

FSM COMMERCIAL BANKING SYSTEM
Financial Condition as of September 30, 2025 (3rd Quarter)

Balance Sheet Movements:

The Balance Sheet of the commercial banking system (hereinafter referred to as “the system”) reported combined assets of \$535.9 million, reflecting a decrease of \$4.27 million (-0.8%) from the previous quarter. Year-over-year, total assets grew by \$42.7 million (8.7%). The annual increase was mainly driven by growth in Foreign Assets/Due from Banks & Others Abroad and Consumer Loans.

The loan portfolio represented 15.7% of the system’s total assets of \$535.9 million. Within the portfolio, commercial loans accounted for 55.7% or \$46.8 million while consumer loans made up 44.3% or \$37.2 million. **Total loans** for the current quarter stood at **\$84.1 million**, representing an increase of \$1.5 million (1.8%) from the previous quarter. When compared to the same period last year, loans also increased by \$1.4 million (1.7%). Commercial lending increased by \$3.3 million (7.6%) over the quarter but decreased by \$494 thousand (-1.0%) over the year, totaling \$46.8 million. Consumer lending decrease by \$1.9 million (-4.8%) during the quarter and increased by \$1.9 million (5.3%) over the year, reaching \$37.2 million.

Total deposits decreased by \$5.25 million (-1.1%) over the quarter; however, increased by \$40.95 million (9.2%) over the year, reaching **\$483.77 million**. This amount accounts for 90.3% of the system’s total liabilities and equity. The deposit structure remains consistent, with Savings Deposits at \$249.2 million (51.5%), followed by Demand Deposits (DDAs) at \$193.5 million (40.0%), and Time Certificates of Deposit (TCDs) at \$41.0 million (8.5%). The system’s **Total Loan to Deposit ratio (LDR)** stood at 17.38% in the current quarter compared to 16.89% in the previous quarter, due to the steady increase in Government deposits outpacing other deposit types while gross 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 2.90% in the previous quarter to 5.96%, and also rose compared to 1.25% during the same period in 2024. Criticized assets as a percentage of total loans improved from 14.58% in the previous quarter to 14.27% in the current quarter, and were higher than the 10.29% recorded during the same period in 2024. Non-accrual loans as a percentage of total loans, although slightly increased from 1.17% in the previous quarter, remained low at 1.24%..

The system's **Allowance for Loan and Lease Losses (ALLL)** increased from \$2.55 million in the previous quarter to \$3.91 million in the current quarter, and also increased compared to the same period in 2024, when it was \$2.64 million. The ALLL reported for the current quarter was deemed sufficient to cover expected losses, with recommended reserves amounting to \$1.32 million.

Earnings:

Total interest income was reported at \$18.57 million in the current quarter, a slight increase over the year when compared to \$18.45 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 5 basis points, from 4.44% to 4.39% 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 7.39% as at September, 2025.

Total Income for the current quarter was \$20.62 million. **Year-to-date expenses** (excluding taxes of \$185 thousand) totaled \$10.27. The bank concluded the third quarter with a **Net Operating Income of \$10.34 million, representing** a decrease from \$11.20 million in the same last year. The Return on Average Assets (**ROAA**), net income as a percentage of average assets, slightly decreased by 2 basis points from 2.62% last quarter to 2.60% this quarter. However, compared to the same period last year, ROAA declined from 3.09%.

The system reported a net income of \$10.16 million for the current quarter, a decline from \$11.02 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 90.82% for the current quarter. This represents a decrease from 91.07% in the previous quarter, however, increase from 90.10% during the same period in 2024.