

October 13, 2006

CONFIDENTIAL

Mr. Amon Tibon
Managing Director
Marshall Islands Development Bank

Dear Mr. Tibon:

In planning and performing our audit of the financial statements of the Marshall Islands Development Bank (MIDB) for the nine months ended September 30, 2002, on which we have issued our report dated October 13, 2006, which report was qualified due to our inability to determine the propriety of the carrying value of loans and accrued interest receivables, we developed the following recommendations concerning certain matters related to MIDB's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

(1) Payroll

The payroll function lacks appropriate segregation of duties as the individual who processes payroll can also access payroll master files. We recommend that management ensure proper segregation of duties over the payroll function.

(2) Payroll

Personnel action forms/contracts were not made available for three employees tested. Additionally, allotment forms for these employees and one timecard for the pay period ended May 16, 2002 were not made available. We recommend that management ensure that authorized allotment forms and timecards are retained.

(3) Investments

At September 30, 2002, MIDB recorded an investment in Bank of Marshall Islands (BOMI) totaling \$397,106, which represents 34,222 shares. BOMI confirmed that the total number of shares owned is 34,076. Although we do not consider the variance of 146 shares to be material to the financial statements, we recommend that management ensure that the number of shares is accurately recorded.

(4) Other Receivables

As of September 30, 2002, MIDB recorded other receivables totaling \$175,355, which included \$29,421 in credit card usage for personal charges as well as salary advances and unliquidated travel advances due from a director and management. We recommend that management establish a formal policy regarding the use of the corporate credit card, including a restriction on the use of the credit card for personal charges. Furthermore, we recommend that this policy be formally authorized by the Board of Directors. We also recommend that management ensure that travel advances are liquidated in accordance with established policies and procedures, whereby, the traveler is required to close the travel authorization after completion of the trip. This matter was discussed in our previous letters dated October 31, 2003, January 21, 2003, August 6, 2001, October 25, 1999 and November 26, 1998.

(5) Fixed Assets

The subsidiary fixed asset register includes computer software that was never installed or used. An audit adjustment was proposed in the prior year to remove this asset from the general ledger. We have re-proposed this same adjustment. We recommend that management ensure that the fixed asset register is properly updated for asset disposals.

(6) Fixed Assets

The location of one item could not be determined due to insufficient information contained in the subsidiary fixed asset register. We recommend that management ensure that relevant information is included in the subsidiary fixed asset register, including asset location and identification number.

(7) Accrued Expenses

At September 30, 2002, MIDB did not record credit life insurance premiums payable. Additionally, no subsidiary ledger was maintained for this liability. Alternative audit procedures performed indicated that MIDB had a related payable of \$145,433 at September 30, 2002, and an audit adjustment was proposed to record this amount. Premiums were not paid in a timely manner and certain premiums charged to borrowers were not reported and paid to the insurer. We recommend that management ensure that liabilities are properly recorded and paid in a timely manner.

(8) Accrued Expenses

At September 30, 2002, an allotment payable account (A/c # 2504) reflected a debit balance totaling \$6,244. This balance resulted from payments of employee allotments without being deducted from employees. We recommend that management ensure that allotments are paid based on actual amounts deducted. This matter was discussed in our previous letter dated October 31, 2003.

(9) Accrued Expenses

At September 30, 2002, MIDB recorded social security taxes payable totaling \$55,513 (A/c # 2200), which included unreported contributions for the quarter ended December 31, 2000. We recommend that management ensure that social security contributions are reported and paid in a timely manner. This matter was discussed in our previous letter dated October 31, 2003.

(10) Savings Supporting Pledge

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

(11) Savings Supporting Pledge

The supporting pledge savings account included debit balances totaling \$80,275 at September 30, 2002, which represented overpayments to depositors. An audit adjustment was proposed to reclassify the amount to other receivables. We recommend that management ensure that the supporting pledge savings account is reconciled to ensure that further overpayments do not occur. Further, we recommend that steps be taken to collect the overpayments. This matter was reported as a finding in the Single Audit of MIDB for fiscal year 2001.

(12) Savings Supporting Pledge

Advances by MIDB totaling \$33,012 at September 30, 2002 for repair costs related to a managed property are recorded in the supporting pledge savings account rather than as receivables. In addition, the supporting pledge savings account includes \$2,059 which was refunded to the depositor during the period. We recommend that advances and refunds be properly recorded.

(13) Loans Payable

During the nine months ended September 30, 2002, MIDB recorded a loan principal payment totaling \$200,000 as a loan interest payment. An audit adjustment was proposed to properly record the payment. We recommend that management ensure that loan payments are properly recorded.

(14) Loan Fees

Statement of Financial Account Standards (SFAS) No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, establishes the accounting for loan origination fees and costs. Loan origination fees, net of direct loans origination costs, should be deferred and recognized over the contractual life of the loan as an adjustment of yield using the interest method. During the nine months ended September 30, 2002, MIDB recognized loan origination fees of \$28,489 as income. No portion of this amount was deferred to be recognized in future periods. Although we do not consider the effect of this condition to be material to the financial statements, we recommend that management recognize loan origination fees in accordance with SFAS No. 91. This matter was discussed in our previous letters dated October 31, 2003, January 21, 2003 and August 6, 2001.

(15) Dividend Income

At September 30, 2002, MIDB recorded dividend income totaling \$39,000, which represented income earned and recognized in fiscal year 2001. An audit adjustment was proposed to record fiscal year 2002 dividend income of \$51,114. We recommend that management ensure that dividend income is properly recorded.

Mr. Amon Tibon
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October 13, 2006

Page 4

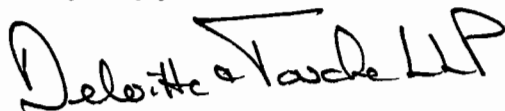
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We have previously communicated certain matters noted during our audit of the financial statements of MIDB for the nine months ended September 30, 2002, which we considered to be reportable conditions, in our report to the Board of Directors dated October 13, 2006.

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

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

Very truly yours,

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.