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May 12, 2015

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, 2014 (on which we have issued our report dated May 12, 2015), 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, 2014 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 May 12, 2015, 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.

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, 2014 that we wish to bring to your attention:

1. Absence of Lease Agreements

Comment: Signed lease agreements for four tenants could not be provided.

Recommendation: We recommend that signed lease agreements be timely executed and filed.

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. Matured Loans

Comment: Approximately 1,877 loans aggregating $7,202,612 matured as of September 30, 2014; some of which have maturity dates of 2013 and earlier. Of these loans, 153 aggregating $347,040 are aged 270 days and below, while the rest are aged above 270 days and are fully reserved.

Recommendation: Management should verify and correct loans with the noted condition. Additionally, management should designate an officer to periodically review loan data for loan information errors.

2. Loans with Incorrect Open Dates

Comment: The September 30, 2014 system-generated loan trial balance contains 170 loans aggregating $2,459,709 which have incorrect open dates of December 31, 1999. Furthermore, 41 loans totaling $281,885 have maturity dates earlier than the open date. This issue appears to have been caused by a system migration error in 2000. All of these loans have been delinquent for more than 270 days and are therefore fully reserved.

Recommendation: Management should verify and correct loans with the noted condition and consider possible charge-off. Additionally, management should designate an officer to periodically review loan data for information errors.

3. Long Outstanding Checks

Comment: The September 30, 2014 bank reconciliation for Cash in Bank (CA-BOMI) contains 36 checks aggregating $13,590 that have been outstanding for more than one year. The Bank does not have a policy to separately record stale dated checks.

Recommendation: Management should consider establishing a policy over the processing, reconciliation, monitoring and disposition of stale dated checks.

SECTION II – OTHER MATTERS, CONTINUED

4. 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, 2014; 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 2013.

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

5. Policy on Accounts Receivable Allowance for Credit Losses

Comment: MIDB does not have a formal policy for establishing an allowance for losses for accounts receivable.

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

6. Negative Balances in Deposit Accounts

Comment: As of September 30, 2014, there were 202 savings deposit accounts with negative balances totaling $44,148. Savings deposits generally pertain to loan over payments 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.

7. Inadequate Monitoring of Rental Receivables

Comment: The Property Manager monitors rent collections and calculates rent receivables 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 assign a responsible officer to monitor related activities and related recordkeeping.

8. 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.

SECTION II – OTHER MATTERS, CONTINUED

9. Valuation and Identification of Refinanced and Restructured Loans

Comment: Based on the revised policy for refinanced loans, the Bank does not provide special treatment for refinanced loans. Refinanced loans are considered new loans (current) at the date of refinance and the number of days past due will start from the time the new loan is issued. In addition, two of thirty-five new loans tested were refinanced; but were not tagged as such in the loan trial balance.

Restructured loans were provided a 5% allowance from the date of restructure. One restructured loan of seventy-five loans tested, noted that the last payment was made on 7/13/2012, and the loan is over 270 days past due as of 9/30/2014. However, only a 5% allowance was provided in accordance with the revised policy.

Recommendation: We recommend that management revisit the policy for restructured and refinanced loans in accordance with generally accepted accounting principles. The allowance should only be reversed after one year of observation whether the loan is regularly repaid based on revised terms and an annual review and assessment should be performed documenting progress of loan payment. In addition, management should actively monitor refinanced loans and require proper tagging of in the loans trial balance.

10. Interest Income on Delinquent Loans

Comment: MIDB recognizes interest income on delinquent loans that were provided 100% allowance. Per Bank policy, interest accrues based on the unpaid principal balance. 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.

Recommendation: We recommend that management consider formulating a policy relative to recognition of interest income on delinquent loans.

11. Impairment of Assets

Comment: The Majuro Bowl has not been used for more than two years. The property does not appear to be in good working condition.

Recommendation: We recommend that management consider revisiting the asset value and provide for a reasonable allowance for impairment.

12. Missing Support for Interest Income Testing

Comment: The following receipts evidencing payment from customers could not be located:

- RE53377
- RE53520

Recommendation: We recommend that management require proper safekeeping of documents that support the financial statements.

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.