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May 22, 2013

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) as of and for the year ended September 30, 2012 (on which we have issued our report dated May 22, 2013), 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, we considered MIDB's 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 do not express an opinion on the effectiveness of MIDB's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to MIDB's internal control over financial reporting and other matters as of September 30, 2012 that we wish to bring to your attention. Although we have included management's written responses to our comments contained therein, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

We have also issued a separate report to the Board of Directors, also dated May 22, 2013, on our consideration of MIDB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

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

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of MIDB for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Touche LLP

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, deficiencies involving MIDB's internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention:

1. Absence of Lease Agreements

Comment: Signed copies of lease agreements for the following tenant/properties were not available:

a. Banking Commission – Room 512
b. Thomas Davidson

Recommendation: We recommend that signed lease agreements be timely executed and filed.

Management Response: We already obtained the copy of lease agreements for the Banking Commission. And we ensure that recommendation will be complied for future tenants.

SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

1. Matured Loans

Comment: We noted 1,796 loans with a total balance of $6,997,419 that matured as of September 30, 2012; some of which have maturity dates of 2011 and earlier. Of this total, 182 with an aggregate outstanding balance of $492,383 are aged 270 days and below, while the rest are aged above 270 days and are fully reserved.

Recommendation: Management should verify and correct loans with the noted condition. Additionally, management should designate an officer to periodically review loan data for loan information errors.

Management Response: Collection department of the bank is monitoring the past due accounts based on the reports forwarded to them on a monthly basis.

2. Loans with Incorrect Open Dates

Comment: The September 2012 system-generated loan trial balance contains 184 loans totaling $2,736,698 which have incorrect open dates of December 31, 1999. Furthermore, 32 loans totaling $260,207 have maturity dates earlier than the open date. This issue appears to be caused by a system migration error in 2000. All of these loans have been delinquent for more than 270 days and are therefore fully reserved.

Recommendation: Management should verify and correct loans with the noted condition and consider possible charge-off. Additionally, management should designate an officer to periodically review loan data for information errors.

Management Response: Loan with open dates of December 31, 1999 are already provided for with full provision. The management has already assigned an officer to check periodically loan information versus the loan system before scanning of loan documents as soft copy of files.

SECTION II – OTHER MATTERS, CONTINUED

3. Long Outstanding Checks

Comment: The September 2012 bank reconciliation for Cash in Bank (CA-BOMI), contains 24 checks aggregating $13,205 that have been outstanding for more than one year. The Bank does not have a policy to separately record stale dated checks.

Recommendation: The Bank may consider establishing a policy over the processing, reconciliation, monitoring and disposition of stale dated checks.

Management Response: The bank does not revert these checks back due to local bank's still accepting these checks as long as there is documentation duly signed by the managing director and the local bank was properly informed as to the status of the check.

4. Written Agreement on Sample House

Comment: MIDB was able to provide a copy of the agreement relating to the $52,145 sample house receivable at September 30, 2012; however, we noted insufficient information, i.e. interest rate, stated receivable, etc. This matter was discussed in our previous letters for the audits of fiscal years 2008 to 2011.

Recommendation: We recommend that management require that all lending arrangements be supported by executed agreements detailing pertinent information.

Management Response: The bank has a letter of agreement with the owner's of the house duly notarized and recorded in the Land Registration Authority. In which, it is stated in the letter that the owners have authorized the bank to renovate and use it for rental until such time that all expenses incurred to renovate are cleared, including interest of the money used for such project. And it is also agreed upon that after 10 years if all expenses were not paid off it will be the responsibility of the owners to pay off all the remaining balances.

5. Policy on Accounts Receivables' Allowance for Credit Losses

Comment: The Bank does not have a formal policy for establishing an allowance for losses for accounting receivable.

Recommendation: Management should consider formulating policy relative to establishing an allowance for accounts receivable.

Management Response: Management will ensure that recommendation will be complied.

6. Negative Balances in Deposit Accounts

Comment: As of September 30, 2012 there were 265 savings deposit accounts with negative balances totaling $51,785. Savings deposits generally pertain to over payments resulting from outdated records and withdrawals are made through customer refunds. Therefore, it appears that the Bank refunded certain customers cash in excess of their deposit balances or this condition could be attributed to outdated records. Additionally, the accounting department appears to have calculated corresponding interest expense on these negative balances that is not recorded.

Recommendation: Management should revisit the cited accounts and consider adding these amounts to existing loans. Otherwise, management should decide whether these balances should be charged-off.

Management Response: Management is updating the ledgers of all overpayments in order to charge all the negative balances to their existing loans or for further collection.

SECTION II – OTHER MATTERS, CONTINUED

7. Inadequate Monitoring of Rental Receivables

Comment: The Property Manager monitors rent collections and calculates rent receivable and related rent income at year-end. Hence, the accrued rent receivable and the corresponding accrued income at month-ends are understated.

Recommendation: Rental activities are a major revenue generating source. Therefore, management should assign a responsible officer to monitor related activities and related recordkeeping.

Management Response: Management has already assigned a staff to monitor the rental payments of the tenants in a monthly basis, any uncollectible will be forwarded to the Property Manager for collection.

8. Missing Loan Information Resulting from Errors

Comment: The September 2012 loan schedule did not initially contain maturity dates for 2,946 loans and next payment due dates for three of 75 loans tested for credit review. The missing information was subsequently provided and was represented to have been caused by manual errors during creation of the excel-based loan schedule.

Recommendation: As critical management decisions are based on reports containing financial and other related information, we recommend that higher level reviews be performed of all reports.

Management Response: Management has already asked for the help from the IT personnel of BOMI as to the proper extraction of the loan reports in the Money Talk System (Loan system).

9. Valuation and Identification of Refinanced Loans

Comment: The Bank tags refinanced loans based on the purpose per the loan agreement. However, several refinanced loans were not tagged based on the definition of a refinanced loan in the Bank's policy. Per Bank policy, MIDB has two types of refinanced loans:

1. Restructured: loans of the same borrower that are reconstructed and are assigned different note numbers.

2. Paid-off: loans of the borrower and/or other delinquent loan accounts he/she guaranteed that are paid off fully or partially. A new note is also assigned.

Bank policy requires that an allowance equivalent to 100% of outstanding refinanced loans be provided (for both principal and interest) unless the borrower pays within the scheduled amortization dates for a one year period.

Due to noted exceptions, there is a risk that the Bank did not capture all refinanced loans and did not provide an applicable allowance in accordance with policy.

Recommendation: We recommend that active monitoring of refinanced loans occur to verify that such have been adequately reserved until compliance with the one year policy period has been met.

Management Response: Management has already added another category type in the loan system to indicate pay-off for current loans.

SECTION III – DEFINITIONS

The definition of a deficiency in internal control over financial reporting that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

MIDB's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process effected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.