2010 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).

G. Semdiu Decherong
Executive Commissioner

August 4, 2011
Date

Republic of Palau

Financial Institutions Commission

2010 Annual Palau Banking Sector Report

Summary Industry Assessment

The overall condition of the Palau banking industry remains fair with indications of 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 increased throughout the 2010 calendar year; this was attributed to consistent earnings generated by two banks in particular. All but one foreign bank branch whose deposits are not insured by a government sponsored insurance program are in compliance with required capital ratios pursuant to the amended Financial Institutions Act, and prudential regulation PR-01.

Asset quality indicators demonstrate improvements in the quality of assets for the sector at the aggregate level. Overall, the ratio of Non Performing Loans (NPLs) to Total Loans has been reduced from 7.56% to 5.54% over the calendar year; and the ratio of Loans past due 360 days or more to Total Loans has also gone down from 5.92% to 3.87%. The significant volume of loan write-offs compared to last year and restrictions on new lending have resulted in reductions to the industry's total loans.

Decline in total loans has resulted in reduced Net Interest Income for the sector as a whole, compared to the prior year. Non Interest Income to Gross Income is higher; indicating that some banks may be augmenting earnings by increasing fees and charges. Overall, there is a downward trend in earnings due to reduction in the loan activity and a reduction of the industry loan portfolio, although a majority of banks are generating profits and demonstrate the ability to meet operational needs.

Liquidity is adequate and banks demonstrate the ability to continually meet depositors' demand. The FIC has 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 established informal arrangements amongst themselves. .

New Developments

Legislation:

A bill to amend the Financial Institutions Act was proposed and passed by the Senate. The bill is currently being discussed in both the Senate and House of Delegates Ways, Means & Financial Matters Committee and as of the annual report date;, the legislation is continually being worked on by both houses of the OEK. The FIC submitted its comments and recommended amendment language to the President as well as the OEK, as requested by both parties. The proposed amendment submitted by the Office of the President seeks to change the Financial Institutions Act such that uninsured foreign bank branches operating in Palau would be granted a blanket exemption from minimum capital requirements as currently set forth in the banking law and FIC regulation PR-01. The FIC is working with all parties to arrive at a reasonable outcome that will retain the integrity of the FIA while ensuring that the industry is not adversely affected by statutory requirements.

Bank License Applications

During the 2010 calendar year, the FIC was approached by several individuals/entities interested in establishing banking institutions in Palau, however, the Commission has not yet received complete application packets for new banking licenses, and thus, none have been reviewed. There were eight (8) interested individuals and/or groups that approached the FIC for information and procedures for applying for bank licenses. 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 in order to allow the Commission time to adopt and fully implement its prudential and administrative regulations as promulgated under the Financial Institutions Act.

Off-Site Monitoring Program
The FIC's new off-site monitoring program was fully implemented during the beginning part of the 2010 calendar year with new prudential reporting requirements put into place. From detailed quarterly prudential returns, the FIC has been producing analysis reports for each licensed bank and branch, as well as an overall banking industry report every quarter. An annual report is also produced for submission to the Olbiil Era Kelulau (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 first of such reports was submitted to the OEK in June 2010 for the calendar year ending 31 December 2009. These reports are a work in progress and the FIC has made significant improvements in analysis and reporting such that they provide sufficient detail to aid in off-site monitoring of licensed banks and onsite exam scheduling.

Budgeting:
The FIC has, as of the date of this report, requested through the Senate for the FIC budget for Fiscal Year 2012 to be effectively reduced to zero ($0.00), as the FIC is now able to fully fund its operations. The source of funding is from the established laws and regulations on banking sector assessment. The FIC has concurrently requested that the funding expected for its operations from the National Government, that such funding be diverted to establish a funding line item for the Financial Intelligence Unit in the national budget for FY 2012.

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 II)** 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 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 and Bank Examiner have successfully completed the first part of a U.S. FDIC training on bank examination, and has received training on liquidity frameworks and analysis from PFTAC in conjunction with APRA and the Bank of International Settlements' Financial Stability Institute. Other training received 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 Executive Commissioner has completed the second scheduled FDIC training and Bank Examiner is scheduled to complete the second part of U.S. FDIC training during the 2011 calendar year.

The Asia Development Bank (ADB) was requested to assist the FIC in reviewing the proposed secured transactions registry legislation; this was recently completed and a bill is pending action in the Senate.

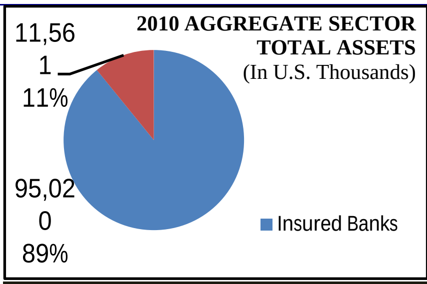
Sector Overview

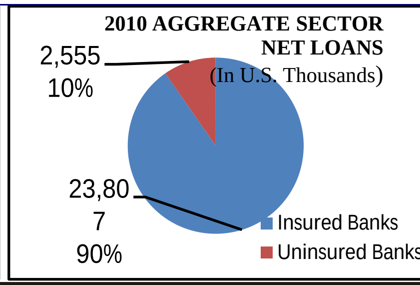
The Financial Institutions Commission currently monitors and regulates seven banks—four foreign bank branches and three locally chartered banks. Three of the four foreign bank branches are U.S. chartered and insured by the U.S. Federal Deposit Insurance Corporation (FDIC) whereas the remaining banks do not have depositor insurance. The National Development Bank of Palau is exempt from regulation pursuant to the statute.

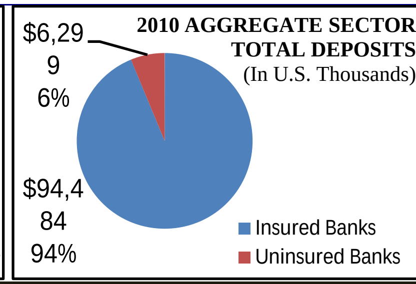
For the purposes of this report, the banking sector has been divided into two banking groups, namely the insured banks and uninsured banks, due to the differences in size and business scope that are unique to the banks that have been categorized within these groupings. In this report, "insured banks" 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 90% of the banking sector's aggregate Net Loans and 94% of the sector's aggregate total deposits. [1]

[1] Based on figures reported for 2010 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.







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. The agency fulfills its objective by conducting offsite monitoring of all licensed banks and through onsite examinations.

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 conducts quarterly assessments and analysis of individual banks as an integral part of on-site bank exam planning and scheduling. These onsite examinations include detailed assessments of banks' systems and procedures in place that prevent or inhibit money laundering and terrorist financing activities. The FIC conducted five onsite examinations of licensed banks during the 2010 calendar year.

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 the implementation of FIC 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 compliance 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), the Pacific Islands Development Bank (PIDB), finance companies and credit unions (with assets less than $500,000) are exempt from regulatory oversight and supervision by this agency. However, the FIC seeks to garner baseline reports on the totality of the lending industry to capture all loan activity in the Republic of Palau. To that effect, the PIDB and NDBP have pledged to provide aggregate information on their respective loan activity in Palau in order to further our analysis of the overall levels and trends of lending in the Republic.

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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.

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 Financial Intelligence Unit (FIU), established by RPPL 6-4, formerly located within the FIC is now operating out of the Attorney General's Office, headed by the FIU Director. The FIU is overseen by a committee of the FIC Governing Board, and funding for the FIU has been established within the total operating budget for the FIC. Furthermore, under Chapter I Section 3 (f) of the Act, banks as a class that are organized as credit unions under Chapter 7 of the Corporation Regulations of the Republic of Palau and whose total assets exceed five hundred thousand dollars ($500,000) are subject to the FIC's licensing and regulatory requirements.

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.

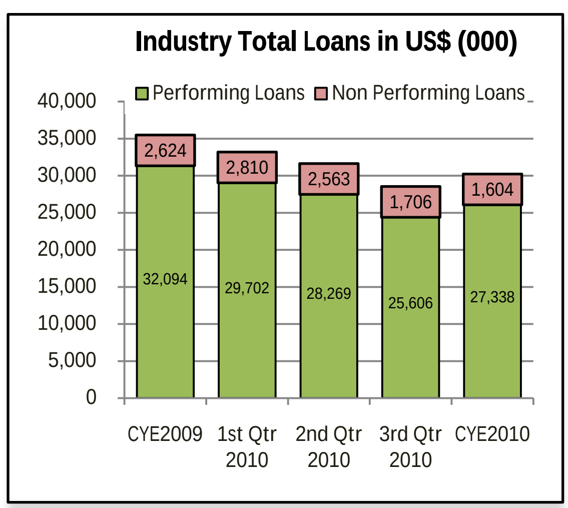
BANKING SECTOR INDICATORS: Capital, Assets, Earnings, & Liquidity

CAPITAL ADEQUACY (for those institutions required to maintain capital or assigned capital):

- **Aggregate capital is relatively stable and has been steadily rising for uninsured banking institutions.** Only one of the sector's foreign bank branches does not have depositor insurance and is required to maintain assigned capital; it needs to keep US$5 million in an escrow account pursuant to the amended Financial Institutions Act of 2001 and FIC prudential regulation PR-01. 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 four banks in the sector are uninsured
  - Total Capital as reported by uninsured licensed banks has grown 7% from CYE2009, with an aggregate level of $4.9million for those banking institutions required to maintain capital or assigned capital. All uninsured banks are in compliance with regulatory minimum capital ratios pursuant to statute and FIC prudential regulation PR-01.
- The FIC monitors uninsured banks to ensure capital levels are maintained at appropriate levels. As of the calendar year end, three banks are in non-compliance with statutory minimum capital level requirements. Appropriate enforcement actions are in place at the moment should banks' continue to demonstrate inability to raise capital levels to meet with statute and regulatory requirements and the FIC is working with individual banks to prompt compliance with minimum capital requirments.

ASSET QUALITY:

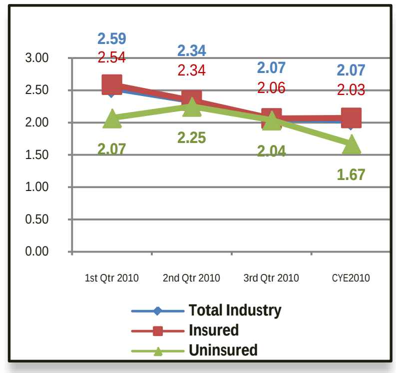
- **Quality of assets remains satisfactory.** Total assets grew 1% in calendar year 2010, even though total loans declined by $5.8million, or 17.8%, since prior year-end. Declines in total loans are reflective of restrictions on lending by most banks as well as a significant volume of loan write-offs; however, two licensed banks have shown notable growth in their loan portfolios in contrast to reductions in loans for the remaining banks in the industry.
- The quality of the industry's loan portfolio is satisfactory with 95% of total loans in performing status.
  - The industry's Non Performing Loans (NPLs) are down 39%, or by $1.02million from CYE2009. Of the $1.6million in aggregate NPLs, $1.46million, or 91%, are NPLs for Uninsured banks. The ratio of NPLs to Total Loans is 0.56% for insured banks, slightly down from 0.62% last year; whereas uninsured banks maintain a ratio of 36%; a minimal change from the prior year.
  - The industry reported $2.08million in aggregate loan write-offs for the 2010 calendar year. Significantly more loans have been written off this year compared to an aggregate of $923 thousand reported last year - an indication that banks, particularly uninsured banks, have continued to improve credit administration, accounting, and lending policies in conformity to regulations, FIA requirements, and recommendations given after onsite examinations. For example, loans are being written off rather than kept on the books, as done before which resulted in overstated assets.



- **Provisions for Bad Loans remain satisfactory** at the aggregate level. Provisions for Bad Loans cover 164% of the industry's Non Performing Loans.
  - Total recoveries made on loans previously written off year-to date are $520thousand, indicative of some banks efforts in continuing to collect on loans written off.
- Due From Other Banks balances comprise 60% of the industry's Total Assets and 96% of Liquid Assets[3]. 90% of these balances are due from the Head Offices of U.S. bank branches.
  - The effective Federal Funds Rate averaged 0.18% for 2010 according to U.S. Federal Reserve historical data. The average yield on aggregate balances Due from Other Banks was 0.05% for the calendar year, indicating that the local banking sector earned a much lower yield on average if yields are compared to the overnight interbank lending rate for the U.S.

EARNINGS PERFORMANCE:

- **Earnings performance remains fair.** Despite the general downward trend in earnings, a majority of licensed banks continue to generate profits. Reductions in total loans have resulted in earnings decline for the overall industry.



- Return on Assets (ROA) for the industry is trending down (*See graph on the right*). ROA for insured banks is 2.07%, down from 2.59% at the end of first quarter; and ROA for uninsured banks is 1.67%. ROA for insured banks is just slightly higher than the industry ROA of 2.03%.
  - Decline in loans has resulted in lower Net Interest Income, and some banks appear to be supplementing earnings by raising lending fees and other sources of non-interest income. Interest Margin to Gross Income has gone down from 78.6% to 71.8% since prior year end. This ratio is lower for uninsured banks at 62.6%, down from 89.9% at the 2009 calendar year-end. This ratio is 73.8% for insured banks.
- *Average cost of assets is the ratio of non-interest expenses or "operating/overhead expenses" to average total assets. This ratio is 3.37% for the industry, up from 2.88% at the end of first quarter 2010*. Non-interest expenses are slightly higher overall compared to last year. Uninsured banks appear to be cutting costs in some areas to offset rising operational expenses (i.e. utilities, supplies, etc.).

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 on quarterly forms submitted to the Commission, 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 and report such figures as required by FIC prudential regulation.

Condensed Income & Expense Statement

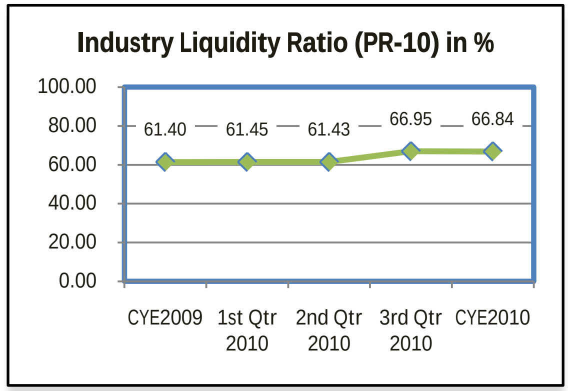
Calendar Year to Date Amounts (in U.S. '000s)	CYE2009			CYE2010		
	Insured	**Uninsured**	**All Banks**	**Insured**	**Uninsured**	**All Banks**
Interest And Fee Income	5,909	875	6,784	4,433	655	5,088
Interest Expense	1,623	38	1,661	948	8	956
NET INTEREST INCOME	**4,286**	**837**	**5,123**	**3,485**	**647**	**4,132**
Provisions For Bad Loans Expense	**113**	**102**	**215**	**58**	**45**	**103**
NON-INTEREST INCOME	**1,314**	**94**	**1,408**	**1,237**	**386**	**1,623**
NON-INTEREST EXPENSE	**2,679**	**832**	**3,511**	**2,714**	**810**	**3,524**
NET INCOME (LOSS) BEFORE TAXES	2,808	(3)	2,805	1,950	178	2,128
Less: Applicable Income Taxes	2	7	9	8	41	49
Year-to-date Income (Loss)	**2,806**	**(10)**	**2,796**	**1,942**	**137**	**2,079**

[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.

LIQUIDITY ADEQUACY:

- **Liquidity remains satisfactory.**

- The industry's Liquidity Ratio as defined by FIC prudential regulation PR-10 is 66.8% (or, more than 66 cents in liquid assets for every dollar in short term liabilities), up from 61.4% last year. Liquid assets grew by $6.5million, or 10.6% during the year, which is commensurate with growth in customer deposits. Total customer deposits aggregated for the industry have grown 5.3%, or by $5million, during the 2010 calendar year, largely contributing to the overall growth in aggregate liquid assets. Savings deposits have gone up 30.6%, whereas demand and time deposits declined 4% and 25%, respectively.

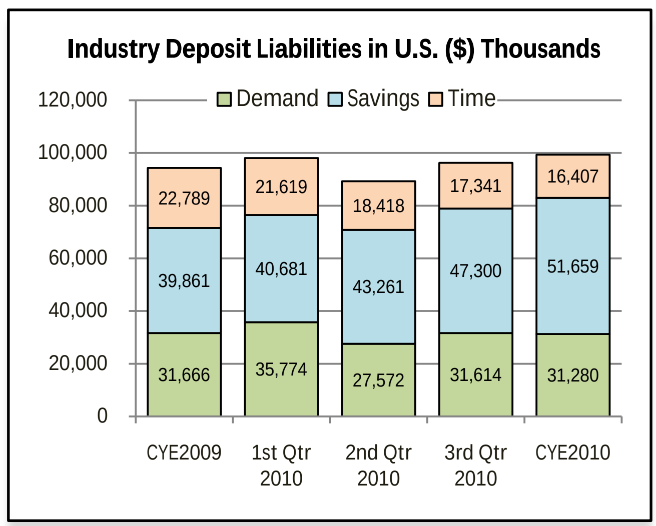


- Local liquid assets (i.e. cash balances) aggregated for insured branch institutions cover just 2.8% of short term liabilities for this banking group, down from 3.2% at prior year end. Despite some concern with their ability to access cash funds from secondary sources in the event of liquidity crisis, foreign branch institutions demonstrate the ability 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. This practice has been beneficial for these banks and to some extent ensures the availability of contingency funding for these banks should the need arise.

- Figures reported for uninsured banks on the other hand demonstrate minimal liquidity risk for this banking group. As a group, their liquidity ratio is 114%, up from 83.6% at prior year end. Concern with these banks primarily lies in the lack of adequate liquidity policies inclusive of risk measurement and monitoring procedures. The FIC has addressed this concern with all banks in this banking group during onsite examinations conducted within the past year and the FIC has worked with bank managers to and provided some guidelines for the formulation of adequate policies.

- **Banks in the industry demonstrate continued ability to meet depositor demands**.

- Total customer deposits aggregated for the industry have grown 5.3%, or by approximately $5million, during the 2010 calendar year, contributing to the 10.6% growth in the industry's aggregate liquid assets. Savings deposits went up 30.6% or by $11.8million; whereas demand and time deposits declined 4% and 25%, or $386thousand and $6.4million, respectively.
  - Insured branch institutions show a 4%, or $3.7million, growth in their aggregate level of customer deposits during the calendar year. This largely contributed to the 6.8%, or $3.8million increase in liquidity levels for this group of banks.
  - Uninsured banks also show significant growth in deposits. Aggregate customer deposit levels for this banking group went up 28%, or by $1.36million, during the 2010 calendar year. Savings and Time Deposits for this group of banks went up 34% and 19%, or $1.44million and $13thousand, respectively; whereas Demand deposits declined 13% or $87thousand. Only one bank in this group offers Demand deposit accounts.



- The marked downward trend in total loans is consistent with growth in liquidity as most banks held back on funding new loans in the 2010 calendar year. The ratio of Customer Deposits to Total Loans has gone up to 343% from 272% at CYE2009 due to declines in loans and growth in total deposits. On average, for every dollar in loans, the sector holds over three dollars in deposit liabilities. This is reflective of most banks holding deposits as liquid assets rather than issuing new loans.

Republic of Palau

Financial Institutions Commission

Ratios & Summary Balance Sheet

KEY RATIOS & FINANCIAL SECTOR INDICATORS	CYE2009			CYE2010		
	Insured	Uninsured	All Banks	Insured	Uninsured	All Banks
Total Capital to Total Assets	n.a.	43.45	n.a.	n.a.	42.15	n.a.
Tier 1 Leverage Capital Ratio	n.a.	35.33	n.a.	n.a.	37.37	n.a.
Tier 1 Risk Based Capital Ratio	n.a.	71.04	n.a.	n.a.	91.17	n.a.
Total Risk Based Capital Ratio	n.a.	22.94	n.a.	n.a.	(13.25)	n.a.
Non Performing Loans to Total Loans	0.62	36.88	7.56	0.56	36.23	5.54
Provisions for Bad Loans to NPLs	583.82	97.92	129.95	825.71	101.09	164.34
Net Income to Average Assets (ROA)	n.a.	n.a.	n.a.	2.07	1.67	2.03
Net Interest Income to Average Earning Assets	n.a.	n.a.	n.a.	3.71	6.09	3.95
Interest Margin to Gross Income	76.54	89.90	78.62	73.80	62.63	71.80
Non Interest Expense to Average Assets	n.a.	n.a.	n.a.	2.89	7.62	3.37
Average Yield on Loans	n.a.	n.a.	n.a.	17.76	18.42	17.87
Average Cost of Deposits	n.a.	n.a.	n.a.	0.39	0.11	0.37
Liquidity Ratio (PR-10)	60.00	83.56	61.40	63.49	114.05	66.84
Cash Balances to Short Term Liabilities	3.11	4.35	3.19	2.62	5.32	2.82
Average Earning Assets to Average Assets	n.a.	n.a.	n.a.	26.05	71.89	30.70
Net Loans to Total Assets	28.17	40.65	29.40	24.73	22.14	24.45
Customer Deposits to Total Loans	318.39	74.27	271.66	373.67	155.88	343.26

Summary Balance Sheet

Calendar Year to Date Amounts (in U.S. '000s)	CYE2009			CYE2010		
	Insured	Uninsured	All Banks	Insured	Uninsured	All Banks
Liquid Assets	67,539	4,935	72,474	70,631	7,631	78,262
Other Assets	1,452	1,264	2,716	1,650	1,374	3,024
Net Loans	27,063	4,245	31,308	23,745	2,561	26,306
Gross Loans	*28,073*	*6,645*	*34,718*	*24,901*	*4,041*	*28,942*
Provisions for Bad Loans	*(1,010)*	*(2,400)*	*(3,410)*	*(1,156)*	*(1,480)*	*(2,636)*
Performing Loans	*27,899*	*4,190*	*32,089*	*24,761*	*2,577*	*27,338*
Non Performing Loans	*174*	*2,455*	*2,629*	*140*	*1,464*	*1,604*
Loans Past Due 360 days or more	*0*	*2,063*	*2,063*	*0*	*1,121*	*1,121*
TOTAL ASSETS	**96,054**	**10,444**	**106,498**	**96,026**	**11,566**	**107,592**
Total Deposits	89,381	4,935	94,316	93,047	6,299	99,346
Demand/Checking	*30,982*	*684*	*31,666*	*30,683*	*597*	*31,280*
Savings	*35,679*	*4,182*	*39,861*	*46,039*	*5,620*	*51,659*
Time Deposits	*22,720*	*69*	*22,789*	*16,325*	*82*	*16,407*
Other Liabilities	3,867	971	4,838	1,037	392	1,429
TOTAL LIABILITIES	**93,248**	**5,906**	**99,154**	**94,084**	**6,691**	**100,775**
Issued and Fully Paid Up Common Stock	n.a.	5,080	5,080	n.a.	5,283	5,283
Paid-in Premium	n.a.	700	700	n.a.	700	700
Retained Profits (Losses) (Prior Years)	n.a.	(1,232)	(1,232)	n.a.	(1,245)	(1,245)
Income (Loss) Year-to-date	2,806	(10)	2,796	1,942	137	2,079
TOTAL CAPITAL	**2,806**	**4,538**	**7,344**	**1,942**	**4,875**	**6,817**
TOTAL LIABILITIES & CAPITAL	**96,054**	**10,444**	**106,498**	**96,026**	**11,566**	**107,592**