MARSHALL ISLANDS DEVELOPMENT BANK

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2005 AND 2004

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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, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. 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 paragraphs, 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 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, 2004 (stated at $17,572,373) and accrued interest receivable as of September 30, 2004 (stated at $478,079) 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 receivables by means of other auditing procedures. The allowances for loan and interest receivable materially affect the determination of the results of operations.

As more fully described in note 2 to the financial statements, MIDB, in 2004, recorded certain revenues related to insurance premiums and loan origination fees of $140,710 and $76,930, respectively, as they were billed and collected. In our opinion, such revenues should be recorded as they are earned over the contractual life of the loan to conform with accounting principles generally accepted in the United States of America. The effects of that departure on the financial statements are not reasonably determinable.

In our opinion, except for the effects on the 2004 financials statements of not adequately assessing the allowance for loan and interest receivable losses as discussed in the third paragraph above, and except for the effects of such adjustments, if any, as might have been determined to be necessary had MIDB deferred and recognized insurance premiums and loan origination fees over the contractual life of the loan as discussed in the fourth paragraph above, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of MIDB as of September 30, 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's Discussion and Analysis on pages 3 through 6 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 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, 2005 (pages 23 and 24) 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 for the matter discussed in the fourth 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 August 28, 2007, 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 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

August 28, 2007

MARSHALL ISLANDS DEVELOPMENT BANK

Management's Discussion and Analysis
Year Ended September 30, 2005

Fiscal year October 1, 2004 to September 30, 2005 has been a productive year to the Marshall Islands Development Bank (MIDB). During the fiscal year, the Bank's resources were utilized to prioritize Consumer Loan Programs with the goal and purpose of improving the living standard and living conditions of the people of the Republic of the Marshall Islands.

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, 2005.

FINANCIAL HIGHLIGHTS

- MIDB's total net assets slightly decreased by $.16M or 2% over the course of this year's operation. While net assets of funds coming from the RMI Government increased by $459,681, this was offset by a decrease in net assets from Section 111 Compact of Free Association, Section 211 Compact of Free Association and Housing Preservation Grant by $417,065, $184,652, and $15,864, respectively.
- MIDB incurred $3.09M in expenses for banking activities, broken down as $.51M on Operating Expenses, $1.05M on Provision for Loan Losses, and $1.53M on General and Administrative Expenses. These expenses were funded by Interest Income on Loans and Other Income of $2.79M and by Contributions from the RMI Government and USDA Rural Development of $.14M. Revenues virtually remained unchanged while expenses were up from fiscal year 2004 by $.29M or 10 %. The rise in expenses is attributable to additional provision for probable loan losses that was set up as a response to the new policy on Allowance Provisioning. Likewise, increase in expenses is also due to additional manpower hired to expedite the updating process of the Bank's information systems and additional depreciation cost incurred due to purchase of an investment house for sale.

ANALYSIS OF MIDB'S FINANCIAL STATUS

This analysis serves as an overview to MIDB's basic financial statements. A Summary of Statements of Net Assets is shown below that will give insight on the Bank's resources, liabilities and net assets, the Bank's priority investments and performance results compared to previous year. At the end of the fiscal year 2005, MIDB's assets of $21.14M exceeded liabilities of $12.89M by $8.25M. However, $2.14M or 26% of these net assets are either invested in Capital Assets or Restricted Funds that can only be used for the purpose of which the Fund was created. The Capital Assets are resources used by the Bank during the course of its operation to provide services to the people and are assets that are not easily liquidated. As of September 30, 2005 Unrestricted Net Assets amounted to $6.11M, which is not enough to repay all outstanding debt and therefore, it should be noted that other sources should be utilized to liquidate the liabilities.

Summary of Statements of Net Assets

		2005	2004	2003
Assets	Cash and Cash Equivalent	$ 47,173	$ 258,165	$ 13,373
	Loan Receivable, net	16,770,507	17,572,373	17,664,057
	Premises and Equipment, net	1,879,664	1,803,714	1,758,791
	Other Assets	2,446,924	1,823,971	1,871,909
	Total Assets	**$ 21,144,268**	**$ 21,458,223**	**$ 21,308,130**
Liabilities	Loan Payable	$ 3,600,000	$ 4,096,716	$ 4,400,000
	RepMar Deposit	7,840,603	7,539,041	7,503,382
	Other Liabilities	1,447,710	1,408,611	1,219,032
	Total Liabilities	**$ 12,888,313**	**$ 13,044,368**	**$ 13,122,414**

MARSHALL ISLANDS DEVELOPMENT BANK

Management's Discussion and Analysis
Year Ended September 30, 2005

Summary of Statements of Net Assets, Continued

			2005		2004		2003
Net Assets	Investment in Capital Assets	$	1,879,664	$	1,803,714	$	1,758,791
	Restricted		262,330		2,981,450		5,827,511
	Unrestricted		6,113,961		3,628,691		599,414
	Total Net Assets	**$**	**8,255,955**	**$**	**8,413,855**	**$**	**8,185,716**

- Loan approvals for the year were approximately $11.64M, broken down by projects, $11.61M was released under various consumer loans, $15K was granted to housing loans and $18K to joint MIDB-USDA housing loans. Loans Receivable Net decreased by $.8M due to increase in Allowance for Loan Receivable. A policy for provisioning was approved and made effective October 1, 2004. Due to the adoption of the new policy, additional provision for loan losses was provided for delinquent Consumer Loan accounts.

- The RMI Government invested $7M in a Time Certificate of Deposit at the rate of 4% on May 9, 2003, maturing May 8, 2018. The money received from such TCD Payable was used to finance the loan granted to RRE and PMI. The Bank accrues approximately $.28M per annum of interest on this TCD. During the year no withdrawals were made by the RMI Government.

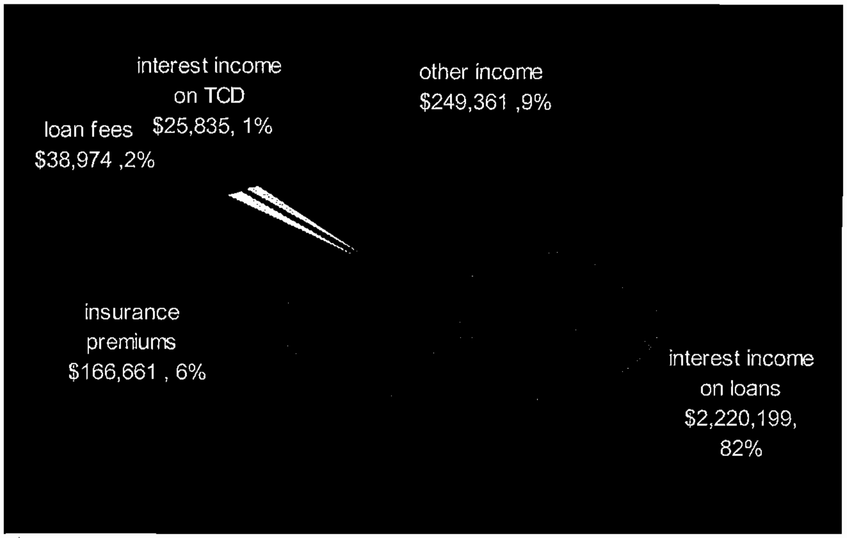
- MIDB obtained a short-term loan from Bank of the Marshall Islands (BOMI) amounting to $.25M with the purpose of financing the renovation of the MIDB Building. The loan was obtained on January 16, 2004 at 5.5% interest rate per annum, collateralized by TCD#8813004648 which is deposited with BOMI. MIDB agrees to pay the loan out of the allotment from RMI Government Payroll received from the Secretary of Finance until such loan is paid in full. The loan was fully paid on February 4, 2005.

- MIDB continuously liquidates its long-term loan with International Commercial Bank of China (ICBC) by paying approximately $.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, 2005 outstanding principal balance on ICBC loan was $3.6M.

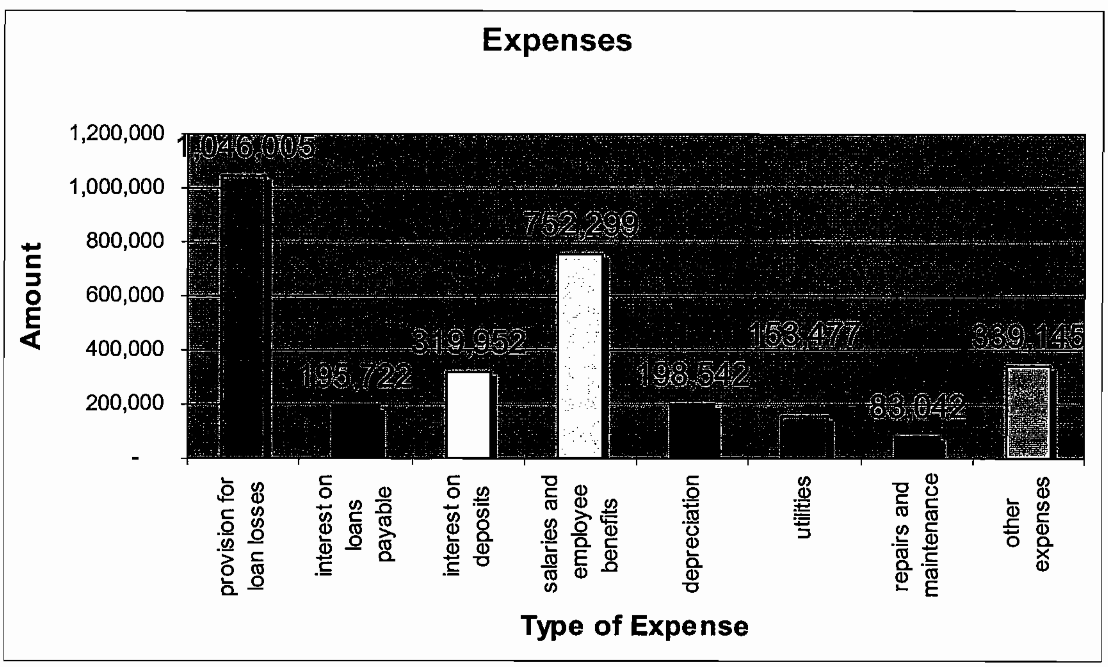
Summary of Statements of Revenues, Expenses and Changes in Net Assets

		2005		2004		2003
Operating Revenues	$	2,701,030	$	2,749,192	$	2,114,164
Less: Expenses						
Provision for loan losses		1,046,005		928,642		1,027,546
Operating expenses		515,674		544,859		402,266
General and administrative expenses		1,526,505		1,322,704		876,889
Earnings (Loss) from Operations		(387,154)		(47,013)		(192,537)
Non-operating Revenues(Expenses) Net		229,254		275,152		216,143
Increase in Net Assets		(157,900)		228,139		23,606
Net Assets at Beginning of Year		8,413,855		8,185,716		8,162,110
Net Assets at End of Year	$	**8,255,955**	**$**	**8,413,855**	**$**	**8,185,716**

- The Bank's total revenues (excluding Non-operating Revenues) virtually remained unchanged. More than 82% of the Bank's revenue comes from Interest Income on Loans, 95% of which are from Consumer Loans. Please see below the chart depicting the distribution of the Bank's revenue.



- The total cost incurred increased by $.29M or 10% from last year's operation. The Bank's expenses cover a range of operating, general and administrative expenses, with Provision on Loan Losses amounting to $1.05M and $.93M or 34% and 33% of Total Expenses on fiscal years ended September 30, 2005 and September 30, 2004, respectively. Provision for delinquent loan accounts is provided based on the Bank's reasonable estimate, where in the number of days an account is due and the amount of loan outstanding balance play a vital information in the computation of additional allowance to be provided. The graph below will show itemized expenses and will give an over-all picture of the Bank's spending activities.



- Operating Expenses decreased by $.03M or 5% from $.54M to $.51M for fiscal years ended September 30, 2004 and September 30, 2005, respectively. Operating expenses pertain to Interest on Loans Payable and Interest on Deposits. Interest Expense on Loans pertains to interest payments and accruals on the International Commercial Bank of China (ICBC) loan and Bank of the Marshall Islands (BOMI) loan. Interest Expense on Loans Payable decreased by $.03M or 12% during the course of this year's operation due to full payment of the Bank's loan with BOMI. Interest on Deposits effectively remained unchanged during the fiscal year, such interest expense pertains to RepMar TCD with MIDB of $7M and various savings accounts.

- General and Administrative Expenses increased by $.2M or 15% from last year's operation due to increase in Salaries, Depreciation, and Utilities. Salaries and Employee Benefits as well as Utility Expense rose up by $66K or 8% due to overtime of accounting staffs in order to expedite the updating of the Loan System and the Accounting System. Depreciation expense went up compared to fiscal year 2004 due to the acquisition of an investment house for sale amounting to $.14M.

Management's Discussion and Analysis for the year ended September 30, 2004 is set forth in the Bank's report on the audit of financial statements, which is dated December 22, 2006. That Discussion and Analysis explains the major factors impacting the 2004 financial statements and can be obtained from the Bank's Managing Director at rmimidb@ntamar.net.

MARSHALL ISLANDS DEVELOPMENT BANK

Statements of Net Assets
September 30, 2005 and 2004

ASSETS	2005	2004
Cash and cash equivalents	$ 47,173	$ 258,165
Restricted time certificates of deposit	1,316,280	501,172
Investments	393,748	397,106
Receivables:		
Loans, net	16,770,507	17,572,373
Accrued interest, net	162,939	478,079
Other	233,666	205,531
Premises and equipment, net	1,879,664	1,803,714
Foreclosed assets, net	207,083	242,083
Investment property held for sale, net	133,208	-
	$ 21,144,268	$ 21,458,223

LIABILITIES AND NET ASSETS	2005	2004
Liabilities:		
Long-term debt	$ 3,600,000	$ 4,096,716
RepMar deposit	7,840,603	7,539,041
Accrued interest payable	219,769	209,258
Accrued expenses	382,653	424,701
Deposits pledged	845,288	774,652
Total liabilities	12,888,313	13,044,368
Commitments and contingency		
Net assets:		
Invested in capital assets	1,879,664	1,803,714
Restricted	262,330	2,981,450
Unrestricted	6,113,961	3,628,691
Total net assets	8,255,955	8,413,855
	$ 21,144,268	$ 21,458,223

See accompanying notes to financial statements.

MARSHALL ISLANDS DEVELOPMENT BANK

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2005 and 2004

	2005	2004
Operating revenues:		
Interest income on loans (net of bad debts of $477,449 and $830,305 as of September 30, 2005 and 2004, respectively)	$ 2,220,199	$ 2,342,035
Insurance premiums	166,661	140,710
Loan fees	38,974	76,930
Interest income on time certificates of deposit	25,835	20,072
Other	249,361	169,445
Total operating revenues	2,701,030	2,749,192
Provision for loan losses	1,046,005	928,642
Operating expenses:		
Interest expense:		
Interest on loans payable	195,722	222,048
Interest on deposits	319,952	322,811
Total interest expense	515,674	544,859
General and administrative expenses:		
Salaries and employee benefits	752,299	693,429
Depreciation	198,542	146,796
Utilities	153,477	146,660
Repairs and maintenance	83,042	96,200
Travel and training	55,725	63,722
Office and house rental	38,552	35,752
Printing, stationery and advertising	35,432	33,541
Foreclosed assets, net	35,000	35,000
Communications	30,424	26,868
Insurance	24,889	5,707
Professional fees	5,409	32,738
Miscellaneous	113,714	6,291
Total general and administrative expenses	1,526,505	1,322,704
Operating loss	(387,154)	(47,013)
Nonoperating revenues:		
Contributions from RepMar	100,000	207,000
Federal grants	44,064	-
Investment earnings	85,190	68,152
Total nonoperating revenues	229,254	275,152
Change in net assets	(157,900)	228,139
Net assets at beginning of year	8,413,855	8,185,716
Net assets at end of year	$ 8,255,955	$ 8,413,855

See accompanying notes to financial statements.

MARSHALL ISLANDS DEVELOPMENT BANK

Statements of Cash Flows
Years Ended September 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Cash received from customers	$ 2,595,177	$ 2,394,160
Cash payments to suppliers for goods and services	(545,414)	(449,580)
Cash payments to employees for services	(684,671)	(644,363)
Net cash provided by operating activities	1,365,092	1,300,217
Cash flows from noncapital financing activities:		
Net change in bank overdraft	2,892	(33,103)
Net change in RepMar deposit	301,562	35,659
Contributions from RepMar	100,000	207,000
Federal grants	44,064	-
Net cash provided by noncapital financing activities	448,518	209,556
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	-	250,000
Principal repayment of long-term debt	(496,716)	(553,284)
Purchase of investment property	(139,000)	-
Additions to equipment	(268,700)	(191,719)
Net cash used in capital and related financing activities	(904,416)	(495,003)
Cash flows from investing activities:		
Loan originations and principal collections, net	(393,626)	(836,958)
Net change in restricted time certificates of deposit	(815,108)	(1,172)
Investment earnings	88,548	68,152
Net cash used in investing activities	(1,120,186)	(769,978)
Net change in cash and cash equivalents	(210,992)	244,792
Cash and cash equivalents at beginning of year	258,165	13,373
Cash and cash equivalents at end of year	$ 47,173	$ 258,165
Cash flows from operating activities:		
Operating loss	$ (387,154)	$ (47,013)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Provision for loan losses and bad debts	1,523,454	1,758,947
Depreciation	198,542	146,796
Provision for losses on foreclosed asset	35,000	35,000
Increase in assets:		
Receivables:		
Accrued interest	(162,311)	(793,519)
Other	(28,136)	(22,676)
Increase (decrease) in liabilities:		
Accounts payable	2,750	(2,101)
Accrued interest payable	10,511	(1,343)
Accrued expenses	101,800	49,066
Deposits pledged	70,636	177,060
Net cash provided by operating activities	$ 1,365,092	$ 1,300,217

See accompanying notes to financial statements.

MARSHALL ISLANDS DEVELOPMENT BANK

Statements of Cash Flows, Continued
Years Ended September 30, 2005 and 2004

	2005	2004
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 515,674	$ 546,202

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 Section 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 and Self-Help Housing Program Grants. 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.

GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus,* and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements establish financial reporting standards for governmental entities which require 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 34, retained earnings are presented in the following net assets categories:

- Invested 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, 2005 and 2004, 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.

(2) Summary of Significant Accounting Policies, Continued

- 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.

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 and valuation of foreclosed assets.

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.

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.

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents and Time Certificates of Deposit, Continued

Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified. As of September 30, 2005 and 2004, the carrying amounts of cash and cash equivalents and time certificates of deposit are $1,363,453 and $759,337, respectively, and the corresponding bank balances are $1,475,170 and $787,243, respectively. Of the bank balance amounts, $26,085 and $23,727, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. MIDB does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

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, any deferred fees or costs on originated loans, and unearned insurance premiums. Interest on loans is calculated using the simple interest method on daily balances of the principal amount outstanding. Loan origination fees are recognized and recorded as revenue upon receipt at the commencement of the loan agreement. 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.

Recognition of Revenues from Insurance Premiums and Loan Fees

MIDB commenced the recognition of loan insurance premium revenues in 2004 where loan insurance premiums are recognized and recorded as revenue when billed and collected. In 2005, the Bank adopted the Statement of Financial Accounting Standards No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases.* Loan origination fees and insurance premiums are deferred and recognized as income using the straight line method over the contractual life of the loans.

Adoption of New Accounting Standards

During fiscal year 2005, MIDB implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*, which 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.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1.* GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

(2) Summary of Significant Accounting Policies, Continued

Adoption of New Accounting Standards, Continued

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

In December 2004, GASB issued GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefits Expenditures/Expense and Liabilities by Cost-Sharing Employers*. GASB Technical Bulletin 2004-2 clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers. Management does not believe that the implementation of this pronouncement will have a material effect on the financial statements of MIDB.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 47 establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

Reclassifications

Certain reclassifications have been made to the 2004 financial statements in order to conform to the 2005 presentation.

(3) 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.

(3) Investments, Continued

A summary of MIDB's investments as of September 30, 2005 and 2004 is as follows:

	2005	2004
Bank of Marshall Islands	$ 393,748	$ 397,106
Air Marshall Islands, Inc.	-	-
	$ 393,748	$ 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 the outstanding shares of BOMI as of September 30, 2005 and 2004. During the years ended September 30, 2005 and 2004, dividend income earned from BOMI amounted to $85,190 and $68,152, respectively.

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, 2005 and 2004.

(4) Loans Receivable

Loans receivable as of September 30, 2005 and 2004 are summarized as follows:

	2005	2004
Investment Development Fund	$ 4,153,765	$ 4,398,187
Compact Section 211	1,291,877	1,373,487
Republic of the Marshall Islands	25,532,336	24,809,600
Housing Preservation Grant	16,064	19,410
Gross loans	30,994,042	30,600,414
Less: net deferred loan fees	(43,362)	-
Less: unearned premiums	(106,127)	-
Less: allowance for loan losses	(14,074,046)	(13,028,041)
	$ 16,770,507	$ 17,572,373

An analysis of the change in the allowance for loan losses during the years ended September 30, 2005 and 2004 is as follows:

	2005	2004
Beginning balance	$ 13,028,041	$ 12,099,399
Provision for loan losses	1,046,005	928,642
Ending balance	$ 14,074,046	$ 13,028,041

(4) Loans Receivable, Continued

Loans portfolio is comprised of consumer, housing and business loans. Majority of the 2005 and 2004 loan portfolio is unsecured, while remaining portion is secured by various forms of collateral. Additionally, these loans are cosigned by third parties. The basis for expected repayment of a majority of the consumer loans and housing loans is the continued employment of the borrower and allotment agreements between the Bank and the borrower's employer. All loans are at fixed rates ranging from 5.5% - 6.5% for Investment Development Fund loans, 4% - 6.5% for Compact Section 211 loans, 4% -12% for Republic of Marshall Islands loans, and 2%-6% for Housing Preservation Grant loans.

(5) Accrued Interest Receivable

Accrued interest receivable as of September 30, 2005 and 2004 is summarized as follows:

	2005	2004
Investment Development Fund	$ 1,688,829	$ 1,688,829
Compact Section 211	525,900	526,631
Republic of the Marshall Islands	2,057,817	1,894,776
Housing Preservation Grant	4,351	4,352
	4,276,897	4,114,588
Less: allowance for interest receivable losses	(4,113,958)	(3,636,509)
	$ 162,939	$ 478,079

An analysis of the change in the allowance for interest receivable losses during the years ended September 30, 2005 and 2004 is as follows:

	2005	2004
Beginning balance	$ 3,636,509	$ 2,806,204
Provision for interest receivable losses	477,449	830,305
Ending balance	$ 4,113,958	$ 3,636,509

(6) Restricted Time Certificates of Deposit

MIDB has time certificates of deposit as of September 30, 2005 and 2004 in the amount of $516,280 and $501,172, respectively, with an affiliate bank that are restricted to collateralize 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.

In addition, MIDB has a time certificate of deposit as of September 30, 2005 in the amount of $800,000 with an affiliate bank that is restricted to collateralize two outstanding loans of an investee company with the Bank. The two loans amounted to $400,000 each, with interest at 7.5% and 9.5% per annum, and mature in June and September 2007, respectively.

(7) Premises and Equipment

Capital assets activity during the years ended September 30, 2005 and 2004 is as follows:

	2005			
	October 1, 2004	Additions	Retirements	September 30, 2005
Building and houses	$ 1,895,244	$ 6,259	$ -	$ 1,901,503
Computer systems	155,397	15,109	-	170,506
Motor vehicles	72,328	44,000	-	116,328
Office furniture	46,349	9,418	-	55,767
Office equipment	36,912	193,914	-	230,826
	2,206,230	268,700	-	2,474,930
Less accumulated depreciation	(402,516)	(192,750)	-	(595,266)
	$ 1,803,714	$ 75,950	$ -	$ 1,879,664

	2004			
	October 1, 2003	Additions	Retirements	September 30, 2004
Building and houses	$ 1,712,190	$ 183,054	$ -	$ 1,895,244
Computer systems	150,323	5,074	-	155,397
Motor vehicles	72,328	-	-	72,328
Office furniture	45,303	1,046	-	46,349
Office equipment	34,367	2,545	-	36,912
	2,014,511	191,719	-	2,206,230
Less accumulated depreciation	(255,720)	(146,796)	-	(402,516)
	$ 1,758,791	$ 44,923	$ -	$ 1,803,714

(8) Foreclosed Assets

Foreclosed assets are presented net of an allowance for losses. Foreclosed assets as of September 30, 2005 and 2004 are summarized as follows:

	2005	2004
Foreclosed assets	$ 350,000	$ 350,000
Allowance for losses	(142,917)	(107,917)
	$ 207,083	$ 242,083

An analysis of the allowance for losses on foreclosed assets for the years ended September 30, 2005 and 2004 is as follows:

	2005	2004
Balance at beginning of year	$ 107,917	$ 72,917
Provision for losses	35,000	35,000
Balance at end of year	$ 142,917	$ 107,917

(9) Investment in Property

In April 2005, the Bank purchased property for $139,000, with the intention of selling this in the near future. Currently, the property is being rented out to tenants. Corresponding depreciation is recognized, using an estimated 10-year straight-line life. As of September 30, 2005, the property is presented net of accumulated depreciation of $5,792.

(10) Long-Term Debt

	2005	2004
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.	$ 3,600,000	$ 4,000,000
On January 13, 2004, MIDB entered into a $250,000 loan agreement with an affiliate bank. The loan is due February 4, 2005, bears interest at 5.5% per annum, and is payable in bi-weekly installments of $10,000, including interest. The loan is collateralized by a $300,000 time certificate of deposit.	-	96,716
	$ 3,600,000	$ 4,096,716

Annual debt service requirements to maturity for principal and interest are as follows:

Year ending September 30,	Principal	Interest	Total
2006	$ 400,000	$ 177,472	$ 577,472
2007	400,000	157,194	557,194
2008	400,000	137,278	537,278
2009	400,000	116,639	516,639
2010	400,000	96,361	496,361
2011-2014	1,600,000	175,280	1,775,280
	$ 3,600,000	$ 860,224	$ 4,460,224

Long-term debt changes during the years ended September 30, 2005 and 2004 are as follows:

	Balance October 1,	Additions	Reductions	Balance September 30,	Due Within One Year
2005:					
Loans payable	$ 4,096,716	$ -	$ (496,716)	$ 3,600,000	$ 400,000
2004:					
Loans payable	$ 4,400,000	$ 250,000	$ (553,284)	$ 4,096,716	$ 400,000

(11) Related Party Transactions

As of September 30, 2005 and 2004, MIDB has deposits with a bank of $1,336,968 and $735,210, respectively, in which MIDB has an equity investment. The deposits accrue interest at rates of 1% to 5% per annum. Interest earned for the years ended September 30, 2005 and 2004 amounted to $25,835 and $18,318, respectively. Bank charges incurred for the years ended September 30, 2005 and 2004 in connection with overdraft facilities amounted to $27,131 and $3,809, 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, 2005 and 2004, 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, 2005 and 2004 from affiliated entities amounted to $88,450 and $81,051, respectively, which are fully provided for in the allowance for interest receivable losses. All loans were made at normal commercial terms and conditions.

As of September 30, 2005 and 2004, MIDB employees have loans outstanding of $665,049 and $718,011, respectively. In addition, the directors of MIDB have loans outstanding as of September 30, 2005 and 2004, of $179,194 and $141,269, respectively. All loans were made at normal commercial terms and conditions.

As of September 30, 2005 and 2004, MIDB has outstanding certificates of deposit, totaling $7,840,603 and $7,539,041, respectively, payable to RepMar. The deposits are for fifteen-year and one-year terms and accrue interest at 4% per annum. The fifteen-year deposit is withdrawable in full or in part before maturity date with the consent of the Bank. Current portion of the deposits at September 30, 2005 and 2004, amounted to $1,901,987 and $539,041, respectively. As of September 30, 2005 and 2004, interest payable relating to these deposits amounted to $132,332 and $127,302, respectively, and are included within the statements of net assets as accrued interest payable.

On August 7, 2000, MIDB entered into an 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. The amount outstanding as of September 30, 2005 and 2004 is $24,973. As of September 30, 2005 and 2004, total interest accrued is $5,882 and $3,759, respectively.

(12) 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.

(13) Commitments and Contingency

Commitments

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, 2005, the customer's principal loan balance and accrued interest were $1,245,624 and $438,627, respectively. These balances are recorded as loans receivable and accrued interest receivable, respectively, within 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.

Future minimum lease payments under these leases are as follows:

Year ending September 30,	
2006	$ 8,290
2007	8,290
2008	8,290
2009	8,583
2010	8,680
2011-2015	44,083
2016-2020	46,033
2021-2025	37,149
2026-2029	19,013
	$ 188,409

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.

(14) Subsequent Events

On March 16, 2007, the Bank obtained a loan from Bank of Marshall Islands in the amount of $606,000, with interest at 7.5% per annum, and payable on September 16, 2007. The loan was obtained for the purpose of augmenting the need for an emergency fund for its operations. The loan is collateralized by a time certificate of deposit maintained with the lender with a value of $2,839,000 as of loan date.

MARSHALL ISLANDS DEVELOPMENT BANK

Combining Statement of Net Assets
September 30, 2005

ASSETS	Investment Development Fund	Section 211 Compact of Free Association	Republic of the Marshall Islands	Housing Preservation Grant	USDA Self-Help Housing Project	Elimination of Interfund Balances	Total
Cash and cash equivalents	$ 1,575,585	$ 2,269,295	(4,058,385)	$ 270,716	$ (10,038)	$ -	$ 47,173
Restricted time certificates of deposit	-	-	1,316,280	-	-	-	1,316,280
Investments	-	-	393,748	-	-	-	393,748
Receivables:							
Loans, net	17,097	-	16,753,355	55	-	-	16,770,507
Accrued interest, net	101	863	161,970	5	-	-	162,939
Other	50,225	-	171,731	-	11,710	-	233,666
Due from other funds	171,328	-	-	-	-	(171,328)	-
Premises and equipment, net	1,519,973	-	351,245	-	8,446	-	1,879,664
Foreclosed assets, net	207,083	-	-	-	-	-	207,083
Investment property held for sale, net	-	-	133,208	-	-	-	133,208
	$ 3,541,392	$ 2,270,158	$ 15,223,152	$ 270,776	$ 10,118	$ (171,328)	$ 21,144,268
LIABILITIES AND NET ASSETS							
Liabilities:							
Long-Term debt	$ -	$ -	$ 3,600,000	$ -	$ -	$ -	$ 3,600,000
RepMar deposit	-	-	7,840,603	-	-	-	7,840,603
Accrued interest payable	-	-	219,769	-	-	-	219,769
Accrued expenses	15,223		357,312	-	10,118	-	382,653
Due to other funds	-	-	171,328	-	-	(171,328)	-
Deposits pledged	-	-	845,288	-	-	-	845,288
Total liabilities	15,223	-	13,034,300	-	10,118	(171,328)	12,888,313
Net assets:							
Invested in capital assets	1,519,973	-	351,245	-	8,446	-	1,879,664
Restricted	-		-	270,776	(8,446)	-	262,330
Unrestricted	2,006,196	2,270,158	1,837,607	-	-	-	6,113,961
Total net assets	3,526,169	2,270,158	2,188,852	270,776	-	-	8,255,955
	$ 3,541,392	$ 2,270,158	$ 15,223,152	$ 270,776	$ 10,118	$ (171,328)	$ 21,144,268

See accompanying independent auditors' report.

MARSHALL ISLANDS DEVELOPMENT BANK

Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2005

	Investment Development Fund	Section 211 Compact of Free Association	Republic of the Marshall Islands	Housing Preservation Grant	USDA Self-Help Housing Project	Elimination of Interfund Balances	Total
Operating revenues:							
Interest income on loans, net of bad debts of $477,449	$ 23,616	$ 16,286	$ 2,184,032	$ (3,735)	$ -	$ -	2,220,199
Insurance premiums	-	-	166,661	-	-	-	166,661
Loan fees	-	-	38,974	-	-	-	38,974
Interest income on time certificates of deposit	-	-	25,835	-	-	-	25,835
Other	183,629	-	65,732	-	-	-	249,361
Total operating revenues	207,245	16,286	2,481,234	(3,735)	-	-	2,701,030
Provision for loan losses	(96,529)	200,938	929,467	12,129	-	-	1,046,005
Operating expenses:							
Interest expense:							
Interest on loans payable	-	-	195,722	-	-	-	195,722
Interest on deposits	-	-	319,952	-	-	-	319,952
Total interest expense	-	-	515,674	-	-	-	515,674
General and administrative expenses:							
Salaries and employee benefits	338,640	-	381,019	-	32,640	-	752,299
Depreciation	120,394	-	77,264	-	884	-	198,542
Utilities	67,753	-	85,724	-	-	-	153,477
Repairs and maintenance	65,037	-	17,666	-	339	-	83,042
Travel and training	9,369	-	40,344	-	6,012	-	55,725
Office and house rental	12,450	-	26,102	-	-	-	38,552
Printing, stationery and advertising	14,085	-	21,325	-	22	-	35,432
Foreclosed assets, net	35,000	-	-	-	-	-	35,000
Communications	13,476	-	16,913	-	35	-	30,424
Insurance	10,513	-	12,388	-	1,988	-	24,889
Professional fees	-	-	5,409	-	-	-	5,409
Miscellaneous	34,122	-	77,448	-	2,144	-	113,714
Total general and administrative expenses	720,839	-	761,602	-	44,064	-	1,526,505
Operating income (loss)	(417,065)	(184,652)	274,491	(15,864)	(44,064)	-	(387,154)
Nonoperating revenues:							
Contributions from RepMar	-	-	100,000	-	-	-	100,000
USDA grant	-	-	-	-	44,064	-	44,064
Investment earnings	-	-	85,190	-	-	-	85,190
Total nonoperating revenues	-	-	185,190	-	44,064	-	229,254
Change in net assets	(417,065)	(184,652)	459,681	(15,864)	-	-	(157,900)
Net assets at beginning of year	3,943,234	2,454,810	1,729,171	286,640	-	-	8,413,855
Net assets at end of year	$ 3,526,169	$ 2,270,158	$ 2,188,852	$ 270,776	$ -	$ -	$ 8,255,955

See accompanying independent auditors' report.