

FSM COMMERCIAL BANKING SYSTEM
Financial Condition as of December 31, 2024 (4th Quarter)

Balance Sheet Movements:

The Balance Sheet of the commercial banking system (hereinafter “the system”) reported combined assets at \$506.4 million, an increase over the quarter by \$13.2 million (2.7%), and also an increase over the year by \$29.2 million (6.1%). The increase in the Total Assets over the quarter is mainly from the increase in Foreign Assets/Due from Banks & Others Abroad and Consumer Loans.

The loan portfolio comprised 16.3% of the system’s total assets of \$506.4 million, with commercial loans composing 53.3% or \$44.0 million and consumer loans making up 46.7% or \$38.7 million of the loan portfolio. **Total loans** for this current quarter is at \$82.7 million, which increased over the quarter by \$18 thousand (0.1%); however, decreased over the year by \$1.3 million (-1.6%). Commercial lending decreased over the quarter by \$3.3 million (-6.9%) and also decreased over the year by \$3.9 million (-8.3%) to \$44.0 million. Consumer lending increased over the quarter by \$3.3 million (9.3%), and also increased over the year by \$2.7 million (7.4%) to \$38.7 million.

Total deposits increased over the quarter by \$10.6million (2.4%), and also increased over the year by \$28.9 million (6.8%) to **\$453.3 million**. Total deposits comprise 89.5% 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 \$232.4 million (51.3%), followed by Demand Deposits (DDAs) at \$180.5 million (39.8%), TCDs at \$39.9 million (8.8%), and Other Time Deposits and Other Deposits at \$420 thousand (0.1%). 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 18.24% in the current quarter with Commercial holding majority of the ratio at 53.25%, and Consumer ratio making up the remaining 46.75%. The Loan to Deposit ratio fluctuates depending on the volume of the deposits versus the total loan portfolio.

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** increased from 1.25% in the previous quarter to 1.32%; however, improved when compared to 2.55% from the similar period in 2023. Criticized assets as a percentage of total loans increased in the ratio from 10.29% in the previous quarter to 14.77% in the current quarter, and also increased when compared to 7.57% from the similar period in 2023. Non-accruals as a percentage of total loans continues to remain low and stood at 0.67% in the current quarter, a decrease from 0.68% in the previous quarter. When compared to the same period in 2023 it also improved from 1.57%.

The system's **Allowance for Loan and Lease Losses (ALLL)** decreased from \$2.64 million in the previous quarter to \$2.53million in the current quarter, and an increased compared to the same period of 2023 at \$2.45 million. The system's ALLL reported during the quarter was sufficient to accommodate for expected losses as recommended reserves stood at \$458 thousand in the current quarter.

Earnings:

Total interest income was reported at \$24.7 million in the current quarter, an increase over the year when compared to \$23.9 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 8 basis points from 4.93% to 4.85% 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 7.50% as at December, 2024.

Total Income recorded as of the current quarter was at \$27.2 million. **Total YTD expenses** (excluding taxes of \$225 thousand) were at \$12.4 million in the current quarter. The bank ended the 4th quarter with a **Net Operating Income of \$14.8 million**, a decrease when compared to \$16.3 million in the same period a year ago. **ROAA** (net income as a percentage of average assets) decreased over the quarter by 6 basis points from 3.09% to 3.03% in the current quarter. When compared to the same period over the year it also decreased from 3.34%.

The system generated a net income of \$14.6 million in the current quarter a decrease when compared to \$16.1 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 90.85% for the current quarter, an increase from the 90.10% in the previous quarter, and from the same period in 2023 at 89.90%.