

FSM COMMERCIAL BANKING SYSTEM
Financial Condition as of September 30, 2024 (3rd Quarter)

Balance Sheet Movements:

The Balance Sheet of the commercial banking system (hereinafter “the system”) reported combined assets at \$493.3 million, an increase over the quarter by \$20.6 million (4.4%), and also an increase over the year by \$5.2 million (1.1%). The increase in the Total Assets over the quarter is mainly from the increase in Cash & Due from Local Banks and Foreign Assets.

The loan portfolio comprised 16.8% of the system’s total assets of \$493.3 million, with commercial loans composing 57.2% or \$47.3 million and consumer loans making up 42.8% or \$35.4 million of the loan portfolio. **Total loans** for this current quarter is at \$82.7 million, which decreased over the quarter by \$533 thousand (-0.6%), and also decreased over the year by \$379 thousand (-0.5%). Commercial lending increased over the quarter by \$347 thousand (0.7%); however, decreased over the year by \$563 thousand (-1.2%) to \$47.3million. Consumer lending decreased over the quarter by \$880 thousand (-2.4%); however, increased over the year by \$184 thousand (0.5%) to \$35.4 million.

Total deposits increased over the quarter by \$14.6million (3.4%); however, decreased over the year by \$197 thousand (-0.1%) to **\$442.7 million**. Total deposits comprise 89.8% 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 \$202.9 million (45.8%), followed by Demand Deposits (DDAs) at \$177.1 million (40.0%), TCDs at \$42.1 million (9.5%), and Other Time Deposits and Other Deposits at \$20.7 million (4.7%). The deposit facility structure remains unchanged with Savings deposits being the highest, followed by Demand, TCDs, Other Time Deposits, and Other Deposits. **Total Loan to Deposit ratio** for the system stood at 18.68% in the current quarter and the previous quarter at 19.44%.

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 1.58% in the previous quarter to 1.25%, and also improved when compared to 2.34% from the similar period in 2023. Criticized assets as a percentage of total loans also improved in the ratio from 10.41% in the previous quarter to 10.29% in the current quarter; however, it increased when compared to 8.15% from the similar period in 2023. Non-accruals as a percentage of total loans continues to remain low and stood at 0.68% in the current quarter, a decrease from 0.79% in the previous quarter. When compared to the same period in 2023 it also improved from 2.17%.

The system's **Allowance for Loan and Lease Losses (ALLL)** increased from \$2.60 million in the previous quarter to \$2.63million in the current quarter; however, decreased when compared to the same period of 2023 at \$3.36 million. The system's ALLL reported during the quarter was sufficient to accommodate for expected losses as recommended reserves stood at \$147 thousand in the current quarter.

Earnings:

Total interest income was reported at \$18.4 million in the current quarter, an increase over the year when compared to \$17.5 million in the same period of 2023. The system's **net interest margin** (net interest income as a percentage of average earning assets) decreased over the quarter by 2 basis points from 4.95% to 4.93% in the current quarter. Bank reported **prevailing interest rates** on consumer and commercial loans at 14.75% and 4.63%. US prime rate is currently at 8.30% as at September, 2024.

Total Income recorded as of the current quarter was at \$20.3 million. **Total YTD expenses** (excluding taxes of \$175 thousand) were at \$9.1 million in the current quarter. The bank ended the 3rd quarter with a **Net Operating Income of \$11.2 million**, a decrease when compared to \$11.4 million in the same period a year ago. **ROAA** (net income as a percentage of average assets) increased over the quarter by 6 basis points from 3.03% to 3.09% in the current quarter. When compared to the same period over the year it remained the same at 3.09%.

The system generated a net income of \$11.0 million in the current quarter a slight decrease when compared to \$11.2 million with same reporting period of the prior year.

Liquidity

The system remains highly liquid as **liquid assets as a percentage of total deposits** stood at 90.10% for the current quarter, an increase from the 88.22% in the previous quarter, and from the same period in 2023 at 89.04%.