2002		
	Interest Receivable	Allowance	Net Interest Receivable
Compact Section 111	$ 4,071,756	$ (3,991,382)	$ 80,374
Compact Section 211	439,091	(419,650)	19,441
Republic of the Marshall Islands	925,017	(563,306)	361,711
Housing Preservation Grant	3,961	(381)	3,580
	$ 5,439,825	$ (4,974,719)	$ 465,106

(6) Accrued Interest Receivable, Continued

An analysis of the change in the allowance for interest receivable losses during the year ended September 30, 2003 and the nine months ended September 30, 2002 is as follows:

	2003	2002
Beginning balance	$ 4,974,719	$ 4,725,492
Provision for interest receivable losses	594,428	334,993
Interest receivable on loans charged off	(2,762,943)	(85,766)
Ending balance	$ 2,806,204	$ 4,974,719

(7) Premises and Equipment

Capital assets activity during the year ended September 30, 2003 and the nine months ended September 30, 2002 is as follows:

	2003			
	October 1, 2002	Additions	Retirements	September 30, 2003
Building and houses	$ -	$ 1,712,190	$ -	$ 1,712,190
Computer systems	115,191	35,132	-	150,323
Motor vehicles	72,328	-	-	72,328
Office furniture	43,901	1,402	-	45,303
Office equipment	30,582	3,785	-	34,367
	262,002	1,752,509	-	2,014,511
Less accumulated depreciation	(187,635)	(68,085)	-	(255,720)
	74,367	1,684,424	-	1,758,791
Construction work-in-progress	39,411	-	(39,411)	-
	$ 113,778	$ 1,684,424	$ (39,411)	$ 1,758,791

	2002			
	January 1, 2002	Additions	Retirements	September 30, 2002
Computer systems	$ 89,268	$ 25,923	$ -	$ 115,191
Motor vehicles	72,328	-	-	72,328
Office furniture	41,782	2,119	-	43,901
Office equipment	26,515	4,067	-	30,582
	229,893	32,109	-	262,002
Less accumulated depreciation	(160,288)	(27,347)	-	(187,635)
	69,605	4,762	-	74,367
Construction work-in-progress	-	39,411	-	39,411
	$ 69,605	$ 44,173	$ -	$ 113,778

(8) Foreclosed Assets

Foreclosed assets are presented net of an allowance for losses. An analysis of the allowance for losses on foreclosed assets for the year ended September 30, 2003 and the nine months ended September 30, 2002 is as follows:

	2003	2002
Balance at beginning of period	$ 37,917	$ -
Provision for losses	35,000	37,917
Balance at end of period	$ 72,917	$ 37,917

(9) Long-term Debt

	2003	2002
On August 6, 1999, MIDB entered into a loan agreement with the International Commercial Bank of China in the amount of $5,000,000, due August 6, 2014, for the purpose of funding private enterprise purchase of transportation ships. The loan is uncollateralized, bears interest at 5% per annum, with interest due semi-annually commencing March 6, 2000. Repayment of principal commenced August 6, 2002 in semi-annual installments of $200,000.	$ 4,400,000	$ 4,800,000
Bank credit line of $300,000, due December 31, 2002, interest at 3.75% per annum as of September 30, 2002, payable monthly, collateralized by a $300,000 time certificate of deposit. The credit line was paid in full on December 31, 2002.	-	300,000
	$ 4,400,000	$ 5,100,000

Long-term debt changes during the year ended September 30, 2003 and the nine months ended September 30, 2002 are as follows:

2003

Balance October 1, 2002	Additions	Reductions	Balance September 30, 2003	Balance due in One Year
$ 5,100,000	$ -	$ (700,000)	$ 4,400,000	$ 400,000

2002

Balance January 1, 2002	Additions	Reductions	Balance September 30, 2002	Balance due in One Year
$ 5,300,000	$ -	$ (200,000)	$ 5,100,000	$ 400,000

(9) Long-term Debt, Continued

Future repayment commitments are as follows:

Year ending September 30,	Principal	Interest	Total
2004	$ 400,000	$ 218,611	$ 618,611
2005	400,000	197,750	597,750
2006	400,000	177,472	577,472
2007	400,000	157,194	557,194
2008	400,000	137,278	537,278
2009-2013	2,000,000	373,030	2,373,030
2014	400,000	15,250	415,250
	$ 4,400,000	$ 1,276,585	$ 5,676,585

(10) Related Party Transactions

MIDB has deposits with a bank of $507,928 and $620,120 as of September 30, 2003 and 2002, respectively, in which MIDB has an equity investment. The deposits accrue interest at rates of 1.0% to 5.5% per annum. Interest earned for the year ended September 30, 2003 and for the nine months ended September 30, 2002 amounted to $26,815 and $20,527, respectively.

MIDB is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including Air Marshall Islands, Inc (AMI). As of September 30, 2003 and 2002, MIDB has loans outstanding with affiliated entities of $185,000. These loans are fully provided for in the allowance for loan losses. In addition, interest receivable as of September 30, 2003 and 2002 from affiliated entities amounted to $73,632 and $66,233, respectively, and are fully provided for in the allowance for interest receivable losses. All loans were made at normal commercial terms and conditions. These receivables are included under loans receivable and interest receivable, respectively.

Several employees of MIDB have loans outstanding as of September 30, 2003 and 2002, of $640,568 and $581,521, respectively. In addition, the directors of MIDB have loans outstanding as of September 30, 2003 and 2002, of $188,038 and $171,892, respectively. All loans were made at normal commercial terms and conditions. These loans are included under loans receivable.

MIDB has issued certificates of deposit to RepMar totaling $7,503,382 and $470,366 as of September 30, 2003 and 2002, respectively. The deposits are for fifteen-year and one-year terms and accrue interest at 4% and 7%, respectively, per annum. As of September 30, 2003 and 2002, interest payable relating to these deposits amounted to $137,979 and $25,709, respectively, and are included within the statements of net assets as accrued interest payable.

On August 7, 2000, MIDB entered into a loan agreement with RepMar whereby MIDB loaned RepMar $1,800,000 for the purpose of paying off debts owed by the Marshall Islands Social Security Administration for medical bills. Amounts outstanding as of September 30, 2003 and 2002 are $24,973 and $69,157, respectively. As of September 30, 2003 and 2002, total interest accrued is $1,629 and $4,446, respectively. These receivables are included under loans receivable and interest receivable, respectively.

(11) Risk Management

MIDB is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. MIDB has elected to purchase commercial automobile insurance and fire, lightning and typhoon insurance covering office contents from independent third parties for the risks of losses to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. MIDB does not maintain general liability insurance and fire, lightning and typhoon insurance for its office building and properties. In the event of an insurable loss, MIDB may be self-insured to a material extent.

(12) Commitments and Contingency

Commitments

On August 1, 1996, MIDB entered into a building management agreement with a delinquent loan customer. Under the terms of the agreement, MIDB was required to collect office lease rental income and apply the proceeds against the loan customer's outstanding balance. In return, MIDB was to receive a management fee of $25,000 per year. MIDB also leased space in the building and was required to pay for the space it used. Annual lease rental payments for MIDB for the year ended September 30, 2003 and for the nine months ended September 30, 2002 were $20,000 and $64,607, respectively. The term of the agreement was for as long as was required to pay off the customer's loan with MIDB. As of September 30, 2002, the customer's principal loan balance and accrued interest were $3,764,205 and $2,837,553, respectively. These balances are recorded as loans receivable and accrued interest receivable, respectively, on the accompanying statement of net assets as of September 30, 2002. On May 14, 2003, MIDB assumed ownership of and title to the building and the loan was written off.

On April 12, 1999, MIDB entered into an agreement to manage an entertainment complex of a delinquent loan customer. Under the terms of the agreement, MIDB is required to manage the operations and to apply the proceeds less operating expenses to the loan customer's outstanding loan balance. In return, MIDB receives a management fee of $12,000 per year. The term of the agreement is for as long as is required to make the loan current. As of September 30, 2003, the customer's principal loan balance and accrued interest were $1,335,439 and $283,600, respectively. These balances are recorded as loans receivable and accrued interest receivable, respectively, on the accompanying statements of net assets.

During the year ended December 31, 2001, MIDB assumed the payment obligations under a fifteen-year ground lease, expiring on January 14, 2003, with an option to renew for an additional five years. On January 17, 2005, MIDB entered into an amended lease agreement with the landowners for the property. The term of the amended lease is twenty years, expiring on January 13, 2023. On May 14, 2003, MIDB assumed the payment obligations under a thirty-year ground lease, expiring on December 31, 2028, with an option to renew for two additional terms of thirty years each.

(12) Commitments and Contingency, Continued

Commitments, Continued

Future minimum lease payments under these leases are as follows:

Year ending September 30,	
2004	$ 8,290
2005	8,290
2006	8,290
2007	8,290
2008	8,290
2009-2013	43,303
2014-2018	45,253
2019-2023	44,370
2024-2028	29,153
2029	1,463
	$ 204,991

Contingency

MIDB participates in a number of federally assisted programs from the U.S. Department of the Interior and the U.S. Department of Agriculture. These programs are subject to financial and compliance audits to ascertain if federal laws and guidelines have been followed. The United States Department of the Interior, Office of the Inspector General, in their audit report "Marshall Islands Development Bank, Republic of the Marshall Islands", dated August 1999, have identified loans funded under Sections 111 and 211 of the Compact (CFDA # 15.875) totaling $12,410,148, and loans converted to an equity interest in Air Marshall Islands, Inc. totaling $2,933,321, as questionable. The ultimate disposition of these questionable loans can be determined only by final action of the grantor agency. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements. If these loans are ultimately denied, MIDB could be charged for the necessary reimbursement to the grantor agency.

(13) Subsequent Events

On January 16, 2004, MIDB entered into a $250,000 loan agreement with an affiliate bank.

MIDB has guaranteed three loans totaling $1,000,000 obtained by AMI from an affiliate bank on June 10, 2005, September 21, 2005 and December 9, 2005.

On September 1, 2005, MIDB turned over to a third party the management of an entertainment complex MIDB had been managing.

On February 28, 2006, MIDB entered into an agreement with an affiliate bank whereby MIDB will guarantee loans issued by the bank to MIDB's borrowers. As of November 9, 2006, MIDB has guaranteed such bank loans totaling $1,758,662.

MARSHALL ISLANDS DEVELOPMENT BANK

Combining Statement of Net Assets
September 30, 2003

ASSETS	Section 111 Compact of Free Association	Section 211 Compact of Free Association	Republic of the Marshall Islands	Housing Preservation Grant	Elimination of Interfund Balances	Total
Cash and cash equivalents	$ 737,066	$ 2,015,453	$ (3,042,744)	$ 303,598	$ -	$ 13,373
Restricted time certificates of deposit	522,675	-	(22,675)	-	-	500,000
Investments	-	-	397,106	-	-	397,106
Receivables:						
Loans, net	440,703	404,039	16,800,771	18,544	-	17,664,057
Accrued interest, net	133,786	66,069	310,678	4,332	-	514,865
Other	60,946	-	121,909	-	-	182,855
Due from other funds	863,256	29,999	-	-	(893,255)	-
Premises and equipment, net	1,565,851	-	192,940	-	-	1,758,791
Foreclosed assets, net	277,083	-	-	-	-	277,083
	$ 4,601,366	$ 2,515,560	$ 14,757,985	$ 326,474	$ (893,255)	$ 21,308,130
LIABILITIES AND NET ASSETS						
Liabilities:						
Bank overdraft	$ -	$ -	$ 33,103	$ -	$ -	$ 33,103
Long-term debt	-	-	4,400,000	-	-	4,400,000
RepMar deposit	-	-	7,503,382	-	-	7,503,382
Accounts payable	156	-	1,212	733	-	2,101
Accrued interest payable	-	-	210,601	-	-	210,601
Accrued expenses	49,149	-	326,486	-	-	375,635
Due to other funds	-	-	893,255	-	(893,255)	-
Deposits pledged	-	-	597,592	-	-	597,592
Total liabilities	49,305	-	13,965,631	733	(893,255)	13,122,414
Net assets:						
Invested in capital assets	1,565,851	-	192,940	-	-	1,758,791
Restricted	2,986,210	2,515,560	-	325,741	-	5,827,511
Unrestricted	-	-	599,414	-	-	599,414
Total net assets	4,552,061	2,515,560	792,354	325,741	-	8,185,716
	$ 4,601,366	$ 2,515,560	$ 14,757,985	$ 326,474	$ (893,255)	$ 21,308,130

See accompanying independent auditors' report.

MARSHALL ISLANDS DEVELOPMENT BANK

Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2003

	Section 111 Compact of Free Association	Section 211 Compact of Free Association	Republic of the Marshall Islands	Housing Preservation Grant	Elimination of Interfund Balances	Total
Operating revenues:						
Interest income on loans, net of bad debts of $594,428	$ 158,285	$ 77,192	$ 1,615,182	$ 1,037	$ -	$ 1,851,696
Loan fees	-	-	86,904	-	-	86,904
Interest income on time certificates of deposit	27,509	-	3,023	-	-	30,532
Other	87,508	-	57,524	-	-	145,032
Total operating revenues	273,302	77,192	1,762,633	1,037	-	2,114,164
Provision for loan losses	(1,585,332)	-	2,612,878	-	-	1,027,546
Operating expenses:						
Interest expense:						
Interest on loans payable	-	-	241,280	-	-	241,280
Interest on deposits	-	-	160,986	-	-	160,986
Total interest expense	-	-	402,266	-	-	402,266
General and administrative expenses:						
Salaries and employee benefits	258,411	-	279,368	-	-	537,779
Depreciation	37,161	-	30,924	-	-	68,085
Repairs and maintenance	47,810	-	12,799	-	-	60,609
Insurance	16,220	-	23,022	-	-	39,242
Foreclosed assets, net	35,000	-	-	-	-	35,000
Professional fees	15,910	-	18,182	-	-	34,092
Printing, stationery and advertising	10,661	-	14,400	-	-	25,061
Communications	9,113	-	12,817	-	-	21,930
Office rental	10,000	-	10,000	-	-	20,000
Travel and training	6,753	-	13,097	-	-	19,850
Bad debts	201	-	205	-	-	406
Miscellaneous	5,418	-	9,417	-	-	14,835
Total general and administrative expenses	452,658	-	424,231	-	-	876,889
Operating income (loss)	1,405,976	77,192	(1,676,742)	1,037	-	(192,537)
Nonoperating revenues (expenses), net:						
Contributions from RepMar	-	-	125,029	40,000	-	165,029
Investment earnings	-	-	51,114	-	-	51,114
Total nonoperating revenues (expenses), net	-	-	176,143	40,000	-	216,143
Change in net assets	1,405,976	77,192	(1,500,599)	41,037	-	23,606
Net assets at beginning of period	3,146,085	2,438,368	2,292,953	284,704	-	8,162,110
Net assets at end of period	$ 4,552,061	$ 2,515,560	$ 792,354	$ 325,741	$ -	$ 8,185,716

See accompanying independent auditors' report.

MARSHALL ISLANDS DEVELOPMENT BANK

Schedule of Operating Expenses and Capital
Expenditures - Budget and Actual
Year Ended September 30, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
Provision for loan losses	$ -	$ 1,027,546	$ (1,027,546)
Operating expenses:			
Interest expense:			
Interest on loans payable	-	241,280	(241,280)
Interest on deposits	-	160,986	(160,986)
Total interest expense	-	402,266	(402,266)
General and administrative expenses:			
Salaries and employee benefits	656,865	537,779	119,086
Depreciation	-	68,085	(68,085)
Repairs and maintenance	10,000	60,609	(50,609)
Insurance	44,088	39,242	4,846
Foreclosed assets, net	-	35,000	(35,000)
Professional fees	44,000	34,092	9,908
Printing, stationery and advertising	17,000	25,061	(8,061)
Communications	10,000	21,930	(11,930)
Office rental	80,000	20,000	60,000
Travel and training	39,000	19,850	19,150
Bad debts	-	406	(406)
Miscellaneous	26,550	14,835	11,715
Total general and administrative expenses	927,503	876,889	50,614
	$ 927,503	$ 1,279,155	$ (351,652)
Capital expenditures:			
Computers/software	$ 43,000	$ 35,132	$ 7,868
Office equipment	10,000	3,785	6,215
Office furniture	5,000	1,402	3,598
	$ 58,000	$ 40,319	$ 17,681

See accompanying independent auditors' report.