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June 8, 2017

Mr. Amon Tibon
Managing Director
Marshall Islands Development Bank

Dear Mr. Tibon:

In planning and performing our audit of the financial statements of the Marshall Islands Development Bank (MIDB) as of and for the year ended September 30, 2016 (on which we have issued our report dated June 8, 2017), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered MIDB's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MIDB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MIDB's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to MIDB's internal control over financial reporting and other matters as of September 30, 2016 that we wish to bring to your attention. Although we have included management's written responses to our comments contained therein, such responses have not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

We have also issued a separate report to the Board of Directors, also dated June 8, 2017, on our consideration of MIDB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

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

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

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

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

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

Very truly yours,

Deloitte + Touche LLP

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, deficiencies involving MIDB's internal control over financial reporting as of September 30, 2016 that we wish to bring to your attention:

1. Lease Agreements

Comment: The lease agreement for Sample House #2 contains inconsistent amounts. The agreement stated $600 in words per month but $850 in figures per month. The latter is collected and recorded in the books.

Recommendation: We recommend that management reviews leases to minimize inconsistencies and future disputes.

Management Response: The Property Manager has already corrected the lease agreements and ensures to review agreements thoroughly before they are signed by both parties.

SECTION II – OTHER MATTERS

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

1. Written Agreement on Sample House

Comment: MIDB was able to provide a copy of the agreement relating to the sample house receivable of $52,145 at September 30, 2016; however, we noted insufficient information in the agreement, i.e. agreed interest rate, amount of total receivable, etc. This matter was discussed in our previous letters for the audit of fiscal years 2008 to 2015.

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

Management Response: The Bank will ensure that future agreements are properly executed. The management of the Bank will try to bid out the house to possible buyers. If no potential one is interested, then the whole balance may be written-off.

2. Policy on Accounts Receivable Allowance for Credit Losses

Comment: MIDB does not have a formal policy for establishing an allowance for uncollectible accounts receivable. This matter was discussed in our previous letters for the audit of fiscal years 2014 and 2015.

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

Management Response: The management ensures that the recommendation will be taken.

SECTION II – OTHER MATTERS, CONTINUED

3. Negative Balances in Deposit Accounts

Comment: As of September 30, 2016, there were 204 savings deposit accounts with negative balances totaling $44,193. Savings deposits generally pertain to loan overpayments resulting from dated records and withdrawals made through customer refunds. Therefore, it appears that the Bank refunded certain customers in excess of their deposit balances or this matter could be attributed to dated records.

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

Management Response: The management is reviewing the list of the negative balances offsetting them to their existing positive savings if there are any or to their outstanding loans. Otherwise, after assessment, such will be subject to charge off.

4. Inadequate Monitoring of Rental Receivables

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

Recommendation: Rental activities are a major revenue generating source. Therefore, management should consider accruing rents receivable on a monthly basis.

Management Response: An accounting staff was assigned to properly monitor the rentals on a monthly basis and to provide the property manager reports for any unpaid rents for the month.

5. Valuation of Collateral

Comment: MIDB accepts collateral for loans but the collateral is not appraised. Furthermore, MIDB does not perform internal appraisals or valuations of collateral.

Recommendation: MIDB should perform internal appraisals of collateral.

Management Response: The Bank agrees with the finding and will perform internal appraisals of collateral.

6. Interest Income on Delinquent Loans

Comment: MIDB recognizes interest income on delinquent loans that were provided a 100% allowance. Per Bank policy, interest accrues based on the unpaid principal balance regardless of the days past due of the loans. Accrual of interest on loans should discontinue when principal or interest payments are delinquent over 90 days or when, in the opinion of management, there is an indication that the borrower may unable to meet payments as they become due. Moreover, per generally accepted accounting principles, upon such discontinuance, all unpaid accrued interest should be reversed and thereafter interest is recognized only to the extent cash payments are received after all principal is recovered.

SECTION II – OTHER MATTERS, CONTINUED

6. Interest Income on Delinquent Loans, Continued

Recommendation: We recommend that management consider formulating a policy relative to recognition of interest income on delinquent loans. In addition, management should maintain a separate recording of loans for internal monitoring purposes of loans written off in the books but contractual obligations of the borrowers are not legally extinguished.

Management Response: The Bank is currently in the process of assessing and comparing the existing loan system with the other banks on island at the same time seeking advice on how to treat the transactions. The Bank is working on formulating a policy relative to recognition of interest income on delinquent loans.

SECTION III – DEFINITION

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

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

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

Management's Responsibility

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

Objectives of Internal Control over Financial Reporting

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

Inherent Limitations of Internal Control over Financial Reporting

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