

FSM COMMERCIAL BANKING SYSTEM
Financial Condition as of March 31, 2024 (1st Quarter)

Balance Sheet Movements:

The Balance Sheet of the commercial banking system (hereinafter “the system”) reported combined assets at \$451.6 million, a decrease over the quarter by \$25.5 million (-5.4%), and also decrease by the year to \$22.2 million (-4.7%). The decrease in the Total Assets over the quarter is mainly from the decrease in Cash & Due from Local Banks and Foreign Assets decline this period.

Total loans decreased over the quarter by \$376 thousand (-0.4%) to \$83.6 million, and also decreased over the year by \$37 thousand (-0.1%). Commercial lending increased over the quarter by \$446 thousand (0.9%), and also increased over the year by \$545 thousand (1.1%) to \$48.5 million. Consumer lending decreased over the quarter by \$822 thousand (-2.3%), and also decreased over the year by \$582 thousand (-1.6%) to \$35.2 million. The loan portfolio comprised 18.0% of the system’s total assets, with commercial loans composing 57.9% and consumer loans making up 42.1% of the loan portfolio.

Total deposits decreased over the quarter by \$14.9million (-3.5%), and also decreased over the year by \$25.8 million (-5.9%) to **\$409.5 million**. Total deposits comprise 90.7% of the system’s total liabilities and equity. The system’s deposit base structure in the current quarter was significantly dominated by Savings Deposits at \$207.2 million (50.6%), followed by Demand Deposits (DDAs) at \$157.7 million (38.5%), TCDs at \$25.9 million (6.3%), and Other Time Deposits and Other Deposits at \$18.7 million (4.6%). The deposit facility structure remained unchanged with Savings deposits being the highest, followed by Demand then TCDs and then Other Time Deposits and Other Deposits. **Total Loan to Deposit ratio** for the system stood at 20.42% in the current quarter and the previous quarter at 19.79%.

Capital Adequacy:

One of the banks is maintaining Tier 1 risk weighted capital and leverage (core capital) ratios well above the minimum ratios required by the Banking Board of 15% and 6%, respectively. The bank is well above FDIC supervisory requirements of 6% for Tier 1 risk-based capital and 5% for leverage ratio. The other bank operates as a branch in the FSM and there is no local capital requirement pursuant to the Bank Act. However, it is stipulated in its Conditions of License issued by the FSM Banking Board that the bank is required to maintain capital, applicable to its global operations, of not less than the capital adequacy requirements directed by the FDIC or the lawful banking supervision authorities in the country of incorporation.

Asset Quality:

The **loan quality** in the **overdue loans as a percentage of total loans** improved from 2.55% in the previous quarter to 1.69%, and also improved when compared to 7.16% from the similar period in 2023. Criticized assets as a percentage of total loans increased in the ratio from 7.57% in the previous quarter to 11.01% in the current quarter; however, it improved when compared to 7.74% from the similar period in 2023. Non-accruals as a percentage of total loans stood at 0.80% in the current quarter, a decrease from 1.57% in the previous quarter. When compared to the same period in 2023 it increases from 0.53%.

The system's **Allowance for Loan and Lease Losses (ALLL)** increased from \$2.45 million in the previous quarter to \$3.50 million in the current quarter and also increased when compared to the same period of 2023 at \$3.07 million. The system's ALLL reported during the quarter was sufficient to accommodate for expected losses as recommended reserves stood at \$165 thousand in the current quarter.

Earnings:

Total interest income was reported at \$6.01 million in the current quarter, an increase over the year when compared to \$5.32 million in the same period of 2023. The system's **net interest margin** (net interest income as a percentage of average earning assets) increased over the quarter by 38 basis points to 4.96% in the current quarter. Bank reported **prevailing interest rates** on consumer and commercial loans at 14.33% and 4.75%. US prime rate is currently at 8.50% as at March, 2024.

Total Income recorded as of the current quarter was at \$6.64 million. **Total YTD expenses** (excluding taxes of \$63 thousand) were at \$2.3 million in the current quarter. The bank ended the 1st quarter with a **Net Operating Income of \$3.73 million**, an increase compared to \$3.43 million in the same period a year ago. **ROAA** (net income as a percentage of average assets) decreased over the quarter by 26 basis points; however, increased over the year by 24 basis points to 3.08% in the current quarter.

The system generated a net income of \$3.7million in the current quarter, an increase when compared to \$3.4 million in the same period of the prior year.

Liquidity

The system remains highly liquid as **liquid assets as a percentage of total deposits** stood at 87.04% for the current quarter, an increase from the 89.90% in the previous quarter, and from the same period in 2023 at 87.24%.