

**FSM COMMERCIAL BANKING SYSTEM**  
**Financial Condition as of June 30, 2025 (2nd Quarter)**

**Balance Sheet Movements:**

The Balance Sheet of the commercial banking system (hereinafter referred to as “the system”) reported combined assets of \$540.2 million, reflecting an increase of \$42.1 million (8.5%) from the previous quarter. Year-over-year, total assets grew by \$67.5 million (14.3%). The annual increase was mainly driven by growth in Foreign Assets/Due from Banks & Others Abroad and Consumer Loans.

The loan portfolio represented 15.3% of the system’s total assets of \$540.2 million. Within the portfolio, commercial loans accounted for 52.7% or \$43.5 million while consumer loans made up 47.3% or \$39.1 million. **Total loans** for the current quarter stood at **\$82.6 million**, representing an increase of \$1.4 million (1.8%) from the previous quarter. However, compared to the same period last year, loans decreased by \$622 thousand (-0.7%). Commercial lending increased by \$322 thousand (0.7%) over the quarter but decreased by \$3.5 million (-7.4%) over the year, totaling \$43.5 million. Conversely, consumer lending rose by \$1.1 million (2.9%) during the quarter and increased by \$2.9 million (7.9%) over the year, reaching \$39.1 million.

**Total deposits** increased by \$36.4 million (8.1%) over the quarter and by \$60.8 million (14.2%) over the year, reaching **\$488.9 million**. This amount accounts for 90.5% of the system’s total liabilities and equity. The deposit structure remains consistent, with Savings Deposits at \$260.7 million (53.3%) being the largest component, followed by Demand Deposits (DDAs) at \$186.5 million (38.1%), and Time Certificates of Deposit (TCDs) at \$41.7 million (8.5%). The system’s **Total Loan-to-Deposit ratio** stood at 16.89% this quarter, primarily due to an increase in Government deposits that outpaced other deposit types while total loans remain stagnant.

**Capital Adequacy:**

One of the banks maintains Tier 1 risk-weighted capital and leverage (core capital) ratios significantly above the minimum requirements set by the Banking Board, which are 15% and 6%, respectively. The bank also exceeds the FDIC supervisory thresholds, with a Tier 1 risk-based capital ratio above 6% and a leverage ratio above 5%. The other bank operates as a branch in the FSM and is not subject to local capital requirements under the Bank Act. However, its Conditions of License issued by the FSM Banking Board stipulate that it must maintain capital, based on its global operations, at levels not less than the capital adequacy requirements mandated by the FDIC or other lawful banking supervision authorities in its country of incorporation.

**Asset Quality:**

The **proportion of overdue loans relative to total loans** increased from 1.52% in the previous quarter to 2.90%, and also rose compared to 1.58% during the same period in 2024. Criticized assets as a percentage of total loans grew from 14.08% in the previous quarter to 14.58% in the current quarter, and were higher than the 10.41% recorded during the same period in 2024. Non-accrual loans as a percentage of total loans decreased from 1.74% in the previous quarter to 1.17% in the current quarter, but increased from 0.79% during the same period in 2024.

The system's **Allowance for Loan and Lease Losses (ALLL)** slightly decreased from \$2.53 million in the previous quarter to \$2.51 million in the current quarter. However, it increased compared to the same period in 2024, when it was \$2.46 million. The ALLL reported for the current quarter was deemed sufficient to cover expected losses, with recommended reserves amounting to \$522 thousand.

### **Earnings:**

**Total interest income** was reported at \$12.10 million in the current quarter, a slight decrease over the year when compared to \$12.15 million in the same period of 2024. The system's **net interest margin** (net interest income as a percentage of average earning assets) decreased by 2 basis points, from 4.46% to 4.44% over the quarter. Bank reported **prevailing interest rates** on consumer and commercial loans at 15.25% and 4.75%. US prime rate is currently at 7.50% as at June, 2025.

**Total Income** for the current quarter was \$13.5 million. **Year-to-date expenses** (excluding taxes of \$123 thousand) totaled \$6.7. The bank concluded the second quarter with a **Net Operating Income of \$6.8 million, representing** a decrease from \$7.3 million in the same last year. The Return on Average Assets (**ROAA**), net income as a percentage of average assets, slightly increased by 1 basis point from 2.61% to 2.62% this quarter. However, compared to the same period last year, ROAA declined from 3.03%.

The system reported a net income of \$6.7 million for the current quarter, a decline from \$7.2 million in the same period of the previous year.

### **Liquidity:**

The system remains highly liquid, with **liquid assets as a percentage of total deposits** at 91.07% for the current quarter. This represents an increase from 89.46% in the previous quarter and from 88.22% during the same period in 2024.