

FSM COMMERCIAL BANKING SYSTEM
Financial Condition as of September 30, 2023 (3rd Quarter)

Balance Sheet Movements:

The Balance Sheet of the commercial banking system (hereinafter “the system”) reported combined assets at \$488.0 million, a decrease over the quarter by \$399 thousand (-0.1%); however, it increased over the year by \$24.0 million (5.2%). The decrease in the Total Assets over the quarter is mainly from the decrease in Gross Loans with both Commercial and Consumer loans declining this period.

Total loans decreased over the quarter by \$2.1 million (-2.5%) to \$83.1 million; however, slightly increased over the year by \$5 thousand (0.01%). Commercial lending decreased over the quarter by \$1.9 million (-3.9%), and also decreased over the year by \$110 thousand (-0.2%) to \$47.9 million. Consumer lending decreased over the quarter by \$197 thousand (-0.6%); however, increased over the year by \$115 thousand (0.3%) to \$35.2 million. The loan portfolio comprised 17.0% of the system’s total assets, with commercial loans composing 57.6% and consumer loans making up 42.4% of the loan portfolio.

Total deposits decreased over the quarter by \$4.4 million (-1.0%); however it increased over the year by \$14.7 million (3.4%) to **\$442.9 million**. Total deposits comprise 90.8% 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 \$254.2 million (57.4%), followed by Demand Deposits (DDAs) at \$169.0 million (38.2%), TCDs at \$18.9 million (4.3%), and Other Time Deposits and Other Deposits at \$789 thousand (0.2%). 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 18.8% in the current quarter and the previous quarter at 19.04%.

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 3.12% in the previous quarter to 2.34%, and also a decrease when compared to 2.65% from the similar period in 2022. Criticized assets as a percentage of total loans also improved as the ratio decreased from 8.23% in the previous quarter to 8.15% in the current quarter; however, it increased when compared to 7.83% from the similar period in 2022. Non-accruals as a percentage of total loans stood at 2.17% in the current quarter, an increase from 1.68% in the previous quarter. When compared to the same period in 2022 it also increase from 0.65%.

The system's **Allowance for Loan and Lease Losses (ALLL)** increased from \$3.27 million in the previous quarter to \$3.36 million in the current quarter and also increased when compared to the same period of 2022 at \$3.02 million. The system's ALLL reported during the quarter was sufficient to accommodate for expected losses as recommended reserves stood at \$619 thousand in the current quarter.

Earnings:

Total interest income was reported at \$17.5 million in the current quarter, an increase over the year when compared to \$8.7 million in the same period of 2022. The system's **net interest margin** (net interest income as a percentage of average earning assets) increased over the quarter by 13 basis points to 4.90% 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 July, 2023.

Total Income recorded as of the current quarter was at \$19.2 million. **Total YTD expenses** (excluding taxes of \$239 thousand) were at \$6.7 million in the current quarter. The bank ended the 3rd quarter with a **Net Operating Income of \$11.4 million**, an increase compared to \$4.6 million in the same period a year ago. **ROAA** (net income as a percentage of average assets) increased over the quarter by 8 basis points and 187 basis points over the year to 3.09% in the current quarter.

The system generated a net income of \$11.2 million in the current quarter, an increase when compared to \$4.3 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 89.04% for the current quarter, an increase from the 87.81% in the previous quarter, and from the same period in 2022 at 86.61%.