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November 9, 2006

CONFIDENTIAL

Mr. Amon Tibon
Managing Director
Marshall Islands Development Bank

Dear Mr. Tibon:

In planning and performing our audit of the financial statements of the Marshall Islands Development Bank (MIDB) for the year ended September 30, 2003, on which we have issued our report dated November 9, 2006, which report was qualified due to our inability to determine the propriety of the carrying value of loans and accrued interest receivable, we developed the following recommendations concerning certain matters related to MIDB's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

(1) Purchases/Disbursements

Of six nonpayroll disbursements tested, the approved purchase orders for two items (check #s 4775 and 5076) were not made available. Furthermore, the supporting vendor invoice for check # 4775 was not made available. We recommend that management ensure that all disbursements are supported by adequate documentation.

(2) Payroll

The payroll function lacks appropriate segregation of duties as the individual who processes payroll can also access payroll master files. We recommend that management ensure proper segregation of duties over the payroll function. This matter was discussed in our previous letter dated October 13, 2006.

(3) Payroll

Personnel action forms/contracts were not made available for all six employees tested. Additionally, allotment forms for these employees and the timecards for five of them were not made available. We recommend that management ensure that authorized allotment forms and timecards are retained. This matter was discussed in our previous letter dated October 13, 2006.

(4) Investments

At September 30, 2003, MIDB recorded an investment in Bank of Marshall Islands (BOMI) totaling $397,106, which represents 34,222 shares. BOMI confirmed that the total number of shares owned is 34,076. Although we do not consider the variance of 146 shares to be material to the financial statements, we recommend that management ensure that the number of shares is accurately recorded. This matter was discussed in our previous letter dated October 13, 2006.

(5) Other Receivables

As of September 30, 2003, MIDB recorded other receivables totaling $182,855, which included $26,972 in credit card usage for personal charges as well as unliquidated travel advances due from management. We recommend that management establish a formal policy regarding the use of the corporate credit card, including a restriction on the use of the credit card for personal charges. Furthermore, we recommend that this policy be formally authorized by the Board of Directors. We also recommend that management ensure that travel advances are liquidated in accordance with established policies and procedures, whereby, the traveler is required to close the travel authorization after completion of the trip. This matter was discussed in our previous letters dated October 13, 2006, October 31, 2003, January 21, 2003, August 6, 2001, October 25, 1999 and November 26, 1998.

(6) Fixed Assets

The supporting purchase invoice for one addition (MIP Software) to fixed assets was not made available. We recommend that management ensure that additions to fixed assets are supported by adequate documentation.

(7) Accrued Expenses

At September 30, 2003, MIDB recorded credit life insurance premiums payable totaling $87,105 (A/c # 2350). This account was not reconciled during the year and no subsidiary ledger was maintained for this liability. Audit procedures performed indicated that MIDB's related liability at September 30, 2003 totaled $228,784. An audit adjustment was proposed to properly record this liability in the general ledger. Premiums were not paid in a timely manner and certain premiums charged to borrowers were not reported and paid to the insurer. We recommend that management ensure that liabilities are properly recorded and paid in a timely manner. This matter was discussed in our previous letter dated October 13, 2006.

(8) Accrued Expenses

At September 30, 2003, MIDB recorded social security taxes payable totaling $59,619 (A/c # 2200), which included unreported contributions for the quarter ended December 31, 2000. We recommend that management ensure that social security contributions are reported and paid in a timely manner. This matter was discussed in our previous letters dated October 13, 2006 and October 31, 2003.

(9) Savings Supporting Pledge

The supporting pledge savings account was established to account for customer deposits that collateralize loans. The interest rate for the savings account is 4%, which does not appear to have been approved by the Board. The account is used as a regular savings account and deposits and withdrawals are made on a regular basis. We recommend that the Board review the program and establish formal policies and authorization. This matter was discussed in our previous letters dated October 13, 2006, October 31, 2003 and January 21, 2003.

(10) Savings Supporting Pledge

The supporting pledge savings account is sometimes used as a clearing account wherein unidentified loan payments are credited to it. Since the account is not reconciled on a regular basis, loans and supporting pledge savings are both overstated. Although we do not consider the effect of this condition to be material to the financial statements, we recommend that sufficient information be indicated on the cash receipts for loan payments to ensure proper recording.

(11) Savings Supporting Pledge

The supporting pledge savings account included debit balances totaling $83,391 at September 30, 2003, which represented overpayments to depositors. An audit adjustment was proposed to reclassify the amount to other receivables. We recommend that management ensure that the supporting pledge savings account is reconciled to ensure that further overpayments do not occur. Further, we recommend that steps be taken to collect the overpayments. This matter was discussed in our previous letter dated October 13, 2006 and was reported as a finding in the Single Audit of MIDB for fiscal year 2001.

(12) Savings Supporting Pledge

Advances by MIDB, totaling $121,163 at September 30, 2003, for repair costs relating to a managed property are recorded in the supporting pledge savings account rather than as receivables. Audit adjustments were proposed to properly record the advances as loans receivable. In addition, the supporting pledge savings account balance at September 30, 2003 included a deposit, totaling $2,059, which had been refunded to the depositor in February 2002. We recommend that advances and refunds be properly recorded. This matter was discussed in our previous letter dated October 13, 2006.

(13) Loan Fees

Statement of Financial Account Standards (SFAS) No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, establishes the accounting for loan origination fees and costs. Loan origination fees, net of direct loans origination costs, should be deferred and recognized over the contractual life of the loan as an adjustment of yield using the interest method. During the year ended September 30, 2003, MIDB recognized loan origination fees of $86,904 as income. No portion of this amount was deferred to future periods. Although we do not consider the effect of this condition to be material to the financial statements, we recommend that management recognize loan origination fees in accordance with SFAS No. 91. This matter was discussed in our previous letters dated October 13, 2006, October 31, 2003, January 21, 2003 and August 6, 2001.

(14) Lease Agreement

During the year ended September 30, 2003, MIDB assumed the payment obligations under a thirty-year ground lease for the property where MIDB's office building is located. A lease agreement between MIDB and the landowners has not been executed. We recommend that management ensure that a lease agreement on the property naming MIDB as lessor is executed.

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We have previously communicated certain matters noted during our audit of the financial statements of MIDB for the year ended September 30, 2003, which we considered to be reportable conditions, in our report to the Board of Directors dated November 9, 2006.

This report is intended solely for the information and use of management, and others within the organization and is not intended to be used and should not be used by anyone other than these specified parties.

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

Deloitte + Touche LLP