MARSHALL ISLANDS DEVELOPMENT BANK

(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALLS ISLANDS)

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2010 AND 2009

MARSHALL ISLANDS DEVELOPMENT BANK
(A Component Unit of the Republic of the Marshall Islands)

Years Ended September 30, 2010 and 2009
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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, 2010 and 2009, 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.

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marshall Islands Development Bank as of September 30, 2010 and 2009, and its changes in 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 required supplementary information. However, we did not audit the information and express no 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, 2010 (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 audit of the basic financial statements as of September 30, 2010 and for the year then ended and, in our opinion, is fairly stated in all material respects 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 12, 2011, 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 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 12, 2011

MARSHALL ISLANDS DEVELOPMENT BANK
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis
Year Ended September 30, 2010

Fiscal year October 1, 2009 to September 30, 2010 has been a productive year for the Marshall Islands Development Bank (MIDB). During the fiscal year, MIDB's resources were utilized to prioritize Consumer Loan Programs with the goal and purpose of improving the living standard and conditions of the people of the Republic of the Marshall Islands.

Management's Discussion and Analysis will give you an overview of MIDB's financial highlights and activities for the fiscal year ended September 30, 2010.

FINANCIAL HIGHLIGHTS

- MIDB's total net assets increased by **$1.19M or 10%** over the course of this year's operations. Net assets are funds from the RMI Government, the Housing Preservation Grant and the USDA Self-Help Housing Project, which increased collectively by **$1.19M**.

- Revenues virtually remained unchanged while Expenses decreased by $0.09M or 4%. MIDB earned $2.94M during the fiscal year, $2.38M of which was generated through Interest on loans. On the other hand, MIDB incurred various expenses for banking activities, broken down as $0.23M for Operating Expenses (interest expense), and $1.91M for General and Administrative Expenses. Other expense such as the Provision for Loan Loss of $0.31M was also provided. These expenses were funded by Interest Income on Loans and Other Income of $3.25M and by Contributions from RMI Government and other investment earnings of $0.40M.

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 incite on MIDB's resources, liabilities and net assets, MIDB's priority investments and performance results compared to previous year. At the end of the fiscal year 2010, MIDB's assets of $18.23M exceeded liabilities of $5.33M by $12.90M. However, $1.73M or 13% 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 MIDB during the course of its operation to provide services to the people and are assets that are not easily liquidated. As of September 30, 2010, Unrestricted Net Assets amounted to $11.17M, enough to repay all outstanding debts.

Summary of Statements of Net Assets

		2010	2009	2008
Assets	Cash and Cash Equivalent	$ 151,970	$ 17,179	$ 33,995
	Restricted TCD	576,393	548,492	549,833
	Loan Receivable, net	15,232,330	15,080,869	13,898,260
	Premises and Equipment, net	1,454,291	1,232,384	1,363,674
	Other Assets	813,602	793,741	840,928
	Total Assets	**18,228,586**	**17,672,665**	**16,686,690**
Liabilities	Loan Payable	1,779,767	2,274,976	2,400,000
	RepMar Deposit	1,716,236	2,628,328	2,064,511
	Other Liabilities	1,835,515	1,064,810	1,654,612
	Total Liabilities	**5,331,518**	**5,968,114**	**6,119,123**
Net Assets	Invested in Capital Assets	1,454,291	1,232,384	1,363,674
	Restricted	275,839	275,839	273,783
	Unrestricted	11,166,938	10,196,328	8,930,110
	Total Net Assets	**$ 12,897,068**	**$ 11,704,551**	**$ 10,567,567**

- Loan approvals for the year were approximately $17.12M, broken down by projects, $16.80M released under various consumer loans, $0.18M granted to housing loans, and $0.14M to business loans and joint USDA-MIDB loans. Loans Receivable, Net increased by $0.15M in 2010 compared with a $1.18M increase in 2009. Loans released increased from $16.29M to $17.12M during the fiscal years 2009 and 2010, respectively.

- The Government of the Marshall Islands invested $7M in a Certificate of Deposit at the rate of 4% in May 9, 2003, maturing May 8, 2018. The money received from such CD Payable was used to finance loans granted to RRE and PMI. RMI Government made withdrawals, net of deposits, during fiscal years 2008, 2009 and 2010 to finance some governmental operations and obligations. As of September 30, 2010, the Certificate Deposit of the RMI Government was $1.72M.

- MIDB continuously liquidates its long-term loan with International Commercial Bank of China (ICBC) by paying approximately $0.40M of principal every year. The loan with ICBC of $5M was granted in August 6, 1999 with an interest rate of 5% per annum, maturing in August 6, 2014 and no collateral or security was provided. As of September 30, 2010, outstanding principal balance of the ICBC loan was $1.6M.

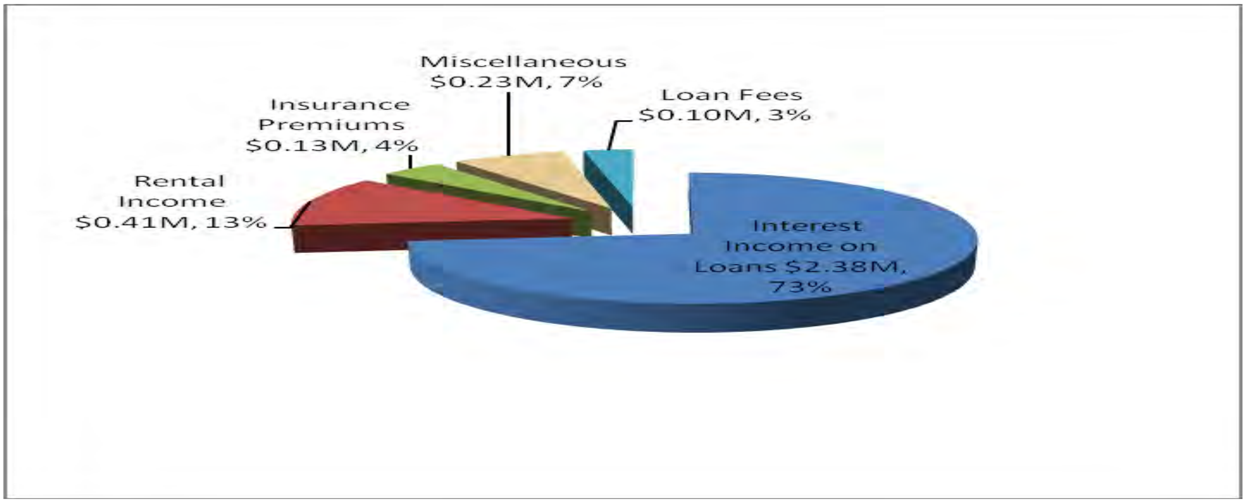
- MIDB availed of a $325K long-term loan with Bank of Marshall Islands (BOMI) on behalf of the Government of Marshall Islands on April 15, 2009. Interest payment shall be at an annual rate of 7.5% per annum until maturity date on March 28, 2012. All loan proceeds were issued to Air Marshall Islands. As of September 30, 2010, outstanding principal balance on BOMI loan was $180K. MIDB also availed of a $1.0M short-term loan with BOMI on behalf of Government of Marshall Islands in July 2010. Interest payment shall be at an annual rate of 7.5% per annum until maturity on May 6, 2011. All loan proceeds were used to fund partial withdrawals by RepMar from its Certificate of Deposit. As of September 30, 2010, the outstanding principal balance on BOMI loan was $764K.

A Summary of Statements of Revenues, Expenses and Changes in Net Assets is shown below that will give incite on MIDB's results of operations compared to previous year.

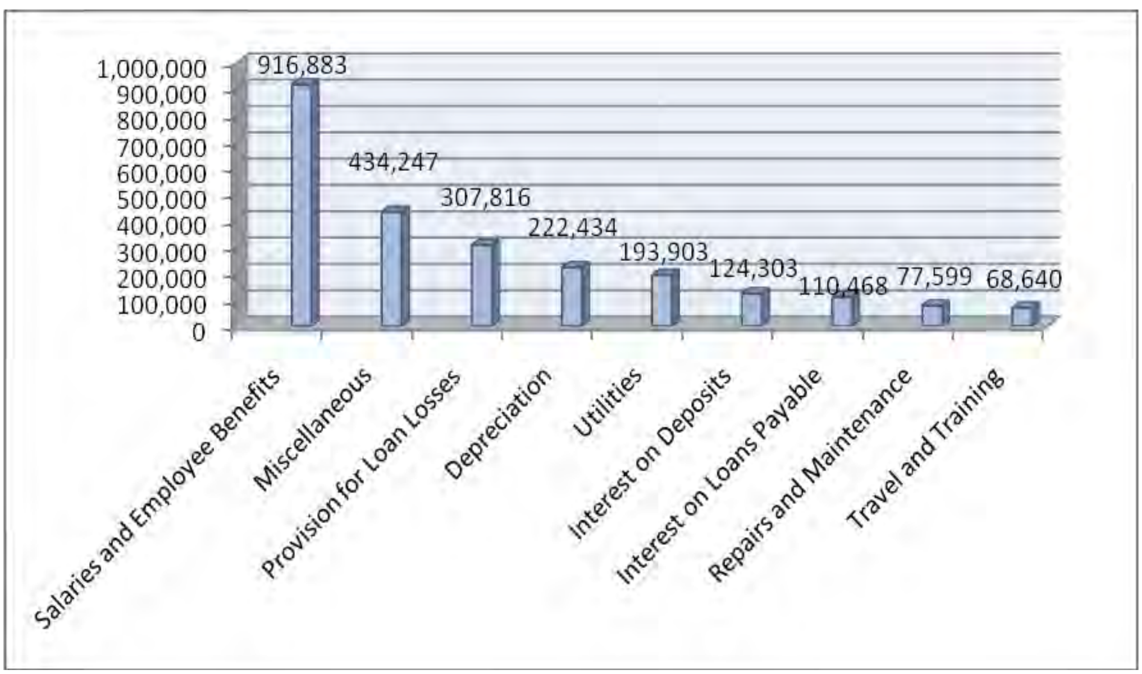
Summary of Statements of Revenues, Expenses and Changes in Net Assets

		2010		2009		2008
Operating Revenues	$	3,246,968	$	3,037,056	$	2,885,887
Less: Expenses						
Provision for loan losses		307,816		68,882		-
Operating expenses		234,771		258,154		302,704
General and administrative expenses		1,913,706		1,980,578		1,820,781
		2,456,293		2,307,614		2,123,485
Earnings from Operations		790,675		729,442		762,402
Non-operating Revenues(Expenses) Net		401,842		407,542		401,842
Increase in Net Assets		1,192,517		1,136,984		1,164,244
Net Assets at Beginning of Year		11,704,551		10,567,567		9,403,323
Net Assets at End of Year	**$**	**12,897,068**	**$**	**11,704,551**	$	**10,567,567**

- MIDB's total revenues (excluding Non-operating Revenues of $402K) for current year increased by $210K compared with fiscal year 2009. About 73% of MIDB's revenue comes from Interest Income on Loans, 80% and 15% of which are generated earnings from consumer loans and business loans, respectively. Please see the chart below depicting the distribution of MIDB's revenue.



- The total cost incurred increased by $149K compared to last year's operation. MIDB's expenses cover a range of operating, general and administrative expenses. Provision for delinquent loan accounts of $308K or 13% of Total Expenses was made for this fiscal year. Provision for delinquent loan accounts is provided based on MIDB's reasonable estimate, wherein the number of days an account is due, the amount of loan outstanding balance, and the borrower's capability to pay play a vital role in the computation of an additional allowance to be provided. The graph below will show itemized expenses and will give an over-all picture of MIDB's spending activities.



- Operating Expenses decreased by $23K during fiscal year ended September 30, 2010 compared to fiscal year ended September 30, 2009 due to a decrease in Interest on Loans. Interest on loans payable pertains to interest payments and accruals for Bank of Marshall Islands and International Commercial Bank of China (ICBC) loan which decreased by $0.09M and $0.40M, respectively.

- General and Administrative expenses on the aggregate decreased by $67K or 3% from last year's operation due to decrease in Repairs and Maintenance, Utilities and Depreciation.

Capital Assets and Debt

Significant capital asset activity during 2010 includes the purchase of a rental property from a loan customer in the amount of $250K. For additional information concerning capital assets, please refer to Note 7 to the financial statements. In addition to debt service, significant debt activity during 2010 includes obtaining a $1.0M short-term loan for the purpose of funding withdrawls from the RMI Certificate of Deposit. For additional information concerning debt, please refer to Notes 10 and 11 to the financial statements.

Management's Discussion and Analysis for the year ended September 30, 2009 is set forth in MIDB's report on the audit of financial statements, which is dated September 30, 2010. That Discussion and Analysis explains the major factors impacting the 2009 financial statements and can be obtained from MIDB's Managing Director at rmimidb@ntamar.net.

ECONOMIC OUTLOOK

In the next years to come, MIDB is continuing to expect growth in the demand for housing loans and commercial loans, the latter being the major component of MIDB's loan portfolio. MIDB is involved in improving the living conditions of the RMI people through the housing loan projects under Mutual Self Help Housing Projects and USDA Rural development.

MIDB is currently dependent on investments from RMI Government and its income from new loans. The net assets are just sufficient to pay for MIDB's outstanding debts. NIDB may have to look for other sources of funds to maintain the current portfolio and the rising demand for loans.

As more opportunities for work are available outside RMI, cost of living continues to rise and due to the prevalent economic crisis, Management is expecting that some borrowers may not be able to comply with their commitments to MIDB, thereby resulting in increased delinquent loans and decreased income.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide MIDB's customers and other stake holders with an overview of MIDB's operations and financial condition as at September 30, 2010. Should the reader have questions regarding the information included in this report, or wish to request additional financial information, please contact the Marshall Islands Development Bank Managing Director at the above email address or at P.O. Box 1048, Majuro, Marshall Islands, MH 96960.

MARSHALL ISLANDS DEVELOPMENT BANK
(A Component Unit of the Republic of the Marshall Islands)

Statements of Net Assets
September 30, 2010 and 2009

ASSETS	2010	2009
Cash and cash equivalents	$ 151,970	$ 17,179
Restricted time certificates of deposit	576,393	548,492
Investments	423,748	423,748
Receivables:		
Loans, net	15,232,330	15,080,869
Accrued interest, net	79,972	90,751
Other	214,091	134,551
Premises and equipment, net	1,454,291	1,232,384
Foreclosed assets, net	32,083	67,083
Investment property held for sale, net	63,708	77,608
	$ 18,228,586	$ 17,672,665

LIABILITIES AND NET ASSETS	2010	2009
Liabilities:		
Notes payable	$ 1,779,767	$ 2,274,976
Short-term debt	764,063	-
RepMar deposit	1,716,236	2,628,328
Accrued interest payable	20,159	91,738
Accrued expenses	302,214	339,825
Deposits pledged	749,079	633,247
Total liabilities	5,331,518	5,968,114
Commitments and contingency		
Net assets:		
Invested in capital assets	1,454,291	1,232,384
Restricted	275,839	275,839
Unrestricted	11,166,938	10,196,328
Total net assets	12,897,068	11,704,551
	$ 18,228,586	$ 17,672,665

See accompanying notes to financial statements.

MARSHALL ISLANDS DEVELOPMENT BANK
(A Component Unit of the Republic of the Marshall Islands)

Statements of Revenues, Expenses and Changes in Net Assets
September 30, 2010 and 2009

	2010	2009
Operating revenues:		
Interest income on loans	$ 2,378,794	$ 2,302,791
Rental income	405,625	296,295
Insurance premiums	134,409	127,008
Federal grants	113,816	116,365
Loan fees	100,792	114,925
Interest income on time certificates of deposit	29,016	27,612
Miscellaneous	84,516	52,060
Total operating revenues	3,246,968	3,037,056
Provision for loan losses	307,816	68,882
Net operating revenues	2,939,152	2,968,174
Operating expenses:		
Interest expense:		
Interest on deposits	124,303	116,478
Interest on loans payable	110,468	141,676
Total interest expense	234,771	258,154
General and administrative expenses:		
Salaries and employee benefits	916,883	864,795
Depreciation	222,434	254,464
Utilities	193,903	225,190
Repairs and maintenance	77,599	167,378
Travel and training	68,640	64,804
Insurance	54,704	48,542
Printing, stationery and advertising	70,126	45,180
Office and house rental	28,200	42,450
Communications	57,863	40,199
Foreclosed assets, net	35,000	35,000
Professional fees	31,825	33,925
Taxes and licenses	3,674	1,772
Miscellaneous	152,855	156,879
Total general and administrative expenses	1,913,706	1,980,578
Earnings from operations	790,675	729,442
Nonoperating revenues:		
Contributions from RepMar	248,500	250,000
Investment earnings	153,342	157,542
Total nonoperating revenues	401,842	407,542
Change in net assets	1,192,517	1,136,984
Net assets at beginning of year	11,704,551	10,567,567
Net assets at end of year	$ 12,897,068	$ 11,704,551

See accompanying notes to financial statements.

MARSHALL ISLANDS DEVELOPMENT BANK
(A Component Unit of the Republic of the Marshall Islands)

Statements of Cash Flows
September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from customers	$ 3,038,079	$ 2,910,356
Cash payments to suppliers for goods and services	(797,445)	(694,921)
Cash payments to employees for services	(887,164)	(867,510)
Interest received on time certificates of deposit	28,637	39,448
Interest paid	(306,350)	(244,558)
Operating grants received	113,816	116,365
Net cash provided by operating activities	1,189,573	1,259,180
Cash flows from noncapital financing activities:		
Net borrowings (repayments) under loan arrangement	764,063	(630,118)
Net change in RepMar deposit	(912,092)	563,817
Net change in pledged deposits	115,832	(101,684)
Contributions from RepMar	248,500	250,000
Net cash provided by noncapital financing activities	216,303	82,015
Cash flows from capital and related financing activities:		
Principal repayment of long-term debt	(495,209)	(450,024)
Proceeds from issuance of long-term debt	-	325,000
Additions to equipment	(291,948)	(109,274)
Net cash used in capital and related financing activities	(787,157)	(234,298)
Cash flows from investing activities:		
Loan originations and principal collections, net	(609,369)	(1,282,596)
Net change in restricted time certificates of deposit	(27,901)	1,341
Dividends received	153,342	157,542
Net cash used in investing activities	(483,928)	(1,123,713)
Net change in cash and cash equivalents	134,791	(16,816)
Cash and cash equivalents at beginning of year	17,179	33,995
Cash and cash equivalents at end of year	$ 151,970	$ 17,179
Cash flows from operating activities:		
Earnings from operations	$ 790,675	$ 729,442
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Provision for loan losses	307,816	68,882
Depreciation	222,434	254,464
Provision for losses on foreclosed asset	35,000	35,000
Decrease (increase) in assets:		
Receivables:		
Accrued interest	9,566	(23,943)
Other	(79,540)	12,113
Increase (decrease) in liabilities:		
Accrued interest payable	(71,579)	13,596
Accrued expenses	(37,611)	128,404
Deferred loan fees	(1,541)	10,787
Unearned premiums	14,353	30,435
Net cash provided by operating activities	$ 1,189,573	$ 1,259,180

Supplemental disclosure of non-cash financing activity:
On June 25, 2010, MIDB entered into a purchase agreement for a certain property for which the total purchase price was adjusted for the seller's outstanding loan balance of $138,493.

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 (USDA) 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.

MIDB's financial statements are incorporated into the financial statements of RepMar as a component unit.

(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 conforms to general practices within the banking industry, which includes the presentation of an unclassified statement of net assets.

GASB 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,* 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.

(2) Summary of Significant Accounting Policies, Continued

To conform to the requirements of GASB 34, equity is 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, 2010 and 2009, MIDB does not have nonexpendable net assets. Expendable - Net assets whose use by MIDB is subject to externally imposed stipulations that can be fulfilled by actions of MIDB pursuant to those stipulations or that expire by the passage of time.

- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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.

Classification of Revenues

MIDB has classified its revenues as either operating or nonoperating according to the following criteria:

- *Operating Revenues* - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) insurance premiums, loan fees and interest income on loans and Certificates of Deposit, (2) rental occupancy income associated with MIDB assets, and (3) USDA federal grant revenues.

- *Nonoperating Revenues* - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as RepMar appropriations and investment income.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform with the 2010 presentation.

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents and Time Certificates of Deposit

For purposes of the statements of net assets and cash flows, cash and cash equivalents is defined as amounts in demand deposits as well as short-term investments maturing within three months of the date acquired. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified.

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 MIDB or its agent in MIDB’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 MIDB'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 MIDB'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, MIDB’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. MIDB does not have a deposit policy for custodial credit risk.

As of September 30, 2010 and 2009, the carrying amounts of cash and cash equivalents and time certificates of deposit are $728,363 and $565,671 respectively, and the corresponding bank balances are $780,085 and $638,762, respectively. Of the bank balances, $12,144 and $13,535, 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.

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 cost 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 deferred and recognized as an adjustment of the related loan yield using the straight-line method over the contractual life of the loans. Direct loan origination costs are expensed as incurred. Differences between this method and the method prescribed by current accounting guidance are not significant and do not otherwise materially affect the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

Loans Receivable, Interest Receivable and Allowances for Losses, Continued

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.

Foreclosed Assets

Assets acquired through, or in lien of, loan foreclosures are held for sale and are initially recorded at the lower of loan carrying amount or 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.

Premises and Equipment

Premises and equipment with a cost that equals or exceeds $500 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
Trailers and mobile houses	5 years
Computer systems	5 years
Motor vehicles	3 years
Office furniture	5 years
Office equipment	5 years

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 Premium Revenues

Loan insurance premiums are generally recognized as revenue on a pro rata basis up to a three year term. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2010, MIDB implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.

- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* for calculating the annual required contribution (ARC) adjustment.

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of MIDB.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. 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

New Accounting Standards, Continued

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of MIDB.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 losses and valuation of foreclosed assets.

(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 MIDB or its agent in MIDB'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 MIDB'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 MIDB'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.

A summary of MIDB's investments as of September 30, 2010 and 2009 is as follows:

	2010	2009
Bank of Marshall Islands	$ 393,748	$ 393,748
Marshall Islands Service Corporation	30,000	30,000
	$ 423,748	$ 423,748

(3) Investments, Continued

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, 2010 and 2009. In addition, MIDB has an equity interest in Marshall Islands Service Corporation, an affiliate of BOMI. This investment is recorded at cost as MIDB does not exercise significant influence over the operating and financial policies of the investee. During the years ended September 30, 2010 and 2009, dividend income earned from investees amounted to $153,342 and $157,542, respectively.

(4) Loans Receivable

Loans receivable as of September 30, 2010 and 2009 are summarized as follows:

	2010	2009
Investment Development Fund	$ 4,094,747	$ 4,185,184
Compact Section 211	981,762	1,038,854
Republic of the Marshall Islands	25,724,688	25,134,018
Housing Preservation Grant	13,068	13,115
Gross loans	30,814,265	30,371,171
Less: net deferred loan fees	(77,510)	(79,051)
Less: unearned premiums	(207,835)	(193,482)
Less: allowance for loan losses	(15,296,590)	(15,017,769)
	$ 15,232,330	$ 15,080,869

An analysis of the change in the allowance for loan losses during the years ended September 30, 2010 and 2009 is as follows:

	2010	2009
Beginning balance	$ 15,017,769	$ 15,123,264
Provision for loan losses	306,603	58,765
Charge-offs	(27,782)	(164,260)
Ending balance	$ 15,296,590	$ 15,017,769

The loan portfolio is comprised of consumer, housing and business loans. The majority of the 2010 and 2009 loan portfolio is unsecured, while the remaining portion is secured by various forms of collateral. Additionally, these loans are normally 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 MIDB and the borrower's employer. All loans are at fixed rates ranging from 4.0% - 6.5% for Investment Development Fund loans, 4.0% - 6.5% for Compact Section 211 loans, 4.0% -14.0% for Republic of Marshall Islands loans, and 2.0%-6.0% for Housing Preservation Grant loans.

(4) Loans Receivable, Continued

Accrued interest receivable as of September 30, 2010 and 2009 is summarized as follows:

	2010	2009
Republic of the Marshall Islands	$ 93,732	$ 103,298
Less: allowance for doubtful interest	(13,760)	(12,547)
	$ 79,972	$ 90,751

An analysis of the change in the allowance for interest receivable losses during the years ended September 30, 2010 and 2009 is as follows:

	2010	2009
Beginning balance	$ 12,547	$ 8,188
Provision for loan losses	1,213	10,117
Charge-offs	-	(5,758)
Ending balance	$ 13,760	$ 12,547

(6) Restricted Time Certificates of Deposit

MIDB has time certificates of deposit as of September 30, 2010 and 2009 in the amount of $571,394 and $543,790, 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. On January 7, 2011, these deposits were pre-terminated to settle the notes payable with an affiliate bank with outstanding balance of $179,767 as of September 30, 2010. The remaining balance was transferred to MIDB's checking account.

In addition, MIDB has a time certificate of deposit as of September 30, 2010 and 2009 in the amount of $4,999 and $4,702, respectively, with an affiliate bank that is restricted to collateralize outstanding loans issued by an affiliate bank. At September 30, 2010 and 2009, these loans amounted to $24,043 and $20,598, respectively.

(7) Premises and Equipment

Capital asset activity during the years ended September 30, 2010 and 2009 is as follows:

	2010			
	October 1, 2009	Additions	Retirements	September 30, 2010
Building and houses	$ 1,928,480	$ 250,000	$ -	$ 2,178,480
Computer systems	214,295	31,097	-	245,392
Motor vehicles	122,516	39,945	-	162,461
Office furniture	46,970	6,568	-	53,538
Office equipment	361,116	13,510	-	374,626
	2,673,377	341,120	-	3,014,497
Less accumulated depreciation	(1,440,993)	(208,534)	-	(1,649,527)
	1,232,384	132,586	-	1,364,970
Construction in progress	-	89,321	-	89,321
	$ 1,232,384	$ 221,907	$ -	$ 1,454,291

	2009			
	October 1, 2008	Additions	Retirements	September 30, 2009
Building and houses	$ 1,911,480	$ 17,000	$ -	$ 1,928,480
Computer systems	201,467	23,067	(10,239)	214,295
Motor vehicles	122,516	-	-	122,516
Office furniture	59,811	-	(12,841)	46,970
Office equipment	295,687	69,207	(3,778)	361,116
	2,590,961	109,274	(26,858)	2,673,377
Less accumulated depreciation	(1,227,287)	(240,564)	26,858	(1,440,993)
	$ 1,363,674	$ (131,290)	$ -	$ 1,232,384

(8) Foreclosed Assets

Foreclosed assets are presented net of an allowance for losses. Foreclosed assets as of September 30, 2010 and 2009 are summarized as follows:

	2010	2009
Foreclosed assets	$ 350,000	$ 350,000
Allowance for losses	(317,917)	(282,917)
	$ 32,083	$ 67,083

An analysis of the allowance for losses on foreclosed assets for the years ended September 30, 2010 and 2009 is as follows:

	2010	2009
Balance at beginning of year	$ 282,917	$ 247,917
Provision for losses	35,000	35,000
Balance at end of year	$ 317,917	$ 282,917

(9) Investment in Property

In April 2005, MIDB purchased property for $139,000, with the intention of selling the property in the near future. Currently, the property is being leased to tenants. Depreciation is recognized by use of an estimated 10-year life and the straight line method. As of September 30, 2010 and 2009, the property is presented net of accumulated depreciation of $75,292 and $61,392, respectively. Depreciation expense of $13,900 was recognized during each of the years ended September 30, 2010 and 2009.

(10) Short-Term Debt

In July 2010, MIDB obtained a $1,000,000 loan from an affiliate bank with interest at 7.5% per annum and payable on May 6, 2011. The proceeds were used to fund partial withdrawals by RepMar from its certificate of deposit with MIDB. As of September 30, 2010, the amount outstanding and payable on this loan facility was $764,063.

Short-term debt changes during the years ended September 30, 2010 and 2009 are as follows:

	Balance October 1,	Drawdowns	Repayment	Balance September 30,
2010:				
Loan payable	$ -	$ 1,000,000	$ (235,937)	$ 764,063
2009:				
Loan payable	$ 630,118	$ -	$ (630,118)	$ -

(11) Notes Payable

On August 6, 1999, MIDB entered into a loan agreement with the Mega International Commercial Bank (formerly 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. As of September 30, 2010 and 2009, the amount outstanding and payable under this loan agreement was $1,600,000 and $2,000,000, respectively.

On April 15, 2009, MIDB obtained a loan from an affiliate bank in the amount of $325,000, interest at 7.5% per annum, payable in monthly installments of $10,000 inclusive of interest, and due on March 28, 2012. The proceeds were used to fund partial withdrawals by RepMar from its certificate of deposit with MIDB. As of September 30, 2010 and 2009, the amount outstanding and payable under this loan agreement was $179,767 and $274,976, respectively.

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

Year ending September 30,	Principal	Interest	Total
2011	$ 511,325	$ 78,740	$ 590,065
2012	468,442	57,658	526,100
2014	400,000	35,041	435,041
2015	400,000	15,250	415,250
	$ 1,779,767	$ 186,689	$ 1,966,456

(11) Notes Payable, Continued

Long-term debt changes during the years ended September 30, 2010 and 2009 are as follows:

	Balance October 1,	Additions	Reductions	Balance September 30,	Due Within One Year
2010:					
Notes payable	$ 2,274,976	$ -	$ (495,209)	$ 1,779,767	$ 511,325
2009:					
Notes payable	$ 2,400,000	$ 325,000	$ (450,024)	$ 2,274,976	$ 504,127

(12) Related Party Transactions

As of September 30, 2010 and 2009, MIDB has deposits with a bank of $767,941 and $625,227, respectively, in which MIDB has an equity investment. The deposits accrue interest at rates of 0.25% to 5.0% per annum. Interest earned for the years ended September 30, 2010 and 2009 was $29,016 and $27,612, respectively. Bank charges incurred for the years ended September 30, 2010 and 2009 in connection with overdraft facilities amounted to $937 and $1,750, respectively.

MIDB is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the Marshall Islands Development Authority. As of September 30, 2010 and 2009, MIDB has loans outstanding with affiliated entities of $185,000. These loans are fully provided for in the allowance for loan losses. All loans were made at normal commercial terms and conditions.

As of September 30, 2010 and 2009, MIDB employees have loans outstanding of $767,569 and $754,059, respectively. In addition, the directors of MIDB have loans outstanding as of September 30, 2010 and 2009, of $78,262 and $88,982, respectively. All loans were made at normal commercial terms and conditions.

As of September 30, 2010 and 2009, MIDB has an outstanding certificate of deposit, totaling $1,716,236 and $2,628,328, respectively, payable to RepMar. The deposit is for a fifteen-year term and accrues interest at 4% per annum. This deposit is withdrawable in full or in part before maturity date with the consent of MIDB. As of September 30, 2010 and 2009, interest payable relating to this deposit amounted to $6,681 and $39,603, respectively, and is 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, 2010 and 2009 is $24,973.

(13) 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.

(14) Commitments and Contingency

Commitments

On April 12, 1999, MIDB entered into an agreement to manage the 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 customer's outstanding 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 bring the loan current. As of September 30, 2010, the customer's balance was $1,599,745 which is fully provided for in the allowance for loan losses.

MIDB committed to guarantee certain loans recorded in the books of an affiliate bank, with principal balances totaling $24,043 and $20,598 as of September 30, 2010 and 2009, respectively. Further, certain loans recorded in the books of USDA are subject to MIDB guarantee, the balance of which amounted to $10,526,402 and $10,806,834 as of September 30, 2010 and 2009, respectively.

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.

On June14, 2010, MIDB entered into a fifty-year ground lease agreement for a portion of Kabilwe Weto property expiring on May 31, 2060.

Future minimum lease payments under these leases are as follows:

Year ending September 30,	
2011	$ 9,144
2012	9,144
2013	9,144
2014	9,437
2015	9,534
2016-2020	48,354
2021-2025	39,304
2026-2030	21,333
Thereafter	13,768
	$ 169,162

(14) Commitments and Contingency, Continued

Commitments, Continued

MIDB has entered into several lease agreements expiring over various years through September 30, 2029. Total future minimum lease income for subsequent years ending September 30 are as follows:

Years ending September 30,	
2011	$ 213,206
2012	188,206
2013	158,143
2014	113,450
2015	80,530
Thereafter	40,053
	$ 793,588

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.

(15) Subsequent Event

On January 7, 2011, MIDB repaid short-term debt of $143,709 and obtained a new loan of the same amount on January 10, 2011.

MARSHALL ISLANDS DEVELOPMENT BANK
(A Component Unit of the Republic of the Marshall Islands)

Combining Statement of Net Assets
September 30, 2010

ASSETS	Marshall Islands Development Bank	Housing Preservation Grant	USDA Self-Help Housing Project	Total
Cash and cash equivalents	$ (118,896)	$ 275,839	$ (4,973)	$ 151,970
Restricted time certificates of deposit	576,393	-	-	576,393
Investments	423,748	-	-	423,748
Receivables:				
Loans, net	15,232,330	-	-	15,232,330
Accrued interest, net	79,972	-	-	79,972
Other	204,111	-	9,980	214,091
Premises and equipment, net	1,454,291	-	-	1,454,291
Foreclosed assets, net	32,083	-	-	32,083
Investment property held for sale, net	63,708	-	-	63,708
	$ 17,947,740	$ 275,839	$ 5,007	$ 18,228,586
LIABILITIES AND NET ASSETS				
Liabilities:				
Notes payable	$ 1,779,767	$ -	$ -	$ 1,779,767
Short-term debt	764,063	-	-	764,063
RepMar deposit	1,716,236	-	-	1,716,236
Accrued interest payable	20,159	-	-	20,159
Accrued expenses	293,527	-	8,687	302,214
Deposits pledged	749,079	-	-	749,079
Total liabilities	5,322,831	-	8,687	5,331,518
Net assets:				
Invested in capital assets	1,454,291	-	-	1,454,291
Restricted	-	275,839	-	275,839
Unrestricted	11,170,618	-	(3,680)	11,166,938
Total net assets	12,624,909	275,839	(3,680)	12,897,068
	$ 17,947,740	$ 275,839	$ 5,007	$ 18,228,586

See accompanying independent auditors' report.

MARSHALL ISLANDS DEVELOPMENT BANK
(A Component Unit of the Republic of the Marshall Islands)

Combining Statement of Revenues, Expenses and Changes in Net Assets
September 30, 2010

	Marshall Islands Development Bank	Housing Preservation Grant	USDA Self-Help Housing Project	Total
Operating revenues:				
Interest income on loans	$ 2,378,794		$ -	$ 2,378,794
Rental income	405,625	-	-	405,625
Insurance premiums	134,409	-	-	134,409
Federal grants	-	-	113,816	113,816
Loan fees	100,792	-	-	100,792
Interest income on time certificates of deposit	28,986	-	30	29,016
Miscellaneous	84,516	-	-	84,516
Total operating revenues	3,133,122	-	113,846	3,246,968
Provision for loan losses	307,816	-	-	307,816
Net operating revenues	2,825,306	-	113,846	2,939,152
Operating expenses:				
Interest expense:				
Interest on deposits	124,303	-	-	124,303
Interest on loans payable	110,468	-	-	110,468
Total interest expense	234,771	-	-	234,771
General and administrative expenses:				
Salaries and employee benefits	818,641	-	98,242	916,883
Depreciation	222,434	-	-	222,434
Utilities	193,903	-	-	193,903
Repairs and maintenance	77,599	-	-	77,599
Travel and training	63,240	-	5,400	68,640
Insurance	50,514	-	4,190	54,704
Printing, stationery and advertising	70,126	-	-	70,126
Office and house rental	28,200	-	-	28,200
Communications	57,336	-	527	57,863
Foreclosed assets, net	35,000	-	-	35,000
Professional fees	30,669	-	1,156	31,825
Taxes and licenses	3,674	-	-	3,674
Miscellaneous	148,554	-	4,301	152,855
Total general and administrative expenses	1,799,890	-	113,816	1,913,706
Earnings from operations	790,645	-	30	790,675
Nonoperating revenues:				
Contributions from RepMar	248,500	-	-	248,500
Investment earnings	153,342	-	-	153,342
Total nonoperating revenues	401,842	-	-	401,842
Change in net assets	1,192,487	-	30	1,192,517
Net assets at beginning of year	11,432,422	275,839	(3,710)	11,704,551
Net assets at end of year	$ 12,624,909	$ 275,839	$ (3,680)	$ 12,897,068

See accompanying independent auditors' report.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Marshall Islands Development Bank:

We have audited the financial statements of the Marshall Islands Development Bank (MIDB) as of and for the year ended September 30, 2010, and have issued our report thereon dated August 12, 2011. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MIDB's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, 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.

A *deficiency in internal control* 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 *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses (pages 27 through 31) as item 2010-1 that we consider to be significant deficiencies. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MIDB's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2010-2 and 2010-3.

We noted certain matters that we reported to management of MIDB in a separate letter dated August 12, 2011.

MIDB's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit MIDB's response and, accordingly, we express no opinion on it.

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

Deloitte & Touche LLP

August 12, 2011

Finding No. 2010-1 – Loans Receivable

Criteria: Loan files and attendant recalculations should support the validity of underlying loan balances and calculations.

Conditions:

(a) Loan Origination Procedures

Procedures performed on loans originated during the year ended September 30, 2010 indicated the following documentation matters:

(1) Borrower: Loan No. 37006

- Note number per loan action sheet and loan drawdown forms is 35006.
- Amount per loan agreement and promissory document is $30,000 but is shown as $30,143 per the loan system.
- No loan disclosure, application form, credit check and insurance policy are on file.

(2) Borrower: Loan No. 36825

- No loan disclosure document, guarantor, consent from landowner, loan action sheet and insurance policy is on file.
- Loan exceeded the $30,000 maximum limit for housing loans.
- The loan agreement and the promissory note which were executed and signed on January 21, 2010 were notarized on December 11, 2011.

(3) Borrower: Loan No. 35078

- Loan exceeded the $15,000 maximum limit for consumer loans.
- Loan action sheet was not on file.

(4) Borrower: Loan No. 35010

- Loan disclosure and loan application form were signed by the borrower but not dated.
- The employment verification form is not filled-out.
- Only one credit check form was completed. All other credit checks were not filled-out.
- Loan exceeded the $15,000 maximum limit for consumer loans.
- Loan action sheet was not on file.

(5) Borrower: Loan No. 36827

- Loan action sheet was not on file.

Finding No. 2010-1 – Loans Receivable, Continued

(6) Borrower: Loan No. 36558

- Loan application form was signed by the borrower but not dated.
- The loan is secured by an assignment of salary. However, there is no assignment form on file.
- Loan exceeded the $15,000 maximum limit for consumer loans.
- Loan action sheet was not on file.

(7) Borrower: Loan No. 35635

- Loan application form was signed by the borrower but not dated.
- Loan action sheet was not on file.

(8) Borrower: Loan No. 35331

- Chattel mortgage security agreement was not signed by MIDB.
- Landowner consent used was dated March 8, 2007 pertaining to a different loan.
- The loan agreement and promissory note which were executed and signed on September 23, 2009 were notarized on January 14, 2011.
- Loan disclosure statement and loan action sheet are not on file.

(9) Borrower: Loan No. 40532

- Loan disclosure and application form was signed but not dated.
- Credit check forms were not completed and loan action sheet was not on file.

(b) Account Information/Data Input Errors

Test of various customer accounts revealed the following account information or data input errors.

(1) Interest rate for loan numbers 36944, 38205 and 40424 were incorrectly shown as 1% and 17% instead of 14% in the loan system. This data input error will result in both erroneous account information and interest calculations.

(2) The next payment due date loan numbers 37700 and 38319 were incorrect per the aging report. This data input error will result in both erroneous account information and number of days past due for aging analysis which is used as a basis for the valuation reserve calculation.

Cause: The cause of the above condition appears to be noncompliance with the criteria.

Effect: The effect of the above is noncompliance with the criteria and potential errors in the loan portfolio balances and in the financial statements.

Recommendation: We recommend that the above conditions be addressed and be resolved and that formal corrective action plans be established to resolve the above matters.

Finding No. 2010-1 – Loans Receivable, Continued

Prior Year Status: Similar issues on loan documentation have been reported as a finding in the audit of MIDB for fiscal years 2007 through 2009.

Auditee Response and Corrective Action Plan: Management's response to this finding is as follows:

(a) Loan Documentation Exceptions on New Loans Opened in 2010

(1) Borrower: Loan No. 37006
(2) Borrower: Loan No. 36825
(3) Borrower: Loan No. 35078
(4) Borrower: Loan No. 35010
(5) Borrower: Loan No. 36827
(6) Borrower: Loan No. 36558
(7) Borrower: Loan No. 35635
(8) Borrower: Loan No. 35331
(9) Borrower: Loan No. 40532

Management has already met with the Loan Officers to correct and resolve these findings relating to the above loans. Some of the findings are concerning the terms of loans, interest and maximum amounts of loans. See attached Policies on Loans. Action sheets are no longer required as information are inputted directly from loan files.

(b) Additional Information/Date Input Errors

(1) Borrower: Loan No. 36944
(2) Borrower: Loan No. 38205
(3) Borrower: Loan No. 40424

The errors on the above loans have already been corrected.

Finding No. 2010-2 – Local Noncompliance

Criteria: RepMar's Procurement Code states the following:

(a) Section 124 – unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.

(b) Section 127 – procurement of goods and services not exceeding $25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than $25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

(c) Section 128 – a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Conditions: The following items contained documentation that was inadequate to evidence the procurement process.

Check #	Invoice #	Description	Amount
45426	0795 & 0796	Materials per order #0795-0796 for Wotje building	$ 18,912
44327	14216	Materials per order #0763 for Wotje building	$ 9,322
43519	9952	JAC Flat-bed truck	$ 17,995
48844	I -12947	Nissan Tiida Sedan	$ 21,950

Cause: The cause of the above condition is the lack of adequate control policies and procedures requiring documentation of procurement procedures to establish compliance with RepMar's Procurement Code.

Effect: The effect of the above condition is potential noncompliance with RepMar's Procurement Code.

Recommendation: We recommend that management establish adequate control policies and procedures to comply with RepMar's Procurement Code.

Auditee Response and Corrective Action Plan: The Bank is not aware of these requirements. We've been doing this since the establishment of the Bank, however, most of the time we do check and compare prices before purchasing. Before a purchase is made (for construction materials), lists of the materials are submitted to local suppliers for quotations, and the bank always go for the cheapest, but sometimes the cheapest are not the best, and we always go for the best deal. Same is true with the purchase of vehicles. Anyway, if that's what the law requires, the Bank will soon comply with the requirements.

Finding No. 2010-3 – Memorandum of Understanding (MOU) for Rural Housing Service

Criteria: In accordance with the MOU for the Rural Housing Service (RHS), MIDB shall set-up an escrow account with an initial deposit at a minimum amount of $500,000. These accounts will be used as a reserve to partially satisfy MIDB's obligation under its agreement with RHS and the principal may not be used for any other purpose.

Conditions: MIDB obtained a loan from a local bank and used the escrow account as loan collateral.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring compliance with existing agreements.

Effect: The effect of the above condition is noncompliance with the MOU's contractual provisions.

Recommendation: We recommend that management establish adequate internal control policies and procedures requiring compliance with contractual provisions of existing and future agreements.

Auditee Response and Corrective Action Plan: The MOU only states that the "the principal may not be used for any other purposes"). Besides, the Bank never used the principal to pay for anything. We only committed it to secured loans. There was no intention on our part to use the escrow accounts as a source for loan repayments.

Unresolved Prior Year Findings
Year Ended September 30, 2010

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section (pages 27 through 31) of this report.