2011 Annual Banking Industry Report

FINANCIAL INSTITUTIONS COMMISSION
of the
REPUBLIC OF PALAU

This report is provided pursuant to Section 12 of the Financial Institutions Act (RPPL 6-3, Amended by 7-41 & 8-28).

G. Semdiu Decherong
Executive Commissioner

May 25, 2012
Date

2011 Annual Palau Banking Sector Report

Summary Industry Assessment

The overall condition of the Palau banking industry remains fair with indicators showing continued improvements in asset quality and liquidity at the aggregate level. Aggregate capital levels for banks required under the FIA to maintain minimum capital steadily declined throughout the 2011 calendar year because of net losses incurred by two banks and the voluntary closure of the only wholly owned Palauan bank, First Fidelity Bank, Inc.. All but one bank, whose deposits are not insured by a government sponsored insurance program, are in compliance with required capital requirements pursuant to the amended Financial Institutions Act, and prudential regulation PR-01.

Overall, the ratio of Non Performing Loans (NPLs) to Total Loans has been reduced from 5.54% to 3.26% over the calendar year; and the ratio of Loans past due 360 days or more to Total Loans has also gone down from 3.87% to 2.15%. The notable volume of loan write-offs, particularly for uninsured banks, and loan payoffs have resulted in reductions to the industry's total loans.

The decline in total loans has resulted in reduced Net Interest Income for the banking sector, compared to the prior year. Generally, earnings have been downward trending due to the contraction in the industry loan portfolio overall, although a majority of banks are generating profits and demonstrate the ability to meet operational needs and augment capital.

Liquidity is adequate and banks demonstrate the ability to continue to meet depositors demand. The FIC has had some concern with the local liquidity positions of foreign bank branch institutions. However, funds management practices appear satisfactory and foreign bank branches appear to have reliable access to adequate sources of funds to meet anticipated liquidity needs from their respective Head Offices and through informal arrangements.

New Developments

A bill to amend the Financial Institutions Act was proposed and passed by the Senate in 2011. The Act was amended such that the minimum capital ratio was raised from 5% to 8%. Foreign bank branches whose deposits are not insured by a government sponsored insurance program are required to maintain a minimum of $2 million in capital on-island rather than the $5 million minimum capital to be kept in ESCROW, as required under the original law.

The FIC, with the assistance of the Asia Development Bank, has also been working together with the Olbiil Era Kelulau (OEK), and the Office of the President towards the passage of the Secured Transactions Registry Act. Furthermore, the FIC and FIU have completed a wholesale amendment to the Anti-Money Laundering and Proceeds of Crime Act, which was submitted for the President's consideration and introduction to the OEK for action in the latter part of the year.

During the 2011 calendar year, a few individuals/entities interested in establishing banking institutions in Palau made casual inquiries with the FIC, however, the Commission has not yet received complete application packets for new banking licenses, and thus, none have been reviewed. The Governing Board of the FIC had lifted the moratorium on issuance of new banking licenses by that resolution unanimously adopted on and dated July 29, 2010. The moratorium on the establishment of new banks in Palau became effective on February 19, 2003 by FIC Resolution No. 02-2003-03.

From detailed quarterly prudential returns, the FIC has been analyzing these quarterly returns and producing comprehensive quarterly reports for each licensed bank and branch, as well as an overall banking industry report. An annual report is also produced for submission to the OEK as required under the banking law, using figures from those statements of condition published annually by each licensed bank in Palau as well as aggregate figures from quarterly prudential returns. The second annual report to the OEK was submitted in August 2011 for the calendar year ending 31 December 2010. With assistance from the PFTAC Technical Advisor, the FIC developed, automated, and now generates the Uniform Banking Performance Reports (UBPR) for the Palau banking sector from information reported on prudential returns. The UBPRs have further enhanced the FIC's off-site monitoring program and will aid in onsite bank examinations, in terms of comparative analysis and performance tracking for each bank, banking group, and industry wide. These performance monitoring tools and analysis reports are provided to all licensed banks in the sector.

Background & General Overview

The Financial Institutions Commission (the Commission or FIC) is responsible for the licensing, supervision, and regulation of all banks and financial institutions in the Republic of Palau. The Commission was established as an independent and autonomous agency by Republic of Palau Public Law No. 6-3, commonly known as the Financial Institutions Act of 2001 (FIA or the Act); the Act was further amended and improved during the 7th Olbiil Era Kelulau under Republic of Palau Public Law 7-41.

Structure of the Commission

The Commission is governed by a **Board of Commissioners** (**Governing Board**). The Governing Board functions as a policymaking body to promulgate the rules and regulations by which the Commission operates. The Governing Board also oversees the enforcement of policies, rules, and regulations as they apply to all licensed banks. The Governing Board is composed of five voting members and an Ex-Officio member. The five voting members are appointed by the President of the Republic of Palau, subject to the confirmation of the Senate and serve staggered two and three year terms; the sixth Ex-Officio member is the President of the National Development Bank of Palau (NDBP), as mandated by the Act.

The **Executive Commissioner** manages and oversees administrative tasks and operational matters of the Commission. The Executive Commissioner is responsible for the implementation of Governing Board policies and ensures bank compliance with FIC Regulations and executes Governing Board approved enforcement actions. Policy initiatives, in particular those that pertain to the monitoring and regulation of the Republic of Palau banking sector, are recommended by the Executive Commissioner to the Governing Board. The Executive Commissioner is appointed by and answers directly to the Governing Board and serves as the "Examiner in Charge", which involves the tasks of conducting and managing on-site examinations and is responsible for determining the scope and type of exams for banks in noncompliance with laws and regulations. All bank examinations conducted by the Commission are subject to final approval by the Examiner in Charge.

The **Bank Examiner** answers directly to the Executive Commissioner and is primarily responsible for conducting off-site analysis and on-site bank examinations. These include but are not limited to quarterly and annual analyses of individual bank and sector-wide financial returns, as required by FIC Regulations, and any available financial sector statistics. Off-site examinations involve the review, analysis, and detection of trends and/or singular events that may impact banks' financial condition. These off-site monitoring of financial institutions are provided quarterly or as need to the Executive Commissioner for determination of proper supervisory actions.

On-site examinations involve visits to bank/branch offices by the Executive Commissioner and Bank Examiner for an in-depth and detailed review of bank documents, records, as well as general observations of bank operations, for the purpose of assessing six bank rating components (i.e. Capital adequacy, Assets quality, Management, Earnings, Liquidity, and Sensitivity to market risks). Such exams are mandated in the Act, and are conducted in order to regularly monitor the performance of banks to ensure the soundness and stability of the overall sector. Off-site bank examinations allow for the Commission to assign an overall rating for individual banks, which allows for the appropriate levels of supervisory actions and regulatory oversight to ensure the safety and soundness of individual banks.

The **Office Manager (Administrative Officer III)** manages the administrative operations of the FIC office with oversight by the Executive Commissioner and is responsible for the maintenance of records, documentation processing, and fulfills all clerical and related operational and administrative functions. The Office Manager is responsible for preparation of annual budgets and assists in the monthly reporting to the Governing Board of fiscal performance of the agency. The Office Manager ensures proper procedures are followed in the procurement of goods and services and monitors operational expenses to ensure adherence to the Governing Board approved budget and works directly with the Executive Commissioner to ensure that internal fiscal policies or guidelines are adhered to and agency expenses are kept at a minimum.

Internal and External Cooperation

In the interest of maintaining the reputation of the Republic of Palau in the international financial community, the Commission is authorized by the Act to cooperate and exchange information with agencies of foreign governments and international organizations. To this extent, Section 8 of the Act stipulates that a grant of a banking license by the Commission constitutes consent of the financial institution to release to and exchange information with any law enforcement, regulatory, or supervisory authorities of any foreign government in which the financial institution operates or conducts business. As such, the Commission has worked with the U.S. Federal Deposit Insurance Corporation (FDIC), Australian Prudential Regulatory Authority (APRA), Bank Negara (Malaysia), Banco Central (Philippines), ROC Taiwan Financial Services Commission, Hawaii State Division of Financial Institutions, FSM Banking Commission, RMI Bank Commission, and other foreign regulatory authorities on a myriad of issues concerning both foreign regulators and the Commission. The Commission cooperates with competent authorities outside Palau and with international organizations in terms of its collection of statistics and related financial sector information for the purposes of comparative analysis and compliance with international regulatory and reporting standards. It is further mandated in the Act that the Commission cooperate with local public authorities in pursuing its objectives.

Training and Technical Assistance

The Commission receives extensive technical training and support from international organizations and supervisory agencies such as the International Monetary Fund (IMF), the Pacific Financial Technical Assistance Centre (PFTAC), and recently, the U.S. FDIC. The Executive Commissioner successfully completed the first three phases of the FDIC's series of examination schools. Other prior training received by the Executive Commissioner includes areas such as designing effective legal frameworks for problem bank supervision, Anti-Money Laundering and Counter-Terrorist Financing, FDIC Receivership methods, and others. The Bank Examiner completed the second part of the U.S. FDIC training on bank examination in August 2011 and is scheduled to attend the FDIC's Loan Analysis School in May 2012. She is scheduled to complete the final part of U.S. FDIC training in 2013 depending on the availability of funding. In addition, the Bank Examiner has received training on liquidity frameworks and analysis as well as loan and financial statement analysis from PFTAC in conjunction with APRA and the Bank of International Settlements' Financial Stability Institute.

Sector Overview

The Financial Institutions Commission monitored and regulated seven banks during the 2011 calendar year—four foreign bank branches and three locally chartered banks. Three of the four foreign bank branches are U.S. chartered and insured by the U.S. Federal Deposit Insurance Corporation (FDIC) whereas the remaining banks do not have depositor insurance. The last remaining wholly owned Palauan bank ceased its deposit taking activities effective November 23, 2011, and has transitioned into a finance company. In addition, the Palau branch of First Commercial Bank announced its voluntary closure in December 2011. The National Development Bank of Palau is exempt from regulation and oversight pursuant to the statute.

For the purposes of this report, the banking sector has been divided into two banking groups, namely the insured banks and uninsured banks, due to the differences in size and business scope that are unique to the banks that have been categorized within these groupings. In this report, "insured banks" means those banks/branches whose deposits are insured by the U.S. FDIC; and "uninsured banks" are those banks that do not maintain depositor insurance under a government sponsored insurance program.

The U.S. bank branches hold approximately 88% of the banking sector's aggregate Total Loans and 97% of the sector's aggregate Total Deposits. [1]

The Commission's primary objective is to ensure the liquidity and solvency of banks in the Republic of Palau pursuant to the requirements of the Financial Institutions Act and regulations promulgated therein. The agency fulfills its objective by conducting offsite monitoring of all licensed banks and through onsite examinations.

[1] Based on figures reported for 2011 published by all banks. Historical data indicates that U.S. branch institutions lead the sector in assets and deposits and are reporting fairly consistent growth and stable market share. As a cautionary note, published figures and those reported to the FIC may differ due to variations in reporting requirements from bank accounting procedures. Aggregate figures used are derived from those published by all licensed banks.

Off-Site Monitoring and Bank Examinations

The Commission schedules onsite bank examinations based on a quarterly assessment of individual bank financial information reported on the FIC Prudential Returns as well as a bank's assigned rating in accordance to a Regulatory Response Policy. These quarterly returns consist of three forms and several related schedules and present information provided on an institution's balance sheet and income and expense statements.[2] Quarterly prudential returns are the main component of the off-site monitoring program and the Commission utilizes quarterly assessment reports as an integral part of on-site bank exam planning and scheduling.

The FIC conducted one onsite examination of a U.S. bank branch and one onsite exit assessment during the 2011 calendar year. Two scheduled onsite examinations of locally chartered banks were postponed during the year due to matters concerning capital inadequacy and the amendment to the Financial Institutions Act.

The FIC has established amiable and productive working relationships with designated reporting officials for the three U.S. branch institutions and the Boards and Management of all other banking institutions in Palau. The Commission continues its efforts to improve the quality of information reported by fostering better communication between the agency, bank/branch managers, and related officials that play a pivotal role in ensuring adequacy and accuracy in financial reporting and compliance with regulatory requirements.

Agency Interaction and Cooperation with Regulated Banks

All licensed banks have cooperated with the FIC in compliance with Prudential Regulations and have lent their cooperation and support to this agency's efforts in statistical data collections, prudential reporting, onsite bank examinations, and other issues. The FIC intends to continue to foster the existing good working relationship with all licensed banks to ensure cooperation, assistance, and input on Regulations, the banking law, compliance issues, and other matters pertinent to the industry.

The FIC maintains open and transparent communications with all regulated banks and ensures that these industry partners are informed on matters affecting their operations, i.e. bank examinations, off-site reviews, revisions of laws and or regulations, policy initiatives, and fee assessments.

Lending Institutions Not Regulated by the FIC

As per the Financial Institutions Act, the National Development Bank of Palau (NDBP), finance companies and credit unions (with assets less than $500,000) are exempt from regulatory oversight and supervision by this agency. However, the FIC has received expert advice and opinions from the Asian Development Bank, the IMF, and PFTAC regarding bringing these non-banks under its supervisory authority.

Anti-Money Laundering

In addition to regular bank supervision, the Commission is given authority in the Financial Institutions Act to examine all financial institutions' Anti-Money Laundering and Counter Financing of Terrorism (AMLCFT) procedures and reporting standards. Such examinations may, at the sole discretion of the FIC, be conducted as an on-site or off-site examination, or both. The FIC includes onsite AML/CFT examinations during regularly scheduled onsite prudential bank examinations. The Financial Intelligence Unit (FIU), established by RPPL 6-4, formerly located within the FIC is now operating as an independent body with an operating budget. *The Deputy Director was formally appointed in August of 2011 and the FIU is overseen by both the Governing Board of the FIC and the Attorney General. The FIC provides administrative support as well. Funding for the FIU has been established within the total operating budget for the FIC for FY2011~12.*

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[2] Previous regulatory financial forms consisted only of two forms: Form A (Balance Sheet data) and Form B (Income & Expense statement). These quarterly returns were submitted on a voluntary basis by banking institutions until September 1, 2008 when FIC Prudential Regulations were made effective and required regular quarterly reporting from all licensed banks. The FIC prudential forms were revised in January 2009 to include more detailed breakdowns of financial statement items. The new forms were effectively implemented beginning December 2009 and all banks in the sector are required to submit all relevant forms and schedules, certified by bank officials, in electronic form within 30 days following each quarter-end.

Below is an analysis of the current condition of the banking industry. On September 1st, 2008, Prudential Regulation PR-03 became effective and established requirements for all banks and branches of foreign banks (banks) to prepare and submit quarterly reports to the FIC within 30 (thirty) days following each quarter ending on March 31st, June 30th, September 30th, and December 31st of every year. Figures are required to be reported on a calendar year-to-date basis in accordance with written instructions prepared and issued by the FIC. Aggregate figures used in this report are derived from these quarterly prudential forms submitted to the Commission.

BANKING SECTOR INDICATORS: Capital, Assets, Earnings, & Liquidity

CAPITAL ADEQUACY (Uninsured banks):

- **Aggregate capital for uninsured banking institutions has declined due to Net Losses incurred and the closure of one bank.** Only one of the sector's foreign bank branches does not have depositor insurance and is required to maintain assigned capital; it is required to maintain a minimum of US$2million in capital on-island pursuant to the recently amended Financial Institutions Act of 2001; however, the Palau branch of First Commercial Bank formally announced in December 2011 its intent to voluntarily close down operations in Palau by late March/early April 2012. The three U.S. bank branches in Palau maintain depositor insurance of up to $250,000 per depositor by the U.S. Federal Deposit Insurance Corporation (FDIC); whereas the remaining banks in the sector are uninsured. On November 23, 2011, the only 100% wholly Palauan owned bank voluntarily ceased all deposit-taking activities and effectively transitioned into a finance company. The voluntary closures of First Fidelity Bank and the Palau branch of First Commercial Bank effectively reduces the number of licensed banks to five by mid-year 2012. The volume of total capital for uninsured banks is expected to be proportionately reduced due to the these two banks exiting the industry.
- **Capital is generally adequate for uninsured banks in the sector.** The FIC monitors uninsured banks to ensure capital is maintained at appropriate levels. As of the 2011 calendar year end, the aggregate level of capital is $4,575M. The level of capital has fallen by $300M, or 6% in the past year. Net losses incurred by some banks in this group and the closing of one bank has resulted in the decline in capital. All but one bank are in compliance with regulatory minimum capital ratios pursuant to statute and FIC prudential regulation PR-01. The bank that is not in compliance with statute has failed to meet the minimum ratio requirement for Total Capital to Risk Weighted Assets. Although the bank continues to be in noncompliance with statute and regulation, it has formally announced its intent to cease operations and the FIC is working with bank management to ensure that closure activities proceed in accordance with the FIC's guidelines and depositors and creditors are protected against any potential risk of loss of funds.

ASSET QUALITY:

- Quality of assets remains satisfactory for the banking sector. Total assets grew 23%, or by $24.7MM since last year-end. Liquid assets significantly increased by 54% or $36.7MM, whereas Net loans & overdrafts declined by 1.8%.
- **The quality of the industry's loan portfolio continues to be satisfactory** with a Non Performing Loans to Total Loans ratio of 3.26%, down from 5.54% last year. Approximately 97% of total loans for all licensed banks are performing and generate income. Total loans declined by $950M, or 3%, within the past year. The industry reported $590M in aggregate loan write-offs for the 2011 calendar year, contributing to the overall reduction in the loan portfolio.
    - Aggregate total loans for Insured banks slightly declined by less than one percent, approximately $162M, although there was a noticeable upsurge in new lending for one branch institution.
    - Uninsured banks experienced a 19.5%, or $788M, decline in aggregate total loans compared to prior year-end.
  - The ratio of Non Performing Loans (NPLs) to Total Loans for the industry declined due to the 43%, or $691M, drop in total NPLs. Insured banks maintain a ratio of less than one percent; whereas the ratio for uninsured banks has gone down from 36% at prior year-end to 23%. The ratio for uninsured banks declined because of the 48%, or $700M, decrease in nonperforming loans for this group of banks. Uninsured banks reported an aggregate $132M in loan write-offs, indicating that the significant decline in aggregate loans for this group of banks is primarily attributed to other factors.
  - The ratio of Loans past due 360 days or more to Total Loans is 2.15%, down from 3.87% last year. Loans past due 360 days or more fell 46%, or by $518M, contributing to the decrease. Insured banks do not report any loans past due 180 or more days as pursuant to their respective internal loan policies.

Composition of the Industry’s Loans

- 12% of the industry’s total loans are secured by Real Estate and 22% are secured by collateral other than Real Estate. The remaining 66%, totaling $18.4MM, are unsecured loans to resident individuals.
- Insured Banks hold 88% of the sector’s loans and 16% of the sector's non performing loans.

❖ **Provisions for Bad Loans remain adequate** for all banks. The current aggregate level of Provisions covers 238% of the industry’s Non Performing Loans. The ratio of Estimated Provisions for Bad Loans to NPLs is 76%, indicating that there is sufficient cushioning that well exceeds the industry's potential loan losses.

❖ Due From Other Banks balances comprise 76% of the industry’s Total Assets and 97% of Liquid Assets. The ratio of Due from Other Banks to Total Assets is up from 60% at the prior year-end. Insured banks hold 95%, or approximately $98.6MM, of the industry’s aggregate Liquid Assets. $96MM of the industry's $104MM in total liquid assets is comprised of demand deposits due from the Home Office & Other branches of foreign banking institutions.

- Some foreign bank branches apprear to not report any earnings from Due from Banks’ balances held at their respective Head Offices.As such, earnings may be understated for some branch institutions. However, determined proper determination will be made only after onsite examinations are conducted on all branch institutions.

EARNINGS PERFORMANCE:

❖ **Earnings performance remains fair.** Despite the general downward trend in earnings, most banks continue to generate profits. Earnings are still in decline for the overall industry because average yield on loans has declined from 17.9% down to 16.3% and total loans have declined compared to prior year-end.

❖ Return on Assets (ROA) for the industry is down from last year. ROA for Insured banks has declined from 2.07% at the prior year-end down to 1.86%; and ROA for Uninsured banks is 0.45%, an improvement from last quarter's negative return, but down from 1.29% at the same time last year. ROA for Insured banks is higher than the industry ROA of 1.72%; whereas ROA for Uninsured banks is well below the industry ROA and has generally declined over the last two years.

- The ratio of Net Interest Income to Average Assets has fallen from 3.01% down to 2.45% in the past year. Decline in Net Interest Income compared to last year-end is a result of the reduction in total loans. The ratio of Non Interest Income to Average Assets has gone down from 1.55% at last year-end to 1.22%. Declines in income and expense ratios as percentages of Average Assets are also the result of significant growth in the industry's average assets. Average Assets has increased due to the upsurge in the sector's liquid assets.
- The shrinking of the industry's net interest margin mainly results from the decline in the average yield on loans, which has outpaced the decline in cost of deposits. Due to the reduction in total loans for the both the Uninsured and Insured bank groups, the average yield on total loans has declined. The estimated yield on total loans for the industry is at 16.34%, down from 17.87% compared to the same period last year. At the same time, there appears to be a shift from Time Deposits to low or non-interest bearing deposits, which has contributed to driving down the average cost of deposits. Cost of deposits for the industry has fallen from 0.37% to 0.26%.
- The estimated yield on balances Due from Home Office & Other branches of the insured group of banks is 0.05%, which is lower than the Effective Federal Funds Rate average of 0.07% for the 4^{th} quarter of 2011. The estimated yield from the aggregate of these balances and earnings for the industry may be understated.

Some insured banks do not report applied Net Income Taxes on their prudential returns in spite of showing Net Income earned for the periods shown below. As such, aggregate figures in the following table understate applicable income taxes for the Palau banking industry. The FIC has corresponded with these banks to determine their reasons for not reporting applicable income taxes, but has not received responses as of this report date. All banks should be accruing taxes based on their year-to-date earnings every quarter.

Condensed Income & Expense Statement

Calendar Year to Date Amounts (in U.S. '000s)	4th Qtr 2010			4th Qtr 2011		
	Insured	Uninsured	All Banks	Insured	Uninsured	All Banks
Interest And Fee Income	4,433	655	5,088	3,770	522	4,292
Interest Expense	948	8	956	556	9	565
NET INTEREST INCOME	**3,485**	**647**	**4,132**	**3,214**	**513**	**3,727**
Provisions For Bad Loans Expense	**58**	**45**	**103**	**46**	**22**	**68**
NON-INTEREST INCOME	**1,237**	**386**	**1,623**	**1,078**	**321**	**1,399**
NON-INTEREST EXPENSE	**2,714**	**810**	**3,524**	**2,288**	**753**	**3,041**
NET INCOME (LOSS) BEFORE TAXES	1,950	178	2,128	1,958	59	2,017
Less: Income Taxes	8	41	49	35	8	43
Year-to-date Income (Loss)	**1,942**	**137**	**2,079**	**1,923**	**51**	**1,974**

LIQUIDITY ADEQUACY:

- **Liquidity in the industry remains satisfactory.**
- The Liquidity Ratio calculated for the banking industry has gone up to 83% from 67% at the prior year-end. There are eighty-three cents in liquid assets for every dollar of short term liabilities including deposits. Liquid assets[3] grew by $36.7MM, or 54% from the same time last year, which is commensurate with growth in deposits.
- Local liquid assets (i.e. cash balances) aggregated for Insured branch institutions cover just 2.35% of total short term liabilities, including deposits with maturities of one year or less, for this group of banks- slightly down from 2.62% at the prior year-end. Despite some concern with their ability to access cash funds from secondary sources in the event of liquidity crisis, foreign branch institutions appear to maintain sufficient funds to meet depositor demands and operational needs. The FIC has learned through onsite examinations that some banks in the industry participate in an informal arrangement whereby each could act as a secondary source of contingency cash funds on an "as needed" basis.
- Figures reported for Uninsured banks on the other hand demonstrate minimal liquidity risk for this banking group as core liquid assets cover 140% of total short term liabilities for this group of banks, up from 112% at the same period last year.
- **Banks in the industry demonstrate continued ability to meet depositor demands**.
- Total Customer Deposits for the industry have grown 24%, or by $24MM, within the past year, largely contributing to the overall growth in aggregate liquid assets. Demand deposits have gone up 48% or by $15MM and Savings deposits went up 21%, or by $10.6MM. Time deposits on the other hand fell by 9%, or $1.5MM from the prior year-end.
    - Insured branch institutions show 29%, or $27MM, growth in aggregate customer deposits from the same period last year, contributing to the 65%, or $39MM increase in Liquid Assets[3] for this group of banks. Insured banks report more assets maturing within one year or less compared to prior years, which has also attributed to the significant increase in Liquid Assets[3], specifically, balances Due from Home Office & Other branches. This shift from longer term deposits to shorter term deposits has also resulted in the increase in the liquidity ratio for insured banks from 63% at this time last year up to 81%.
    - Uninsured banks show a 49% decline in total customer deposits for the 2011 calendar year. Aggregate customer deposit levels for this banking group fell by $3.1MM. Demand deposits minimally fell by $1M; whereas Savings deposits for this group of banks a substantial decline of $3MM, or 54%. Time deposits also declined 94% or by $77M from the prior year-end. Only one bank in this group offers Demand deposit accounts.

[3] Liquid Assets (PR-10) includes (i) currency and coin, domestic and foreign, to the extent that any foreign currency is readily convertible to U.S. dollars; (ii) net balances with banks, domestic or abroad, to the extent that such balances are not encumbered or subject to withdrawal restrictions and have a remaining term to maturity of one year or less; and (iii) unrestricted, readily marketable securities which have a value that can be determined from a listing on a recognized international securities exchange.

- The ratio of Total Deposits to Total Loans rose to 441% from 343% at last year-end. The ratio went up due to growth in total deposits together with reduction in total loans. The ratio represents that on average, for every dollar in loans, the sector maintains approximately $4.41 in deposits, which is higher than $3.43 in deposits for every dollar in loans at the same period last year. This ratio has several implications, including that deposits are being taken in faster than new loans are being issued by banks in the sector. Some banks have demonstrated the intent and ability to expand their respective loan portfolios. With the upward trend in deposit activity, there is ample potential for expansion in lending as there is sufficient liquidity to support loan growth in the banking sector.

Ratios & Summary Balance Sheet

KEY RATIOS (%)	4th Qtr 2010			4th Qtr 2011		
	Insured	Uninsured	All Banks	Insured	Uninsured	All Banks
Total Capital to Total Assets	n.a.	42.15	n.a.	n.a.	54.06	n.a.
Tier 1 Leverage Capital Ratio	n.a	37.37	n.a	n.a	45.86	n.a
Tier 1 Risk Based Capital Ratio	n.a	91.17	n.a	n.a	101.35	n.a
Total Risk Based Capital Ratio	n.a	(13.25)	n.a	n.a	32.83	n.a
Non Performing Loans to Total Loans	0.56	36.23	5.54	0.60	23.49	3.26
Provisions for Bad Loans to NPLs	825.71	101.09	164.34	440.94	198.04	237.68
Net Income to Average Assets (ROA)	2.07	1.29	1.99	1.86	0.45	1.72
Net Interest Income to Average Earning Assets	3.71	6.09	3.95	3.11	4.53	3.25
Interest Margin to Gross Income	73.80	62.63	71.80	74.88	61.51	72.71
Non Interest Expense to Average Assets	2.89	7.62	3.37	2.22	6.65	2.66
Average Yield on Loans	17.76	18.42	17.87	16.60	14.73	16.34
Average Cost of Deposits	0.39	0.11	0.37	0.27	0.10	0.26
Liquidity Ratio (PR-10)	63.49	114.05	66.84	80.87	139.66	82.68
Cash Balances to Short Term Liabilities	2.62	5.32	2.82	2.35	4.81	2.44
Average Earning Assets to Average Assets	26.05	71.89	30.70	21.96	75.95	27.29
Net Loans to Total Assets	24.73	22.14	24.45	19.44	20.56	19.51
Customer Deposits to Total Loans	373.67	155.88	343.26	485.86	98.62	440.85

Summary Balance Sheet Calendar Year to Date Amounts (in U.S. '000s)	4th Qtr 2010			4th Qtr 2011		
	Insured	Uninsured	All Banks	Insured	Uninsured	All Banks
Cash and Due from Other Banks	70,631	7,631	78,262	98,608	5,430	104,038
Other Assets	1,650	1,374	3,024	1,175	1,293	2,468
Net Loans	23,745	2,561	26,306	24,082	1,740	25,822
Gross Loans	*24,901*	*4,041*	*28,942*	*24,739*	*3,253*	*27,992*
Provisions for Bad Loans	*(1,156)*	*(1,480)*	*(2,636)*	*(657)*	*(1,513)*	*(2,170)*
TOTAL ASSETS	**96,026**	**11,566**	**107,592**	**123,865**	**8,463**	**132,328**
Total Deposits	93,047	6,299	99,346	120,196	3,208	123,404
Demand/Checking	*30,683*	*597*	*31,280*	*45,663*	*596*	*46,259*
Savings	*46,039*	*5,620*	*51,659*	*59,669*	*2,607*	*62,276*
Time Deposits	*16,325*	*82*	*16,407*	*14,864*	*5*	*14,869*
Other Liabilities	1,037	392	1,429	1,746	680	2,426
TOTAL LIABILITIES	**94,084**	**6,691**	**100,775**	**121,942**	**3,888**	**125,830**
Issued and Fully Paid Up Common Stock	n.a.	5,983	5,983	n.a.	4,265	4,265
Paid-in Premium	n.a.	0	0	n.a.	700	700
Retained Profits (Losses) (Prior Years)	n.a.	(1,245)	(1,245)	n.a.	(441)	(441)
Income (Loss) Year-to-date	1,942	137	2,079	1,923	51	1,974
TOTAL CAPITAL	**1,942**	**4,875**	**6,817**	**1,923**	**4,575**	**6,498**
TOTAL LIABILITIES & CAPITAL	**96,026**	**11,566**	**107,592**	**123,865**	**8,463**	**132,328**