

MARSHALL ISLANDS DEVELOPMENT BANK

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2006 AND 2005

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, 2006 and 2005, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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.

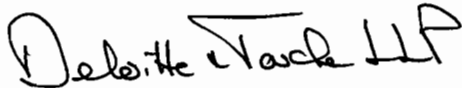
As more fully described in note 2 to the financial statements, MIDB, in 2004, recorded certain revenues related to insurance premiums and loan origination fees as they were billed and collected. In our opinion, such revenues should be recorded as they are earned over the contractual life of the loan to conform with accounting principles generally accepted in the United States of America. Because of the carryover effects of that departure on the financial statements at September 30, 2005, which we deemed not reasonably determinable, we were not able to form an opinion regarding the amount at which insurance premiums and loan origination fees are recorded in the accompanying statement of revenues, expenses and change in net assets for the year ended September 30, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves had MIDB properly corrected the insurance premiums and loan origination fees in 2005, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of MIDB as of September 30, 2006 and 2005, 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, 2006 (pages 22 and 23) 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, 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 31, 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.

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

August 31, 2007

MARSHALL ISLANDS DEVELOPMENT BANK

Management's Discussion and Analysis Year Ended September 30, 2006

Fiscal year October 1, 2005 to September 30, 2006 has been a productive year for 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, 2006.

FINANCIAL HIGHLIGHTS

- MIDB's total net assets increased by \$.33M or 4% over the course of this year's operation. Net assets of funds coming from the Section 111 Compact of Free Association, Section 211 Compact of Free Association, RMI Government and Housing Preservation Grant increased by \$39,591, \$117,224, \$172,423, and \$2, respectively.
- Revenues and Expenses virtually remained unchanged. MIDB earned \$3.32M during the fiscal year, \$2.19M was generated by interest on loans. On the other hand, the Bank incurred \$3.0M in expenses for banking activities, broken down as \$.50M on operating expenses, \$.84M on Provision for Loan Losses, and \$1.66M on General and Administrative Expenses. These expenses were funded by interest income on loans and other income of \$2.86M and by contributions from the RMI Government and USDA Rural Development of \$.46M.

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 2006, MIDB's assets of \$19.04M exceeded liabilities of \$10.45M by \$8.59M. However, \$1.97M or 23% 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, 2006, Unrestricted Net Assets amounted to \$6.62M, 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

			<u>2006</u>		<u>2005</u>		<u>2004</u>
Assets	Cash and Cash Equivalent	\$	2,385,783	\$	47,173	\$	258,165
	Loan Receivable, net		11,560,653		16,770,507		17,572,373
	Premises and Equipment, net		1,704,584		1,879,664		1,803,714
	Other Assets		3,385,501		2,446,924		1,823,971
	Total Assets	\$	19,036,521	\$	21,144,268	\$	21,458,223
Liabilities	Loan Payable	\$	3,200,000	\$	3,600,000	\$	4,096,716
	RepMar Deposit		5,669,213		7,539,041		7,539,041
	Other Liabilities		1,582,113		1,749,272		1,408,611
	Total Liabilities	\$	10,451,326	\$	12,888,313	\$	13,044,368

MARSHALL ISLANDS DEVELOPMENT BANK

Management's Discussion and Analysis Year Ended September 30, 2006

Summary of Statements of Net Assets, Continued

			2006		2005		2004
Net Assets	Investment in Capital Assets	\$	1,704,584	\$	1,879,664	\$	1,803,714
	Restricted		262,236		262,330		2,981,450
	Unrestricted		6,618,375		6,113,961		3,628,691
	Total Net Assets	\$	8,585,195	\$	8,255,955	\$	8,413,855

- Cash and cash equivalents increased tremendously due to increase in unrestricted time certificate of deposits (TCD) with Bank of Marshall Islands. Collections were invested in TCDs instead of loans. During fiscal year 2006, management has agreed to slow down the issuance of loans to maximize the use of its manpower to expedite the updating of both the Loan System and Accounting System.
- Loan approvals for the year were approximately \$7.87M, broken down by projects, \$7.64M was released under various consumer loans, \$.15M was granted to housing loans and \$80K to business loans. Loans receivable net decreased by \$5.21M due to collections and decrease in loans processed and granted during the fiscal year. Loan issuance decreased by \$3.77M from \$11.64M to \$7.87M during the fiscal years 2005 and 2006, respectively.
- The Government of the Marshall Islands invested \$7M in 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, the RMI Government withdrew \$1.9M to finance some governmental operations.
- 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, 2006 outstanding principal balance on ICBC loan was \$3.2M. Additional information on MIDB's long-term debt can be found in note 10 to the financial statements:

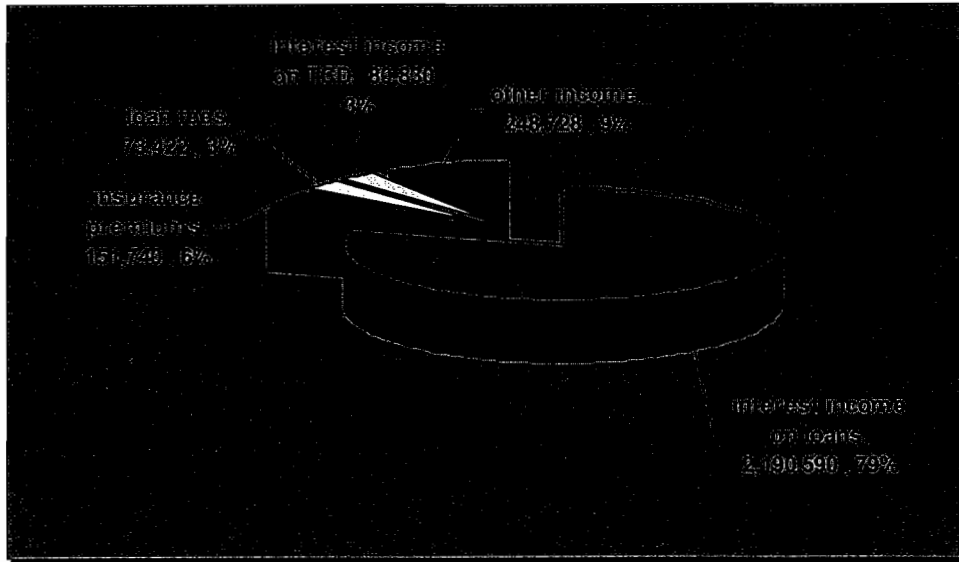
Summary of Statements of Revenues, Expenses and Changes in Net Assets

		2006		2005		2004
Operating Revenues	\$	2,745,310	\$	2,701,030	\$	2,749,192
Less: Expenses						
Provision for loan losses		842,443		1,046,005		928,642
Operating expenses		500,243		515,674		544,859
General and administrative expenses		1,656,222		1,526,505		1,322,704
Loss from Operations		(253,598)		(387,154)		(47,013)
Non-operating Revenues(Expenses), Net		582,838		229,254		275,152
Increase (Decrease) in Net Assets		329,240		(157,900)		228,139
Net Assets at Beginning of Year		8,255,955		8,413,855		8,185,716
Net Assets at End of Year	\$	8,585,195	\$	8,255,955	\$	8,413,855

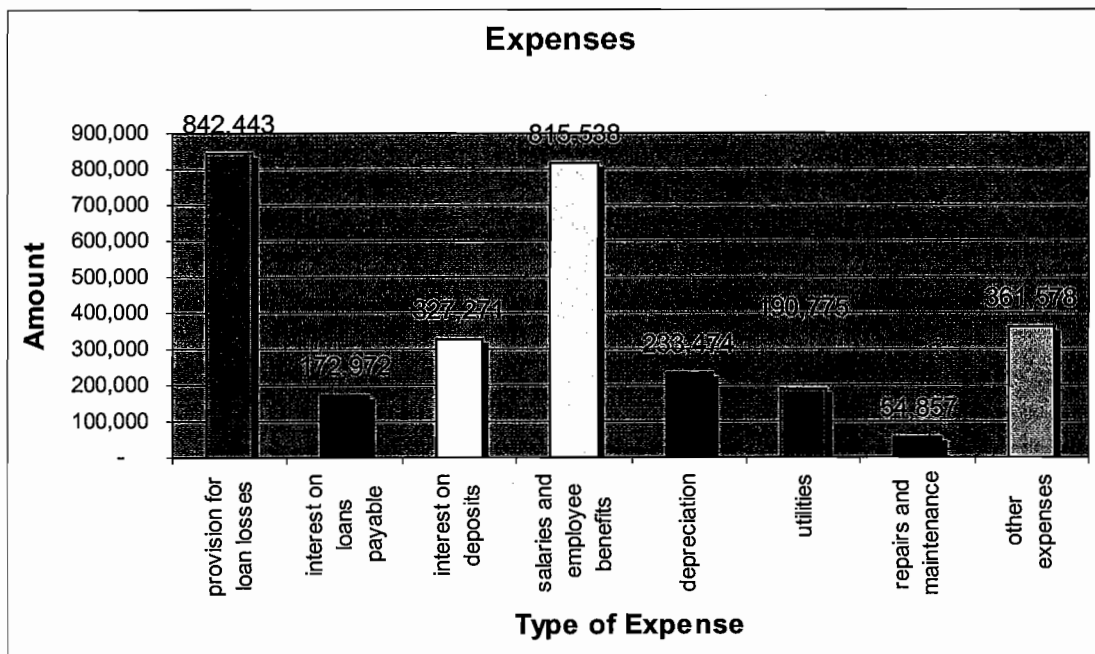
MARSHALL ISLANDS DEVELOPMENT BANK

Management's Discussion and Analysis Year Ended September 30, 2006

- The Bank's total revenues (excluding Non-operating Revenues) virtually remained unchanged comparing fiscal years ended September 30, 2006 and September 30, 2005. More than 79% 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 effectively remained unchanged compared 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 \$.84M and \$1.05M or 28% and 34% of total expenses for fiscal years ended September 30, 2006 and September 30, 2005, 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.



MARSHALL ISLANDS DEVELOPMENT BANK

Management's Discussion and Analysis Year Ended September 30, 2006

- Operating Expenses effectively remained unchanged during fiscal year ended September 30, 2006 compared to fiscal year ended September 30, 2005. Operating expenses pertain to interest on loans payable and interest on deposits. Interest expenses on loans pertain to interest payments and accruals on the International Commercial Bank of China (ICBC) loan. Interest expenses on loans payable decreased by \$.02M or 12% during the course of this year's operation. 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 \$.13M or 8.5% from last year's operation due to increase in salaries, depreciation, and utilities. Salaries and employee benefits as well as utility expenses rose up by \$.10M or 11.10% due to overtime of accounting staffs in order to expedite the updating of the Loan System and the Accounting System. Depreciation expenses went up compared to fiscal year 2005 due to the acquisition of an investment house for sale amounting to \$.14M, a PorterII Diesel pick-up truck amounting to \$18K and various computer equipments. Additional information on MIDB's capital assets can be found in note 7 to the financial statements.

Management's Discussion and Analysis for the year ended September 30, 2005 is set forth in the Bank's report on the audit of financial statements, which is dated August 28, 2007. That Discussion and Analysis explains the major factors impacting the 2005 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, 2006 and 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 2,385,783	\$ 47,173
Restricted time certificates of deposit	2,148,970	1,316,280
Investments	423,748	393,748
Receivables:		
Loans, net	11,560,653	16,770,507
Accrued interest, net	186,432	162,939
Other	334,960	233,666
Premises and equipment, net	1,704,584	1,879,664
Foreclosed assets, net	172,083	207,083
Investment property held for sale, net	119,308	133,208
	<u>\$ 19,036,521</u>	<u>\$ 21,144,268</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Long-term debt	\$ 3,200,000	\$ 3,600,000
RepMar deposit	5,669,213	7,539,041
Accrued interest payable	202,067	521,331
Accrued expenses	379,820	382,653
Deposits pledged	1,000,226	845,288
Total liabilities	<u>10,451,326</u>	<u>12,888,313</u>
Commitments and contingency		
Net assets:		
Invested in capital assets	1,704,584	1,879,664
Restricted	262,236	262,330
Unrestricted	6,618,375	6,113,961
Total net assets	<u>8,585,195</u>	<u>8,255,955</u>
	<u>\$ 19,036,521</u>	<u>\$ 21,144,268</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS DEVELOPMENT BANK

Statements of Revenues, Expenses and Changes in Net Assets September 30, 2006 and 2005

	2006	2005
Operating revenues:		
Interest income on loans (net of bad debts of \$200,772 and \$477,449 as of September 30, 2006 and 2005, respectively)	\$ 2,190,590	\$ 2,220,199
Insurance premiums	151,740	166,661
Loan fees	73,422	38,974
Interest income on time certificates of deposit	80,830	25,835
Other	248,728	249,361
Total operating revenues	2,745,310	2,701,030
Provision for loan losses	842,443	1,046,005
Operating expenses:		
Interest expense:		
Interest on loans payable	172,972	195,722
Interest on deposits	327,271	319,952
Total interest expense	500,243	515,674
General and administrative expenses:		
Salaries and employee benefits	815,538	752,299
Depreciation	233,474	198,542
Utilities	190,775	153,477
Repairs and maintenance	54,857	83,042
Travel and training	54,742	55,725
Printing, stationery and advertising	42,331	35,432
Office and house rental	37,467	38,552
Foreclosed assets, net	35,000	35,000
Communications	29,526	30,424
Taxes and licenses	22,939	590
Insurance	21,900	24,889
Professional fees	2,395	5,409
Miscellaneous	115,278	113,124
Total general and administrative expenses	1,656,222	1,526,505
Operating loss	(253,598)	(387,154)
Nonoperating revenues:		
Contributions from RepMar	347,300	100,000
Federal grants	116,272	44,064
Investment earnings	119,266	85,190
Total nonoperating revenues	582,838	229,254
Change in net assets	329,240	(157,900)
Net assets at beginning of year	8,255,955	8,413,855
Net assets at end of year	\$ 8,585,195	\$ 8,255,955

See accompanying notes to financial statements.

MARSHALL ISLANDS DEVELOPMENT BANK

Statements of Cash Flows
September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,775,461	\$ 3,058,671
Cash payments to suppliers for goods and services	(492,567)	(657,506)
Cash payments to employees for services	(898,014)	(677,505)
Interest paid	<u>(819,507)</u>	<u>(203,601)</u>
Net cash provided by operating activities	<u>565,373</u>	<u>1,520,059</u>
Cash flows from noncapital financing activities:		
Net change in RepMar deposit	(1,869,828)	-
Contributions from RepMar	347,300	100,000
Federal grants	<u>116,272</u>	<u>44,064</u>
Net cash provided by (used in) noncapital financing activities	<u>(1,406,256)</u>	<u>144,064</u>
Cash flows from capital and related financing activities:		
Principal repayment of long-term debt	(400,000)	(496,716)
Purchase of investment property	-	(139,000)
Additions to equipment	<u>(44,494)</u>	<u>(268,700)</u>
Net cash used in capital and related financing activities	<u>(444,494)</u>	<u>(904,416)</u>
Cash flows from investing activities:		
Loan originations and principal collections, net	4,367,411	(244,139)
Net change in restricted time certificates of deposit	(832,690)	(815,108)
Purchase of shares of common stock	(30,000)	-
Proceeds from sale of common stock	-	3,358
Investment earnings	<u>119,266</u>	<u>85,190</u>
Net cash provided by (used in) investing activities	<u>3,623,987</u>	<u>(970,699)</u>
Net change in cash and cash equivalents	2,338,610	(210,992)
Cash and cash equivalents at beginning of year	<u>47,173</u>	<u>258,165</u>
Cash and cash equivalents at end of year	<u>\$ 2,385,783</u>	<u>\$ 47,173</u>
Cash flows from operating activities:		
Operating loss	\$ (253,598)	\$ (387,154)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Provision for loan losses and bad debts	1,043,215	1,523,454
Depreciation	233,474	198,542
Provision for losses on foreclosed asset	35,000	35,000
Increase in assets:		
Receivables:		
Accrued interest	(224,265)	(162,309)
Other	(101,294)	(28,135)
Increase (decrease) in liabilities:		
Accrued interest payable	(319,264)	312,073
Accrued expenses	(2,833)	(42,048)
Deposits pledged	<u>154,938</u>	<u>70,636</u>
Net cash provided by operating activities	<u>\$ 565,373</u>	<u>\$ 1,520,059</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
September 30, 2006 and 2005

(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, 2006 and 2005, 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.

MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
September 30, 2006 and 2005

(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.

MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
September 30, 2006 and 2005

(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, 2006 and 2005, the carrying amounts of cash and cash equivalents and time certificates of deposit are \$4,534,753 and \$1,363,453, respectively, and the corresponding bank balances are \$4,573,373 and \$1,475,170, respectively. Of the bank balance amounts, \$150,433 and \$26,085, 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 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 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

MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
September 30, 2006 and 2005

(2) Summary of Significant Accounting Policies, Continued

Foreclosed Assets

Assets acquired through, or in lieu 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 Premium Revenues

MIDB commenced the recognition of loan insurance premium revenues in 2004 where loan insurance premiums were recorded as revenue when billed and collected. In 2005, MIDB 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.

Reclassifications

Certain reclassifications have been made to the 2005 financial statements in order to conform to the 2006 presentation.

Adoption of New Accounting Standards

During fiscal year 2006, MIDB implemented the following pronouncements:

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*, which 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.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34*, which improves the understandability and comparability of net assets information by making the assessment of legal enforceability more uniform across governments. This Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation.

GASB Statement No. 47, *Accounting for Termination Benefits*, which requires employees to disclose a description of the termination benefit arrangement, the cost of termination benefits, and significance methods and assumptions used to determine termination benefits liabilities.

MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
September 30, 2006 and 2005

(2) Summary of Significant Accounting Policies, Continued

Adoption of New Accounting Standards, Continued

GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefits Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which 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.

Implementation of the above pronouncements had no material impact on the accompanying financial statements of MIDB.

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 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 September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

(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.

MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
September 30, 2006 and 2005

(3) Investments, Continued

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, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Bank of Marshall Islands	\$ 393,748	\$ 393,748
Marshall Islands Service Corporation	30,000	-
Air Marshall Islands, Inc.	<u>-</u>	<u>-</u>
	<u>\$ 423,748</u>	<u>\$ 393,748</u>

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, 2006 and 2005. During the years ended September 30, 2006 and 2005, dividend income earned from BOMI amounted to \$119,266 and \$85,190, respectively. In 2006, MIDB invested in 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.

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, 2006 and 2005.

(4) Loans Receivable

Loans receivable as of September 30, 2006 and 2005 are summarized as follows:

	<u>2006</u>	<u>2005</u>
Investment Development Fund	\$ 4,035,376	\$ 4,153,765
Compact Section 211	1,195,401	1,291,877
Republic of the Marshall Islands	21,373,865	25,532,336
Housing Preservation Grant	<u>16,009</u>	<u>16,064</u>
Gross loans	26,620,651	30,994,042
Less: net deferred loan fees	(49,251)	(43,362)
Less: unearned premiums	(94,258)	(106,127)
Less: allowance for loan losses	<u>(14,916,489)</u>	<u>(14,074,046)</u>
	<u>\$ 11,560,653</u>	<u>\$ 16,770,507</u>

MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
September 30, 2006 and 2005

(4) Loans Receivable, Continued

An analysis of the change in the allowance for loan losses during the years ended September 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Beginning balance	\$ 14,074,046	\$ 13,028,041
Provision for loan losses	<u>842,443</u>	<u>1,046,005</u>
Ending balance	\$ <u>14,916,489</u>	\$ <u>14,074,046</u>

Loans portfolio is comprised of consumer, housing and business loans. Majority of the 2006 and 2005 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, 2006 and 2005 is summarized as follows:

	<u>2006</u>	<u>2005</u>
Investment Development Fund	\$ 1,816,817	\$ 1,688,829
Compact Section 211	525,901	525,900
Republic of the Marshall Islands	2,154,093	2,057,817
Housing Preservation Grant	<u>4,351</u>	<u>4,351</u>
	4,501,162	4,276,897
Less: allowance for interest receivable losses	<u>(4,314,730)</u>	<u>(4,113,958)</u>
	\$ <u>186,432</u>	\$ <u>162,939</u>

An analysis of the change in the allowance for interest receivable losses during the years ended September 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Beginning balance	\$ 4,113,958	\$ 3,636,509
Provision for interest receivable losses	<u>200,772</u>	<u>477,449</u>
Ending balance	\$ <u>4,314,730</u>	\$ <u>4,113,958</u>

(6) Restricted Time Certificates of Deposit

MIDB has time certificates of deposit as of September 30, 2006 and 2005 in the amount of \$532,217 and \$516,280, 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.

MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
September 30, 2006 and 2005

(6) Restricted Time Certificates of Deposit, Continued

In addition, MIDB has a time certificate of deposit as of September 30, 2006 and 2005 in the amount of \$1,016,753 and \$800,000, respectively, with an affiliate bank that is restricted to collateralize outstanding loans of an investee company with the Bank. At September 30, 2005, these loans amounted to \$400,000 each, with interest at 7.5% and 9.5% per annum, maturing in June and September 2007, respectively. At September 30, 2006, these loans were consolidated into one loan with interest at 7.5% per annum, maturing in December 2009.

(7) Premises and Equipment

Capital assets activity during the years ended September 30, 2006 and 2005 is as follows:

	<u>2006</u>			
	<u>October 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2006</u>
Building and houses	\$ 1,901,503	\$ -	\$ -	\$ 1,901,503
Computer systems	170,506	9,021	-	179,527
Motor vehicles	116,328	18,000	(27,131)	107,197
Office furniture	55,767	3,082	-	58,849
Office equipment	<u>230,826</u>	<u>14,390</u>	-	<u>245,216</u>
	2,474,930	44,493	(27,131)	2,492,292
Less accumulated depreciation	<u>(595,266)</u>	<u>(219,573)</u>	<u>27,131</u>	<u>(787,708)</u>
	<u>\$ 1,879,664</u>	<u>\$ (175,080)</u>	<u>\$ -</u>	<u>\$ 1,704,584</u>
	<u>2005</u>			
	<u>October 1, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2005</u>
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	<u>36,912</u>	<u>193,914</u>	-	<u>230,826</u>
	2,206,230	268,700	-	2,474,930
Less accumulated depreciation	<u>(402,516)</u>	<u>(192,750)</u>	-	<u>(595,266)</u>
	<u>\$ 1,803,714</u>	<u>\$ 75,950</u>	<u>\$ -</u>	<u>\$ 1,879,664</u>

(8) Foreclosed Assets

Foreclosed assets are presented net of an allowance for losses. Foreclosed assets as of September 30, 2006 and 2005 are summarized as follows:

	<u>2006</u>	<u>2005</u>
Foreclosed assets	\$ 350,000	\$ 350,000
Allowance for losses	<u>(177,917)</u>	<u>(142,917)</u>
	<u>\$ 172,083</u>	<u>\$ 207,083</u>

MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
September 30, 2006 and 2005

(8) Foreclosed Assets, Continued

An analysis of the allowance for losses on foreclosed assets for the years ended September 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Balance at beginning of year	\$ 142,917	\$ 107,917
Provision for losses	<u>35,000</u>	<u>35,000</u>
Balance at end of year	\$ <u>177,917</u>	\$ <u>142,917</u>

(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. Depreciation is recognized, using an estimated 10-year life by the straight line method. As of September 30, 2006 and 2005, the property is presented net of accumulated depreciation of \$19,692 and \$5,792, respectively.

(10) Long-Term Debt

	<u>2006</u>	<u>2005</u>
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.	\$ <u>3,200,000</u>	\$ <u>3,600,000</u>

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

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	400,000	69,044	469,044
2012-2014	<u>1,200,000</u>	<u>106,236</u>	<u>1,306,236</u>
	\$ <u>3,200,000</u>	\$ <u>682,752</u>	\$ <u>3,882,752</u>

MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
September 30, 2006 and 2005

(10) Long-Term Debt, Continued

Long-term debt changes during the years ended September 30, 2006 and 2005 are as follows:

	Balance October 1,	Additions	Reductions	Balance September 30,	Due Within One Year
2006:					
Loans payable	\$ 3,600,000	\$ -	\$ (400,000)	\$ 3,200,000	\$ 400,000
2005:					
Loans payable	\$ 4,096,716	\$ -	\$ (496,716)	\$ 3,600,000	\$ 400,000

(11) Related Party Transactions

As of September 30, 2006 and 2005, MIDB has deposits with a bank of \$4,383,993 and \$1,336,968, 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, 2006 and 2005 amounted to \$80,580 and \$25,835, respectively. Bank charges incurred for the years ended September 30, 2006 and 2005 in connection with overdraft facilities amounted to \$17,070 and \$27,131, respectively. See also note 3.

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, 2006 and 2005, 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, 2006 and 2005 from affiliated entities amounted to \$95,803 and \$88,450, 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, 2006 and 2005, MIDB employees have loans outstanding of \$726,326 and \$665,049, respectively. In addition, the directors of MIDB have loans outstanding as of September 30, 2006 and 2005, of \$175,687 and \$179,194, respectively. All loans were made at normal commercial terms and conditions.

As of September 30, 2006 and 2005, MIDB has outstanding certificates of deposit, totaling \$5,669,213 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, 2006 and 2005, amounted to \$1,833,333 and \$1,901,987, respectively. As of September 30, 2006 and 2005, interest payable relating to these deposits amounted to \$102,969 and \$433,894, 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, 2006 and 2005 is \$24,973. As of September 30, 2006 and 2005, total interest accrued is \$7,994 and \$5,882, respectively.

MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
September 30, 2006 and 2005

(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, 2006, the customer's principal loan balance and accrued interest were \$1,286,180 and \$1,245,624, respectively. These balances are recorded as loans receivable and accrued interest receivable, respectively, on 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:

<u>Year ending</u> <u>September 30,</u>	
2007	\$ 8,290
2008	8,290
2009	8,583
2010	8,680
2011	8,680
2012-2016	44,473
2017-2021	46,423
2022-2026	33,539
2027-2029	<u>13,163</u>
	<u>\$ 180,119</u>

MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
September 30, 2006 and 2005

(13) Commitments and Contingency, Continued

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, 2006

<u>ASSETS</u>	<u>Investment Development Fund</u>	<u>Section 211 Compact of Free Association</u>	<u>Republic of the Marshall Islands</u>	<u>Housing Preservation Grant</u>	<u>USDA Self-Help Housing Project</u>	<u>Elimination of Interfund Balances</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,677,170	\$ 2,357,383	\$ (1,903,887)	\$ 270,776	\$ (15,659)	\$ -	\$ 2,385,783
Restricted time certificates of deposit			2,148,970	-	-	-	2,148,970
Investments			423,748	-	-	-	423,748
Receivables:							
Loans, net	-	-	11,560,653	-	-	-	11,560,653
Accrued interest, net	127,988		58,442	2	-	-	186,432
Other	10,858		304,224	-	19,878	-	334,960
Due from other funds	314,080	29,999		-	-	(344,079)	-
Premises and equipment, net	1,399,579		296,463	-	8,542	-	1,704,584
Foreclosed assets, net	172,083			-	-	-	172,083
Investment property held for sale, net	-		119,308	-	-	-	119,308
	<u>\$ 3,701,758</u>	<u>\$ 2,387,382</u>	<u>\$ 13,007,921</u>	<u>\$ 270,778</u>	<u>\$ 12,761</u>	<u>\$ (344,079)</u>	<u>\$ 19,036,521</u>
 <u>LIABILITIES AND NET ASSETS</u>							
Liabilities:							
Long-Term debt		\$ -	\$ 3,200,000	\$ -	\$ -	\$ -	\$ 3,200,000
RepMar deposit	-	-	5,669,213	-	-	-	5,669,213
Accrued interest payable	-	-	202,067	-	-	-	202,067
Accrued expenses	135,998		231,061	-	12,761	-	379,820
Due to other funds	-		344,079	-	-	(344,079)	-
Deposits pledged	-	-	1,000,226	-	-	-	1,000,226
Total liabilities	<u>135,998</u>	<u>-</u>	<u>10,646,646</u>	<u>-</u>	<u>12,761</u>	<u>(344,079)</u>	<u>10,451,326</u>
Net assets:							
Invested in capital assets	1,399,579	-	296,463	-	8,542	-	1,704,584
Restricted	-		-	270,778	(8,542)	-	262,236
Unrestricted	<u>2,166,181</u>	<u>2,387,382</u>	<u>2,064,812</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,618,375</u>
Total net assets	<u>3,565,760</u>	<u>2,387,382</u>	<u>2,361,275</u>	<u>270,778</u>	<u>-</u>	<u>-</u>	<u>8,585,195</u>
	<u>\$ 3,701,758</u>	<u>\$ 2,387,382</u>	<u>\$ 13,007,921</u>	<u>\$ 270,778</u>	<u>\$ 12,761</u>	<u>\$ (344,079)</u>	<u>\$ 19,036,521</u>

See accompanying independent auditors' report.

MARSHALL ISLANDS DEVELOPMENT BANK

Combining Statement of Revenues, Expenses and Changes in Net Assets
September 30, 2006

	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 \$200,772	\$ 86,335	\$ 20,748	\$ 2,083,505	\$ 2	\$ -	\$ -	2,190,590
Insurance premiums	-	-	151,740	-	-	-	151,740
Loan fees	-	-	73,422	-	-	-	73,422
Interest income on time certificates of deposit	-	-	80,580	-	250	-	80,830
Other	238,213	-	10,515	-	-	-	248,728
Total operating revenues	324,548	20,748	2,399,762	2	250	-	2,745,310
Provision for loan losses	(101,292)	(96,476)	1,040,211	-	-	-	842,443
Operating expenses:							
Interest expense:							
Interest on loans payable	-	-	172,972	-	-	-	172,972
Interest on deposits	-	-	327,271	-	-	-	327,271
Total interest expense	-	-	500,243	-	-	-	500,243
General and administrative expenses:							
Salaries and employee benefits	-	-	726,858	-	88,680	-	815,538
Depreciation	120,394	-	109,996	-	3,084	-	233,474
Utilities	187,394	-	3,381	-	-	-	190,775
Repairs and maintenance	41,785	-	12,607	-	465	-	54,857
Travel and training	-	-	44,754	-	9,988	-	54,742
Office and house rental	-	-	30,467	-	7,000	-	37,467
Taxes and Licenses	-	-	22,939	-	-	-	22,939
Foreclosed assets, net	35,000	-	-	-	-	-	35,000
Printing, stationery and advertising	-	-	42,181	-	150	-	42,331
Professional fees	-	-	2,395	-	-	-	2,395
Communications	-	-	28,570	-	956	-	29,526
Insurance	-	-	18,719	-	3,181	-	21,900
Miscellaneous	1,676	-	110,584	-	3,018	-	115,278
Total general and administrative expenses	386,249	-	1,153,451	-	116,522	-	1,656,222
Operating income (loss)	39,591	117,224	(294,143)	2	(116,272)	-	(253,598)
Nonoperating revenues:							
Contributions from RepMar	-	-	347,300	-	-	-	347,300
USDA grant	-	-	-	-	116,272	-	116,272
Investment earnings	-	-	119,266	-	-	-	119,266
Total nonoperating revenues	-	-	466,566	-	116,272	-	582,838
Change in net assets	39,591	117,224	172,423	2	-	-	329,240
Net assets at beginning of year	3,526,169	2,270,158	2,188,852	270,776	-	-	8,255,955
Net assets at end of year	\$ 3,565,760	\$ 2,387,382	\$ 2,361,275	\$ 270,778	\$ -	\$ -	\$ 8,585,195

See accompanying independent auditors' report.