

December 22, 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, 2004, on which we have issued our report dated December 22, 2006, which report was qualified due to our inability to determine the propriety of the carrying value of loans and accrued interest receivable and the non-deferrals of insurance premiums and loan origination fees, 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 twenty-five nonpayroll disbursements tested, the approved purchase orders for five items (check #s 7545, 9140, 9176, 9556 and 11030) were not available. Furthermore, the supporting vendor invoices for two items (check #s 11280 and 10780) and certain supporting documents for four items (check #s 8921 and journal voucher #s 031153, 040263 and 040976) were not available. We recommend that management ensure that all disbursements be supported by adequate documentation. This matter was discussed in our previous letter dated November 9, 2006.

(2) Purchases/Disbursements

Of twenty-five nonpayroll disbursements tested, one item (check # 6717) included \$47,515 pertaining to fiscal year 2003 that was recorded as a fiscal year 2004 expense. Although we do not consider the effect of this condition to be material to the financial statements, we recommend that management ensure that expenses are recorded in the proper period.

(3) 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 November 9, 2006.

(4) Payroll

Of twenty-five payroll disbursements tested, we noted the following:

- The allotment forms for twenty employees were not available.
- The timesheet summaries for two employees (social security #s 04-078032 and 04-064323 for pay periods ended March 19, 2004 and August 6, 2004, respectively) were not made available. Additionally, the time cards for four employees (social security #s 04-208830, 04-055691, 04-044444 and 04-000222 for pay periods ended January 9, 2004, February 6, 2004, May 28, 2004 and October 1, 2004, respectively) were not made available.
- The employment contracts for two employees were not made available. We agreed the pay rate for social security # 04-089889 to the annual budget; however, the \$16.83 rate paid social security # 04-089142 for pay period ended November 14, 2003 differed from the \$17.31 rate approved in the annual budget.

We recommend that management ensure that authorized allotment forms, time cards, timesheet summaries, and employment contracts are retained. This matter was discussed in our previous letters dated November 9, 2006 and October 13, 2006.

(5) Payroll

Of twenty-five payroll disbursements tested, we noted the following:

- The actual hours differed from the hours paid for the following employees:

| <u>Social Security #</u> | <u>PPE</u> | <u>Actual Hours</u> | <u>Paid Hours</u> |
|--------------------------|------------|------------------------------|--------------------------------|
| 04-201579 | 10/17/03 | 69.05 regular No overtime | 80.00 regular 0.80 overtime |
| 04-065459 | 10/31/03 | 4.75 overtime | 11.75 overtime |
| 04-760730 | 11/28/03 | 68.97 regular No overtime | 80.00 regular 8.00 overtime |
| 04-069278 | 12/12/03 | 3.54 overtime | 19.83 overtime |
| 04-407573 | 12/26/03 | 23.96 regular | 55.55 regular |
| 04-057723 | 01/23/04 | 79.88 regular No overtime | 80.00 regular 7.11 overtime |
| 04-041542 | 03/05/04 | 75.08 regular | 76.00 regular |
| 04-020382 | 04/02/04 | 79.62 regular No overtime | 80.00 regular 0.10 overtime |
| 04-208151 | 04/16/04 | 52.70 regular | 66.97 regular |
| 04-042079 | 04/30/04 | 73.33 regular No overtime | 80.00 regular 1.00 overtime |
| 04-057746 | 06/25/04 | 79.77 regular No overtime | 80.00 regular 1.62 overtime |
| 04-214823 | 07/23/04 | 67.52 regular | 70.00 regular |
| 04-069959 | 08/20/04 | 18.30 regular | 42.58 regular |
| 04-216267 | 09/17/04 | 11.32 overtime | 10.20 overtime |

The incorrect hours paid impact accrued annual and sick leave hours.

(5) Payroll, Continued

- The hourly rate paid differed from the rate approved in the annual budget for the following employees:

| <u>Social Security #</u> | <u>PPE</u> | <u>Rate Approved</u> | <u>Rate Paid</u> |
|--------------------------|------------|----------------------|------------------|
| 04-057723 | 01/23/04 | \$ 7.20 | \$ 6.73 |
| 04-087330 | 02/20/04 | \$ 9.81 | \$12.10 |
| 04-020382 | 04/02/04 | \$ 7.19 | \$ 7.20 |
| 04-208151 | 04/16/04 | \$ 5.08 | \$ 5.07 |
| 04-214823 | 07/23/04 | \$ 3.39 | \$ 3.25 |

The annual budget did not include employee social security # 04-044444, therefore, we were unable to verify this employee's hourly rate for pay period ended May 28, 2004.

- Statutory deductions were incorrectly calculated for one employee (social security # 04-407573) for pay period ended December 26, 2003.

We recommend that management ensure that payroll is accurately calculated and that employees are paid approved rates.

(6) Investments

At September 30, 2004, 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 letters dated November 9, 2006 and October 13, 2006.

(7) Loans Receivable

At September 30, 2004, loans receivable included \$21,485 pertaining to a loan that was foreclosed in fiscal year 2002, resulting in recognition of interest income during 2004. MIDB is renting out the foreclosed property; however, rental income generated and repair costs incurred were not properly recorded. Audit adjustments were proposed to correct loans receivable and interest income and to record rental income and repair costs. We recommend that management ensure that foreclosed properties are properly and timely recorded. This matter was reported as a finding in the Single Audits of MIDB for fiscal years 2001 through 2003.

(8) Other Receivables

As of September 30, 2004, MIDB recorded other receivables totaling \$205,531, which included \$22,486 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 November 9, 2006, October 13, 2006, October 31, 2003, January 21, 2003, August 6, 2001, October 25, 1999 and November 26, 1998.

Mr. Amon Tibon
Managing Director
Marshall Islands Development Bank
December 22, 2006

Page 4

(9) Other Receivables

As of September 30, 2004, MIDB recorded other receivables totaling \$205,531, which included \$29,495 pertaining to a "sample" house constructed by MIDB on land owned by a third-party. We were informed by management that MIDB uses the land rent-free in exchange for ownership of the house which will be transferred when MIDB recovers all its costs; however, a written agreement was not made available. We recommend that management ensure that a written agreement for this arrangement is executed.

(10) Accrued Expenses

MIDB became self-insured for credit life insurance effective October 1, 2003. At September 30, 2004, MIDB recorded credit life insurance premiums payable totaling \$269,822 (A/c # 2350), which included \$41,038 in premiums collected during 2004 that should have been deferred and amortized over the contractual life of the loans. An audit adjustment was proposed to correct this matter. Furthermore, this liability relates to prior years and should have been paid. We recommend that management ensure that liabilities are properly recorded and paid in a timely manner. This matter was discussed in our previous letters dated November 9, 2006 and October 13, 2006.

(11) Accrued Expenses

At September 30, 2004, MIDB recorded social security taxes payable totaling \$64,833 (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 November 9, 2006, October 13, 2006 and October 31, 2003.

(12) Accrued Expenses

At September 30, 2004, an allotment payable account (A/c # 2504) reflected a debit balance totaling \$4,930. This balance resulted from payments of employee allotments that were not actually deducted. We recommend that management ensure that allotments are paid based on actual amounts deducted.

(13) 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 account usage and establish related policies and authorization. This matter was discussed in our previous letters dated November 9, 2006, October 13, 2006, October 31, 2003 and January 21, 2003.

(14) Savings Supporting Pledge

The supporting pledge savings account is sometimes used as a clearing account to which unidentified loan payments are credited. Since the account is not reconciled on a regular basis, loans and supporting pledge savings are both overstated. Additionally, the supporting pledge savings account balance at September 30, 2004 included a deposit totaling \$2,059, which had been refunded in February 2002. Although we do not consider the effect of these conditions to be material to the financial statements, we recommend that sufficient information be indicated on loan payments to ensure proper recording. This matter was discussed in our previous letters dated November 9, 2006 and October 13, 2006.

(15) Savings Supporting Pledge

The savings supporting pledge account at September 30, 2004 included two accounts totaling \$8,018 pertaining to a repossessed property. We were informed that the \$8,018 may represent rental income. Although the effect of this condition does not appear material to the financial statements, we recommend that management ensure that rental income is properly recorded.

(16) Savings Supporting Pledge

The savings supporting pledge account included one account totaling \$22,000 for a commercial depositor that has ceased operations and another account totaling \$21,030 for a former borrower whose property was repossessed by MIDB. We were informed that the \$21,030 should have been applied against the delinquent loan balance. We recommend that management review these accounts for proper action.

(17) Savings Supporting Pledge

The savings supporting pledge account at September 30, 2004 included accounts for three borrowers (holder #s 100110, 100562 and 101408) whose loans were delinquent at September 30, 2004. We recommend that management obtain necessary approvals to offset the accounts with related loans.

(18) Lease Agreement

In fiscal year 2003, MIDB assumed payment obligations under a thirty-year ground lease. A lease between MIDB and the landowners has not been executed. We recommend that management ensure that a lease agreement is executed. This matter was discussed in our previous letter dated November 9, 2006.

(19) Lease Agreements/Rent Revenue

During the year ended September 30, 2004, MIDB recorded rental income (A/c #s 5050 and 5055, totaling \$167,679) earned on leased office space and apartment units. Only one lease agreement was located and we were informed that the remaining agreements could not be located. Alternative audit procedures were performed to test rental income. We noted that \$2,171 of fiscal year 2003 rental income was recorded in fiscal year 2004. We recommend that management ensure that lease agreements are maintained on file and rental income is recorded in the proper period.

(20) Contract/Management Agreement

Our review of subsequent disbursements indicated three payments totaling \$177,983 pertaining to a contract to install the air-conditioning system in MIDB's office building. We were informed that a contract agreement was executed for the project; however, the agreement was not located. MIDB also sub-contracted its management of an entertainment complex to a third party on September 1, 2005; the related management agreement was not located. We recommend that management ensure that contract/management agreements are locatable.

(21) Restricted Time Certificate of Deposit

During the year ended September 30, 2004, MIDB entered into a \$250,000 loan agreement with an affiliate bank. The loan is secured by a time certificate of deposit, which was restricted to secure Rural Housing Service (RHS) funding. The applicable Memorandum of Understanding (MOU) requires that MIDB establish an escrow account with a minimum balance of \$500,000. We recommend that management ensure that the restricted TCD is not used for other purposes.

Mr. Amon Tibon
Managing Director
Marshall Islands Development Bank
December 22, 2006

Page 6

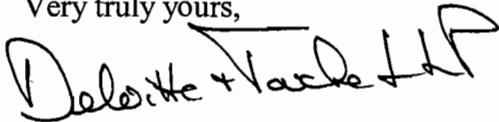
* * * * *

We have previously communicated certain matters noted during our audit of the financial statements of MIDB for the year ended September 30, 2004, which we considered to be reportable conditions, in our report to the Board of Directors dated December 22, 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,

A handwritten signature in black ink, appearing to read "Deloitte + Touche LLP". The signature is written in a cursive, stylized font. Above the signature, there is a horizontal line that extends to the right and then curves downwards, possibly indicating a signature line or a specific name within the firm.