ANNUAL REPORT OF THE PALAU BANKING SECTOR

2024–2025

FINANCIAL INSTITUTIONS COMMISSION

Republic of Palau

PROTECTING AND ENSURING THE INTEGRITY OF, AND CONFIDENCE IN, THE FINANCIAL SECTOR OF THE REPUBLIC OF PALAU.

Approved by the Governing Board of the Financial Institutions Commission, April 17, 2026

Submitted to the President of the Republic and the Olbiil Era Kelulau

Pursuant to the Financial Institutions Act of 2001

Message from the Executive Commissioner

To the Leadership and the People of the Republic of Palau:

I am honored to present the Financial Institutions Commission's Annual Banking Sector Report for calendar years 2024 and 2025.

This report provides an overview of the condition and performance of Palau's banking sector during the review period and summarizes the Commission's supervisory and regulatory work in support of a sound, stable, and trusted financial system.

I assumed the responsibilities of Executive Commissioner in May 2025 after more than a decade of service to the Commission as Office Manager. I accepted this new role with humility and with a clear understanding that public trust in financial regulation is not built by any one individual, but by the strength of the institution, the integrity of its legal framework, and the consistency and professionalism with which its mandate is carried out. I am honored to continue that work and remain committed to supporting a Commission that is transparent, credible, and continually improving in how it serves the Republic.

This report reflects both continuity and transition. It covers a period in which the Commission continued its responsibility to oversee licensed financial institutions, uphold prudential standards, and strengthen the supervisory foundations needed to respond to an increasingly complex financial environment. As the banking sector evolves, the Commission must continue to build its institutional capacity, deepen risk-based supervision, improve the quality and use of prudential information, and strengthen cooperation with domestic and international partners. These are not short-term tasks, but they are essential to protecting the public interest and preserving confidence in Palau's financial system.

I would like to acknowledge my predecessors, Mr. Semdiu Decherong, for his nineteen years of service to the Commission from its inception, during which he established a strong foundation on which it continues to operate today, and Mr. Cjay Shiro for his service during a particularly challenging period. I also thank the Governing Board of Commissioners for its unwavering commitment to protecting the Commission's integrity and for its guidance and confidence throughout the FIC's leadership transitions.

I also extend sincere appreciation to our partner agencies and technical assistance providers, including the IMF, IMF PFTAC, IMF-STI, ADB, ADB PSDI, World Bank, FDIC and our institutional consultant, HeartKey Synergies, for their continued support. Most importantly, I thank the staff of the Commission for their professionalism, resilience, and dedication to the Commission and to public service. Their work sustains this institution and strengthens its ability to carry out its mandate effectively and faithfully.

Looking ahead, the Commission's vision is clear: to continue strengthening supervisory effectiveness, institutional capability, and regulatory credibility in a manner that is practical, disciplined, and responsive to Palau's needs. We will approach that work with humility, independence and objectivity, and a firm sense of responsibility to the Government of the Republic of Palau, the institutions we supervise, and the community we proudly serve.

Respectfully submitted,

V. Tikei Sbal
Executive Commissioner
Financial Institutions Commission
Republic of Palau
April 2026

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Summary Assessment

The overall condition of the Palau banking sector remains satisfactory. Growth and stability are maintained, supported by the ongoing recovery in tourism, the renewed Compact of Free Association, and expanded economic activity during the 2024–2025 reporting period. Palau's economy grew by an estimated 6.6 percent in fiscal year 2024, driven by a robust recovery in visitor arrivals and construction activity, with growth projected at approximately 8.2 percent in FY2025[1].

- **Total Assets** of all licensed banks reached $404.5 million at December 31, 2024 — a 37.0% increase from $295.1 million at year-end 2023 — driven primarily by growth in customer deposits associated with the tourism recovery and renewed Compact of Free Association (CRA-23) funds. Total assets rose further to $515.6 million at December 31, 2025, the sector's all-time high, reflecting a large year-end deposit inflow driven by seasonally concentrated government deposits, including funds for Peleliu land purchase related to U.S. military projects and Compact disbursements.
- **Asset quality** indicators remain satisfactory. The industry ratio of Non-Performing Loans (NPLs) to Total Loans remained low at 0.64% at year-end 2024 and rose modestly to 0.83% at December 31, 2025. Gross loans grew strongly from $33.4 million (year-end 2024) to $44.2 million (year-end 2025), a 32.3% increase. Provisions for Loan Losses remain more than adequate, covering NPLs by 754% at year-end 2024 and 570% at December 31, 2025.
- **Profitability** remains strong. Industry net income for the 12 months ending December 31, 2024 was $10.45 million — the highest on record — with Return on Assets (ROA) of 2.81%. For calendar year 2025, net income was $9.66 million and ROA moderated to 2.35%, partly reflecting the impact of declining U.S. interest rates.
- **Liquidity** remains strong. The sector's Liquidity Ratio (PR-10) reached 95.52% at year-end 2024 and 94.17% at December 31, 2025, due to licensed banks consistently exceeding the regulatory minimum throughout the reporting period.
- **Capital adequacy:** The two locally chartered banks maintained aggregate regulatory capital of approximately $3,884 million at December 31, 2025, with an aggregate Tier-1 Capital Ratio of 78.8%. Publicly available data indicate that the U.S. banking organizations supporting the Palau branches remained strongly capitalized throughout the reporting period.

[1] ADB, Asian Development Outlook, September 2025

New Developments

Governing Board of Commissioners

As of December 31, 2025: The Governing Board consisted of Chairman Okada Techitong; Vice Chair Chance Douglas; Member Hermana Idip; and Member Uroi Salii. Two vacancies remain to be filled as of April 2026.

Regular Sessions of the Financial Institutions Commission (FIC/Commission) Governing Board are scheduled for every third Tuesday of each month at 11:00 a.m. at the FIC Office.

As of December 31, 2024: The Governing Board consisted of Chairman Vance Polycarp; Vice Chair Okada Techitong; Member Chance Douglas; and Member Hermana Idip.

New Office Location

In December 2024, the FIC relocated to its new office at the Surangel & Sons Building, 2nd Floor, Ikelau, Koror State. The move was undertaken to accommodate the operational expansion of both the FIC and the Financial Intelligence Unit (FIU), providing improved capacity and working facilities for both agencies.

Executive Commissioner Transition and Supervisory Capacity

During the 2024–2025 reporting period, the Commission underwent a significant change in its executive leadership. The former Executive Commissioner, Mr. Cjay Shiro, departed his position in October 2024, prompting a vacancy announcement in November 2024, which was subsequently reposted in February 2025. In May 2025, the Governing Board appointed the FIC's long-serving Office Manager as Executive Commissioner from a pool of six applicants. The internal promotion was intended to ensure institutional continuity and facilitate a smooth leadership transition.

In calendar year 2024, the FIC conducted an onsite examination of Asia Pacific Commercial Bank (APCB) followed by an onsite examination of Palau Investment Bank (PIB) in 2025. The FIC is currently collaborating with a consultant to develop a structured examination schedule that will establish a regular cycle of onsite reviews for all five licensed institutions. To strengthen its supervisory capacity, a Junior Bank Examiner position was posted in April 2025. As a result, one examiner was hired in 2025 and another was appointed through an internal promotion. Both examiners, along with the Executive Commissioner, are scheduled to begin FDIC examination training in 2026.

Bank License Applications

Calendar Year 2024: The FIC received two banking license applications; however, both applications were returned as materially incomplete within the required timeframe pursuant to FIC Regulation PR-07. The FIC will engage with them constructively should the bank license applicants choose to submit revised applications in the future.

Calendar Year 2025: No new banking license applications were received by the FIC during calendar year 2025.

Corporate Registry Implementation

By Executive Order No. 477, signed by His Excellency President Surangel S. Whipps, Jr. on January 12, 2023, the FIC was designated as the Registrar of Corporations. Pursuant to the Corporations Act of 2021, the FIC successfully launched a new online Corporate Registry (http://www.palauregistries.pw) on January 20, 2025, transferring responsibility for corporate registration—and the registration of other business associations—from the Office of the Attorney General to the FIC. The online registry currently supports the registration of corporations, while other business associations—such as partnerships, credit unions, cooperatives, and corporations sole for ecclesiastical purposes—remain paper-based. The online registry is publicly accessible and searchable at no cost. All existing corporations were required to re-register by January 20, 2026, under a one-year complimentary re-registration period. The new Corporations Act included beneficial ownership provisions that strengthened Palau's AML/CFT framework and met the country's FATF obligations at the time it was enacted in 2021.

Compact of Free Association Renewal

The renewed Compact Review Agreement (CRA-23) between the Republic of Palau and the United States entered into force in March 2024, providing approximately $890 million in economic assistance over 20 years. CRA-23-related fiscal inflows are reflected in the significant deposit growth observed throughout 2024 and 2025, including a large concentration of government-related deposits at year-end 2025 that contributed to the sector's all-time high in total assets.

Unlicensed Banking Activity

The FIC issued a public notice on August 12, 2025, clarifying that an entity known as 'Palau International Bank Limited' (PIBL) is NOT licensed by the FIC and is not authorized to conduct banking business in the Republic of Palau. The Commission urges the public to conduct financial transactions only with licensed institutions, and to verify licensing status through the FIC's official website or office.

Other Unregistered Activity

The FIC, in its capacity as the Office of the Corporate Registrar, together with the Bureau of Revenue and Taxation, the Foreign Investment Board, the Digital Residency Office, and the FIU issued a joint press release on September 8, 2025. The statement clarified that BOEX is not a registered entity authorized to operate in the Republic of Palau. BOEX, a blockchain consortium, had purportedly launched its platform and regional operations in Palau in July 2025. The agencies cautioned the public to exercise care when engaging with BOEX until they are properly registered.

IMF 2025 Article IV Consultation and Regional Supervisory Engagement

The IMF concluded its 2025 Article IV Consultation with the Republic of Palau on January 26, 2026. IMF Directors recommended enhancing financial sector resilience by bolstering the capacity of the FIC, enhancing supervision of the NDBP, and updating the legal and regulatory framework, including the establishment of a credit registry. The FIC had already been actively pursuing capacity-building initiatives prior to the Consultation and views the IMF's engagement as constructive in further supporting and reinforcing these efforts.

The FIC participates in the Association of Financial Supervisors of Pacific Countries (AFSPC). The 2024 annual AFSPC meeting was held in Suva, Fiji, as a two-day event during which member countries presented country reports highlighting key risks, supervisory actions, and developments in supervisory frameworks. A closed-door session addressed common and emerging issues and technical assistance priorities. The meeting was followed by a three-day workshop covering the Basel Framework for calculating capital adequacy, the role of the Supervisory Review and Evaluation Process (SREP), Pillar II risks, Capital Management Plans, and related topics.

The 2025 annual AFSPC meeting was held in Timor-Leste. The meeting similarly comprised a two-day session including country presentations and a closed-door discussion, followed by a three-day workshop focused on the relevance of climate risk to financial supervision, the role of prudential supervisors, foundational elements of a climate risk supervision framework, the Basel principles on climate-related financial risks, and approaches to developing an adapted climate risk supervision framework.

Technical Assistance and Capacity Building

The FIC continues to benefit from the support of international technical assistance providers. The following assistance was received or confirmed during 2024 and 2025:

- **IMF / IMF PFTAC:** In 2025, the IMF confirmed technical assistance to support updates to the Financial Institutions Act and prudential regulations, as well as the development of proposed Virtual Asset Service Provider (VASP) legislation.

  In 2015, PFTAC assisted in the development of a proposed Credit Union Act, which was submitted to the Ninth OEK. The FIC is now seeking support from the IMF to review and update the previously submitted legislation for resubmission to the OEK.

PFTAC conducted a one-week training in Palau in November 2025 on the Basel Core Principles, focusing on developing regulatory and supervisory frameworks tailored to Palau's unique banking sector. The sessions included identifying gaps and aligning the principles with local laws and the industry structure. A two-year work plan was agreed upon by the PFTAC Advisor and the FIC to update the FIA and regulatory framework and strengthen supervisory practices.

Participants from the Ministry of Finance and NDBP attended the first day of the training, which covered an overview of banking supervision, including responsibilities and powers, licensing, and supervisory approaches, techniques, and tools. Some of these participants also attended selected sessions throughout the week.

- **IMF Singapore Training Institute:** In June 2025, the Commissioner attended a one-week course on Financial Soundness Indicator (FSI). The course covered compilation of financial soundness indicators and use of FSI for supervision, macro-financial surveillance, and macroprudential policy. IMF-STI has provided the FIC with training for prior Executive Commissioners and Bank Examiners, and it continues to serve as a key resource for capacity building for FIC.
- **IMF Online Training –** The FIC has undertaken several online courses through the IMF Online Training platform, including Cyber Risk Supervision and AML/CFT Risk-based Supervision of Financial Institutions and others. This online training platform also continues to serve as a key resource for capacity building.
- **ADB / Private Sector Development Initiative (PSDI):** In 2024 and 2025, PSDI continued supporting the implementation of the Corporations Act of 2021 and the launch of the online corporate registry. In 2025, ADB confirmed its continued support for developing a Limited Liability Company (LLC) framework, a Credit Registry, and a Beneficial Ownership Registry—the latter to further strengthen Palau's AML/CFT framework and meet the updated FATF Recommendation 24 requirements that came into effect after the enactment of the 2021 Corporations Act. The LLC is designed to provide the private sector with a legal framework offering limited liability protection, flexible ownership structures, and enhanced credibility, addressing the challenges sole proprietorships face in raising capital and ensuring business continuity beyond the owner's involvement. The Credit Registry aims to improve access to finance for businesses and households by enabling lending institutions to better assess and manage credit risk.

- **FDIC Examination Program:** The FDIC confirmed in 2025 that the Executive Commissioner and Bank Examiner are accepted into the FDIC Examination School commencing in 2026. Subject to availability of sufficient funding, the FIC targets completion of the FDIC Examiner Certification Program within three years, or by 2028.

- **PIDB — Risk-Based Credit Appraisal and Management Training (September 2025):** The Pacific Islands Development Bank (PIDB), in collaboration with facilitators from the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), hosted a four-day Seminar on Risk-Based Credit Appraisal and Management towards Sustainable Finance at the PIDB Office in Hagåtña, Guam, from September 15 to 18, 2025. The FIC was represented by one of the bank examiners, who was among 18 participants drawn from financial institutions across Micronesia, including development banks from Palau, the Marshall Islands, and the Federated States of Micronesia. The first three days of the program, facilitated by ADFIAP Consulting Group specialists in sustainable finance, credit appraisal, and SME finance, covered the full credit life cycle — from risk-based lending frameworks and credit scoring methodologies to loan appraisal and packaging, loan administration and servicing, post-disbursement monitoring, and remedial management strategies. The fourth day practicum was facilitated by PIDB management. This training directly supports the FIC's examination capacity-building agenda by equipping bank examiners with credit risk assessment tools and financial analysis skills that are integral to effective bank examination.

These technical assistance and training programs reflect the Commission's commitment to building supervisory capability appropriate to Palau's evolving financial sector.

Forward-Looking Policy and Mandate Expansion

The FIC is taking a proactive approach to expanding its regulatory mandate to reflect the rapidly evolving financial landscape. The Commission is actively developing a forward-looking framework for the licensing and supervision of Virtual Asset Service Providers (VASPs) and other financial technology (FinTech) entities, in coordination with IMF technical assistance on the proposed VASP legislation. This reflects the Commission's recognition that digital financial services are increasingly relevant to Palau's economy.

In conjunction with the expanded mandate, the FIC is investing in enhancing its staff's skills and capabilities to ensure that the Commission is well-equipped to handle its broader supervisory responsibilities. This effort includes implementing the FDIC examination training program, hiring additional examination personnel, and actively participating in regional and international supervisory development initiatives.

Correspondent Banking and Payments Access

Consistent with broader Pacific regional trends, the FIC continues to monitor correspondent banking access, payment-system connectivity, and related AML/CFT compliance expectations as part of its financial stability mandate. Pacific island financial systems, including Palau's, have experienced evolving correspondent banking relationships in recent years, and the FIC participates in regional supervisory forums including the AFSPC in addressing these developments.

This public report does not disclose institution-specific correspondent banking arrangements; however, the FIC confirms that all five licensed institutions maintained the payment channel access necessary to conduct banking business throughout the 2024–2025 reporting period.

The Commission will continue to monitor this area and coordinate with relevant international bodies to preserve Palau's access to the global financial system.

Digital Banking Expansion

U.S. bank branches continued to expand digital banking capabilities during the reporting period, including online account opening, digital deposit account platforms, and consumer lending tools. These developments improve access to banking services for residents of Palau and reflect broader industry trends toward digital-first financial services.

Economic Context

Palau's economy has shown substantial growth and resilience in recent years, with GDP increasing by approximately 6.6 percent in FY2024. This notable upturn reflects the nation's recovery efforts, particularly as it navigates the post-pandemic landscape. Looking ahead, growth is projected to accelerate even further, with an estimated increase of around 8.2 percent anticipated in FY2025.[2]

A significant driver of this economic growth is the tourism sector, which is experiencing a remarkable resurgence. In the first ten months of 2025, visitor arrivals soared by approximately 25 percent compared to the same period in 2024. This surge not only indicates a rebound in international travel but also highlights Palau's increasing appeal as a sought-after travel destination.[3]

Inflation rates, an essential indicator of economic stability, have also moderated during this period. In FY2024, inflation was around 5.5 percent, reflecting effective management in a challenging global economy. This positive trend continued into FY2025, with inflation dropping to approximately 2.5 percent, signaling successful trade and business policy adjustments and improved local market dynamics.[4] .

Moreover, the labor market is undergoing progressive changes that benefit workers and stimulate local consumption. The minimum wage in Palau rose to $4.25 per hour on October 1, 2024, and increased further to

[2] Asian Development Bank (ADB), 2023. Economic Outlook: Palau.
[3] Palau Visitors Authority, 2025. Annual Visitor Statistics Report.
[4] World Bank, 2024. Inflation Rates in Palau: FY2024 Report; International Monetary Fund, 2025. Palau: IMF Economic Analysis and Recommendations.

$5.00 per hour on October 1, 2025. These wage policy enhancements are expected to bolster workers' purchasing power, thereby driving consumer spending and local economic growth.[5]

Overall, the economic indicators available suggest a promising outlook for Palau in the coming years. The combination of strong GDP growth, a recovering tourism sector, stable inflation rates, and proactive labor policies established a solid foundation for economic development and sustainability.

[5] Palau Bureau of Labor, 2024. Minimum Wage Legislative Update.

Background & General Overview

The Financial Institutions Commission (the Commission or FIC) is responsible for the licensing, supervision, and regulation of 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 and 8th Olbiil Era Kelulau under Republic of Palau Public Laws 7-41 and 8-28, respectively. The FIA was codified into the Palau National Code as 26 PNCA Chapter 10.

Structure of the Commission

The Commission is governed by a Board of Governing Commissioners (Governing Board). The Governing Board functions as a policymaking body to promulgate rules and regulations by which the Commission operates, and to oversee enforcement of policies, rules, and regulations as they apply to all licensed banks. The Governing Board is composed of six voting members appointed by the President of the Republic of Palau, subject to the confirmation of the Senate.

The Executive Commissioner (Commissioner or EC) manages and oversees administrative and operational matters of the Commission. The Executive Commissioner is responsible for the implementation of Governing Board policies, ensures bank compliance with FIC Regulations, and executes Governing Board-approved enforcement actions. Policy initiatives — particularly those pertaining to the monitoring and regulation of the banking sector — are recommended by the Executive Commissioner to the Governing Board. The Executive Commissioner is appointed by and reports directly to the Governing Board, and serves as Examiner-in-Charge, with responsibility for conducting and managing on-site examinations and determining the scope and type of exams for banks in compliance with laws and regulations.

The Bank Examiners reports directly to the Commissioner and are primarily responsible for conducting off-site analysis and on-site bank examinations, including quarterly and annual analyses of bank financial returns as required by FIC Regulations. Off-site supervision involves the review, analysis, and detection of trends and/or singular events that may impact banks' financial condition. On-site examinations involve visits to bank/branch offices for an in-depth review of bank documents, records, and operations for the purpose of assessing the six CAMELS rating components – Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk – and to assess compliance with Basel Anti-Money Laundering (AML) requirements.

The Administrative Officer manages the administrative operations of the FIC office under the supervision of the Commissioner. The Administrative Officer is responsible for maintaining records, processing documentation, and carrying out all clerical, operational, and administrative functions. The Administrative Officer also ensures that fiscal, personnel, and essential Commission records are accurate and up to date, oversees procurement procedures, and monitors operational expenses within the budget approved by the Governing Board. In coordination with the Commissioner, the Administrative Officer ensures adherence to fiscal policies and also provides backup support for the Corporate Registry, fulfilling the role of Corporate Registry Specialist as needed.

Office of the Registrar of Corporations

The Registrar of Corporations is responsible for implementing the Corporations Act and overseeing the registration of for-profit and nonprofit corporation as well as partnerships, credit unions, cooperatives, and corporations sole formed for ecclesiastical purposes. The Registrar reports directly to the Governing Board. The legal basis for the Registrar's functions is found at 12 PNCA Divisions 1 and 3, RPPL 11-40, and Executive Order No. 477.

The Corporate Registry Specialist assists the Registrar with the day-to-day administration and operations of the Corporate Registry and Secured Transactions Registry, and provides general backup administrative support to the Commission as needed.

Filing Office of Secured Transactions

The Filing Officer of Secured Transactions is responsible for the administration of the day-to-day activities of the Filing Office and the online Secured Transactions Registry, pursuant to Secured Transactions Act, 11 PNCA Chapter 19.

Anti-Money Laundering and Combating the Financing of Terrorism

In addition to prudential supervision, the Commission is mandated by the FIA to examine the AML/CFT procedures and reporting standards of all financial institutions. Such examinations may, at the sole discretion of the FIC, be conducted on-site, off-site, or through a combination of both. The FIC integrates on-site AML/CFT reviews, limited to prudential requirements, into its regularly scheduled bank examinations.

Financial Intelligence Unit

The Governing Board additionally provides supervision of the Financial Intelligence Unit. Established under the Money Laundering and Proceeds of Crime Act, 17 PNCA Chapter 33, the FIU is an independent agency from the FIC. It serves as the country's primary AML/CFT regulator.

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 FIA to cooperate and exchange information with agencies of foreign governments and international organizations. Section 1015 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 jurisdiction's government in which the financial institution operates or conducts business.

The Commission cooperates with competent authorities outside Palau and with international organizations in 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.

Sector Overview

The FIC monitored and regulated five licensed banks during the 2024–2025 calendar years: three U.S. bank branches (FDIC-insured) and two locally chartered banks (uninsured). For analytical purposes, this report uses three peer groups — Industry (all five banks), Insured (U.S. bank branches), and Uninsured (locally chartered) — to enable meaningful comparative analysis.

In this report, "insured banks" means those banks 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 loans and approximately 99% of aggregate total deposits.

The National Development Bank of Palau (NDBP) automatically fell under the supervisory authority of the FIC when RPPL 9-41 was signed into law on December 5, 2014. However, the NDBP will not be subject to the FIC's full regulatory regime until it is formally licensed. NDBP statistics are not incorporated into the industry aggregate data in this report.

The banking sector employed 46 persons at year-end 2024 and 45 at year-end 2025. Palauan citizens accounted for approximately 80% of sector employment at year-end 2024 and 84% at year-end 2025.

Prior year reports submitted to the OEK are available through the FIC's official website.

Financial Institutions Not Regulated by the FIC

Insurance providers and agencies, micro-lending facilities (finance companies), pension funds, and credit unions with assets less than $500,000 are currently exempt from FIC regulatory oversight and supervision. The FIC has received expert advice and recommendations from the Asian Development Bank, the IMF, and PFTAC regarding bringing certain categories of these non-bank financial institutions under its supervisory authority. The Commission's forward-looking mandate expansion agenda — including proposed credit union legislation and potential FinTech licensing frameworks — is designed to address these gaps over time.

Systemic Risk Considerations

Two of the three FDIC-insured U.S. bank branches operating in Palau hold a dominant share of the sector's deposit base and payment infrastructure, making them materially important to the stability of the domestic financial system. The FIC monitors these institutions in coordination with their U.S. federal regulators, including the FDIC, and is actively pursuing enhanced supervisory capacity through the examination program, staff hiring, and technical assistance described in this report.

Data Validation, Historical Revisions, and Presentation Standards

Aggregate figures in this report are derived from quarterly prudential forms submitted to the Commission pursuant to PR-03. The FIC's Uniform Bank Prudential Returns (UBPR) database contains data through December 31, 2025. All dollar amounts are expressed in U.S. dollars; unless otherwise stated, dollar figures represent thousands (000s) or millions (M) as labeled. Unless otherwise stated, all tables present annual year-end figures as of December 31 (Q4). Earnings ratios are annualized per UBPR methodology. *Comparative historical figures may differ from the FIC Annual Report 2021–2023; where differences exist, this report reflects the most current validated UBPR data, and revisions are described in the historical corrections section.*

Off-Site Monitoring, Reports, and Bank Examinations

The FIC's primary supervisory tool is quarterly off-site monitoring of prudential returns submitted by all licensed banks. The UBPR database compiles these returns into standardized ratios and indicators for each bank, each peer group, and the industry as a whole. These reports are produced by the Bank Examiners and provided to the Executive Commissioner; the industry report is also submitted to the Governing Board quarterly. Annual reports are issued to the President of the Republic and the Olbiil Era Kelulau as required by the FIA.

Onsite examinations are scheduled based on composite ratings assigned using the CAMELS system. The FIC conducted one onsite examination in calendar year 2024 and one onsite examination in calendar year 2025. The Commission is developing a structured examination schedule with a consultant to ensure all five licensed institutions receive regular onsite reviews.

All licensed banks have cooperated with the FIC in compliance with Prudential Regulations and have supported this agency's efforts in statistical data collection, prudential reporting, onsite bank examinations, and other supervisory matters. The FIC maintains open and transparent communications with all regulated banks and ensures that industry partners are informed on matters affecting their operations.

Banking Sector Performance

The following analysis presents the FIC's assessment of the banking sector using the CAMELS framework: Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk.

Capital Adequacy (Uninsured Banks)

Capital adequacy is evaluated for the two locally chartered (uninsured) banks, which are required to maintain capital under FIC Prudential Regulation PR-01.1. U.S. bank branches are assessed for capital adequacy by their U.S. federal regulators at the parent level and are not subject to local capital requirements in Palau; however, the FIC monitors publicly available information on the financial health of the U.S. banking organizations supporting the Palau branches.

Uninsured Bank Capital Indicators	2021	2022	2023	2024	2025
End-Period Capital Balance ($000)	3,733	3,833	4,065	3,882	3,884
Capital / Total Assets (Leverage Ratio, %)	55.69	55.78	56.48	46.82	48.40
Net Income (Annual, $000)	96	186	134	(88)	198

Source: FIC UBPR database. Capital figures are end-of-period aggregate balances for the Uninsured peer group. Leverage ratio = aggregate capital / aggregate total assets at December 31st.

At December 31, 2025, aggregate total capital for the two uninsured locally chartered banks totaled approximately $3,884 million, reflecting a net increase from $3.882 million at the prior year-end, driven by the return to combined profitability in 2025 after a combined net loss in 2024. The aggregate leverage ratio of 48.4% reflects the conservative, equity-funded structure of locally chartered institutions.

The FIC's minimum capital requirements for locally incorporated banks — $500,000 for 100% Palauan-owned institutions and $1 million for institutions with any non-Palauan ownership — are established under PR-01.1. The Commission acknowledges stakeholder interest in the adequacy of these thresholds in light of evolving international standards, and a review of the capital adequacy framework remains an area of regulatory development the FIC expects to address in consultation with technical advisors. Publicly available data indicate that the U.S. banking organizations supporting Palau's insured branches remained strongly capitalized throughout the reporting period.

Capital Adequacy of U.S. Parent Institutions

Capital ratios for U.S. bank branches in the UBPR are not meaningful indicators of financial soundness. A branch is not a separate legal entity; it holds no independent equity capital. The "capital" appearing on the branch balance sheet represents accumulated branch-level retained earnings, which fluctuates sharply. Capital adequacy for U.S. branches is assessed at the consolidated parent level by U.S. federal regulators. The FIC relies on this federal assessment together with FDIC deposit insurance coverage of up to $250,000 per depositor, per FDIC-insured bank, for each account ownership category.[6]

The FIC monitors publicly available financial condition data for each U.S. parent institution. The table below presents key capital indicators as of December 2025, based on SEC filings, quarterly earnings releases, and FDIC Call Report data.

Institution	Charter / Primary Regulator	Total Assets (Dec 2025)	Tier 1 / Total Capital Ratio (Dec 2025)	Tier 1 Leverage Ratio (Dec 2025)	Regulatory Classification
Bank of Hawaii Corporation	HI State / Federal Reserve & FDIC	~$24.0B	14.49% / 15.54%	8.57%	Well Capitalized
Bank of Guam	GU State / FDIC	~$2.74B	est. >10% / >12%	est. >8%	Well Capitalized

[6] FDIC, Understanding Deposit Insurance

BankPacific, Ltd.	GU State / FDIC	~$178M	est. >12% / >14%	est. >9%	Well Capitalized

Bank of Hawaii Corporation

Bank of Hawaii (NYSE: BOH) reported Tier 1 Capital Ratios of 13.95% at December 31, 2024, improving to 14.49% at December 31, 2025, with Total Capital Ratios of 15.00% and 15.54%, respectively — well above the 8% well-capitalized Tier 1 threshold. The Tier 1 Leverage Ratio improved from 8.31% to 8.57% over the same period, driven by retained earnings growth. Total consolidated assets were approximately $23.6 billion at year-end 2024, growing to approximately $24.0 billion by September 2025. The bank maintained over $10.6 billion in readily available liquidity compared to $8.8 billion in uninsured and uncollateralized deposits at September 2025 quarter-end. Net interest margin expanded for consecutive quarters during 2025, and the non-performing asset ratio remained low at 0.14% throughout.[7]

Bank of Guam

Bank of Guam is a Guam state-chartered commercial bank with consolidated assets of approximately $2.74 billion, deposits of $2.47 billion, and loans of $1.68 billion as of September 30, 2025. Equity capital was approximately $223 million, representing an equity-to-assets capitalization ratio of approximately 8.1%. The bank maintained well-capitalized status as determined by the FDIC throughout the reporting period.[8]

BankPacific, Ltd.

BankPacific, Ltd. is a Guam state-chartered community bank with total assets of approximately $178–186 million. Community banks at this size typically maintain higher capital ratios relative to risk-weighted assets. BankPacific maintained well-capitalized status as determined by the FDIC throughout the reporting period.[9]

All three parent institutions maintained well-capitalized status continuously through the post-2008 regulatory era, including during the COVID-19 pandemic and the 2023 U.S. regional banking stress episode. Their sustained capital strength provides structural resilience for Palau's insured depositors.

Asset Quality

Quality of assets remains satisfactory. Total industry assets grew 37.0% in 2024 (to $404.5 million) and surged to an all-time high of $515.6 million at year-end 2025, driven predominantly by deposit growth.

Asset Quality Indicators — Industry Aggregate	2021	2022	2023	2024	2025
NPL / Total Loans (%)	0.31	0.60	0.61	0.64	0.83
Non-Performing Loans ($000)	89	197	222	213	365
Past Due Loans 30+ Days ($000)	665	823	559	744	1,457
Provisions for Loan Losses ($000)	1,962	2,002	1,661	1,607	2,081
Provisions / NPLs (%)	2,204	1,016	748	754	570
Gross Loans ($M)	29.0	32.7	36.4	33.4	44.2

Source: FIC UBPR database. All dollar amounts in $000s except where noted. Gross Loans include provisions.

The Non-Performing Loan (NPL) ratio remained low at 0.64% at year-end 2024 and rose modestly to 0.83% at December 31, 2025 — still well below 1% — as the sector loan portfolio expanded. Provisions remained more than adequate, covering NPLs by 570% at year-end 2025. Gross loans grew 32.3% during 2025, from $33.4 million to $44.2 million, representing a meaningful improvement in domestic lending activity. Past due loans rose to $1.46 million at year-end 2025, a trend the FIC is monitoring closely.

[7] Bank of Hawaii Corporation Form 8-K filings, SEC EDGAR, 2024–2026.
[8] FDIC Call Report data, September 2025.
[9] FDIC institution data.

Management

Overall management condition across the banking sector is assessed as satisfactory. The FIC maintains open and transparent communications with all regulated banks.

Earnings Performance

- **Industry net income** totaled approximately $10.45 million at December 31, 2024 — the highest on record — before moderating to $9.66 million for 2025 as Federal Reserve rate cuts reduced yields on Due from Home Office balances.
- **ROA** moderated from 2.81% (year-end 2024) to 2.35% (year-end 2025). Locally chartered banks returned to profitability with aggregate net income of $198,000 in 2025, after reporting a combined loss of $88,000 in 2024.
- **NIM** narrowed from 3.82% (year-end 2024) to 3.25% (year-end 2025). Yield on Loans remained stable at approximately 11.71% while Cost of Deposits edged up to 0.94%.
- **Efficiency Ratio** remained favorable at approximately 25.4% at year-end 2025, significantly improved from 49.3% in 2021.
- **Lending rate monitoring:** The FIC monitors lending rates and net interest spreads as part of quarterly off-site surveillance. Lending rates remain subject to the statutory 18% ceiling. The Commission encourages responsible pricing practices consistent with applicable regulatory standards.

Sensitivity to Market Risk

The primary market risk exposure is interest rate risk for U.S. bank branches, whose earnings correlate with the U.S. Federal Funds Rate through Due from Home Office balances. The Federal Reserve reduced rates by a cumulative 175 basis points over 2024–2025, from 5.25%–5.50% (prevailing at mid-2024) to 3.50%–3.75% (December 2025). The fixed-rate character of the local loan portfolio and relative stability of deposit pricing partially mitigated earnings compression. Foreign exchange risk is minimal as Palau uses the U.S. dollar.

Liquidity Adequacy

- **Liquidity remains strong** for all banks. The Liquidity Ratio (PR-10) stood at 95.52% at year-end 2024 and 94.17% at December 31, 2025, consistently exceeding the regulatory minimum.
- **Due From Home Office balances** of U.S. branches comprised approximately 88–89% of the banking sector's total assets throughout the reporting period. Onsite exam findings confirm branches maintain reliable access to adequate sources of funds.
- **Uninsured banks** demonstrate the ability to cover all customer deposits and short-term liabilities and rely primarily on capital to generate earnings.

Liquidity Indicators — Industry Aggregate (%)	2021	2022	2023	2024	2025
Liquidity Ratio (PR-10)	92.60	88.71	92.57	95.52	94.17
Net Loans / Total Assets	8.47	9.89	11.77	7.85	8.17
Deposits to Total Liabilities	97.78	97.61	97.48	97.90	98.21
Due From Banks / Total Assets (%)	87.25	85.31	83.39	88.56	88.84

Source: FIC UBPR database. The FIC applies PR-10 compliance requirements individually to each licensed institution. At the aggregate sector level, all institutions remained in compliance with applicable PR-10 liquidity thresholds throughout the reporting period.

Financial Intermediation

A persistent structural characteristic of the sector is limited domestic lending relative to deposits. Net loans represented 8.17% of total assets at year-end 2025, while gross loans-to-deposits stood at 9.0%. However, the 32.3% growth in gross loans during 2025 — from $33.4 million to $44.2 million — represents a positive trend in domestic credit deployment. The FIC continues to monitor lending trends and promote the use of the Secured Transactions

Registry as a tool for expanding secured credit access. Addressing structural impediments to intermediation, including establishment of a credit registry, remains a priority identified by the IMF.

Long-Term Banking Sector Trends (2021–2025)

The following table presents annual aggregate indicators for calendar years 2021 through 2025, each measured at December 31 (Q4 year-end). All ratio data are on an annualized basis.

Indicator	2021 (Dec 31)	2022 (Dec 31)	2023 (Dec 31)	2024 (Dec 31)	2025 (Dec 31)
BALANCE SHEET (Year-End, $M)					
Total Assets	319.4	310.7	295.1	404.5	515.6
Avg Total Assets	319.8	309.4	299.1	374.2	410.4
Total Gross Loans	29.0	32.7	36.4	33.4	44.2
Total Deposits	305.6	295.1	274.6	382.0	493.3
Total Capital (Industry, $M)	6.8	8.4	13.5	14.3	13.4
PROFITABILITY (%)					
Net Income ($M)	3.38	4.86	9.7	10.45	9.66
Return on Assets (ROA)	1.05	1.57	3.28	2.81	2.35
Net Interest Margin (NIM)	1.77	2.52	4.28	3.82	3.25
Yield on Loans	9.93	10.17	11.01	11.69	11.71
Cost of Deposits	0.05	0.04	0.18	0.84	0.94
Efficiency Ratio	49.3	40.3	26.2	26.6	25.4
ASSET QUALITY (%)					
NPL / Total Loans	0.31	0.60	0.61	0.64	0.83
Provisions / NPLs (%)	2,204	1,016	748	754	570
LIQUIDITY & STRUCTURE (%)					
Net Loans / Total Assets	8.47	9.89	11.77	7.85	8.17
Gross Loans / Deposits	9.5	11.1	13.3	8.7	9.0
Liquidity Ratio (PR-10)	92.60	88.71	92.57	95.52	94.17
Capital / Total Assets (Industry)	2.1	2.7	4.6	3.5	2.6

Source: FIC UBPR database as of April 16, 2026. All figures as of December 31st. Annualized for income ratios. Efficiency Ratio = Noninterest Expense / (Net Interest Income + Noninterest Income).

Sector Growth and Structural Transformation

Total industry assets contracted from $319.4 million (2021) to $295.1 million (2023) as post-pandemic deposit normalization proceeded, then surged to $515.6 million in 2025. The compound annual growth rate for total assets across the five-year period was approximately 12.7%. Gross loans grew from $29.0 million to $44.2 million at a compound annual rate of approximately 11.1%.

Profitability Improvement and Efficiency Gains

Net income grew from $3.38 million in 2021 to a record $10.45 million in 2024, before moderating to $9.66 million in 2025 as rate cuts reduced yields. ROA followed the same arc: 1.05% (2021), 2.81% (2024), 2.35% (2025). The efficiency ratio improved from 49.3% in 2021 to approximately 25.4% in 2025. The sector did not record an annual net loss in any year of the last five-year period.

Interest Rate Cycle Impact

NIM moved from a trough of 1.77% (2021, near-zero rates) to a peak of 4.28% (2023, peak rate environment) before compressing to 3.25% in 2025. The cost of deposits rose sharply from 0.05% (2021) to 0.94% (2025), tracking the U.S. rate cycle.

Asset Quality Resilience

The NPL ratio remained below 1% throughout the period and provisions coverage exceeded 500% throughout. The sector successfully managed credit quality through multiple economic cycles without material loss events.

Condensed Income & Expense Statements

The following tables present condensed income and expense figures for calendar years 2024 and 2025, derived from UBPR data at December 31st of each year. Figures are in U.S. thousands of dollars ($000s).

Calendar Year 2024 — Rolling 12-Month Ending December 31, 2024

	INSURED (U.S. bank branches)	UNINSURED (Locally chartered banks)	INDUSTRY TOTAL
Interest & Fee Income	15,983	884	16,636
Interest Expense	(3,002)	0	(3,002)
Net Interest Income	**12,981**	**884**	**13,865**
Provisions for Loan Losses	(172)	0	(172)
Non-Interest Income	1,174	8	1,182
Non-Interest Expense	(3,098)	(906)	(4,004)
Net Income Before Tax	**10,885**	**(14)**	**10,871**
Less: Income Tax	(351)	(2)	(353)
Net Income After Tax	**10,534**	**(16)**	**10,518**

Source: FIC UBPR database. Annualized at 2024Q4. Note: The Uninsured figure of ($16K) after tax is the UBPR rolling 12-month annualized amount; the actual calendar year 2024 cumulative net loss for the uninsured peer group was ($88K) on a year-to-date basis. Bracketed figures indicate expenses/losses. Zero interest expense for Uninsured reflects their equity/borrowing-funded structure.

Calendar Year 2025 — Rolling 12-Month Ending December 31, 2025

	INSURED (U.S. bank branches)	UNINSURED (Locally chartered banks)	INDUSTRY TOTAL
Interest & Fee Income	15,803	833	16,636
Interest Expense	(3,675)	0	(3,675)
Net Interest Income	**12,128**	**833**	**12,961**
Provisions for Loan Losses	(786)	0	(786)
Non-Interest Income	1,234	140	1,374
Non-Interest Expense	(2,897)	(741)	(3,638)
Net Income Before Tax	**9,679**	**232**	**9,911**
Less: Income Tax	(243)	(34)	(277)
Net Income After Tax	**9,436**	**198**	**9,634**

Source: FIC UBPR database. Rolling 12-month figures at 2025Q4. Uninsured banks returned to combined profitability ($198,000 net income) in 2025. Increased provisions in 2025 ($786K vs $172K in 2024) reflect expansion of the Insured loan portfolio.

National Development Bank of Palau — Broader Financial Sector Context

Beyond the five FIC-regulated commercial banks, the National Development Bank of Palau (NDBP) plays a significant role in domestic financial intermediation. According to NDBP's audited financial statements for the fiscal year ended September 30, 2024 (Ernst & Young, published by the Palau Office of Public Auditor, August 2025), NDBP held approximately $44.7 million in total assets and an estimated $32–34 million in domestic loans.

NDBP returned to an estimated positive financial position in FY2024 following net recoveries of previously charged-off loans. NDBP statistics are excluded from FIC industry aggregate data pending formal licensing.

Note on Historical Data: Corrections to Previously Published Aggregate Figures (2021–2023)

Comparative historical information presented in this report may differ from figures published in the FIC Annual Banking Sector Report for Calendar Years 2021–2023 (the "Prior Report"). Where such differences exist, this report reflects the Commission's most current validated aggregate data from the UBPR database as of April 16, 2026.

Historical information is subject to change based on validation, reclassification, and corrections subsequent to a report's issuance. The figures presented in this report for 2021 and 2022 are materially consistent with those in the Prior Report. The material revisions are concentrated in the 2023 annual figures and are summarized in the table below.

Aggregate peer-group figures are the only data disclosed in this report. These figures should not be attributed to any individual bank, and their revision does not reflect any supervisory conclusion regarding any specific institution.

Indicator (Industry Aggregate)	Year Revised	Prior Report	UBPR Corrected/Validated
Liquidity Ratio (PR-10)	2021	-	92.60%
	2022	-	88.71%
	2023	~96%	92.57%
Prior Report cited ~96% for 2023; UBPR validated Q4 figure is 92.57%. The Prior Report may have cited an interim intra-year reading. The UBPR Q4 year-end figure is authoritative.			
Total Deposits (Industry, approx.)	2023	~$263M (text) / ~$275M (chart)	$274.6M
Prior Report had internal inconsistency between narrative (~$263M) and KPI charts (~$275M). UBPR validated figure at December 31, 2023 is $274.6M.			
Cost of Deposits	No material change		
All figures in this report are sourced from the FIC's updated UBPR database.			

The FIC is committed to accuracy in its public reporting. Where the UBPR database is updated following the issuance of an annual report, the Commission will disclose such revisions in the subsequent annual report as appropriate.

Appendix: Banking Institutions Operating in Palau

As of December 31, 2025.

Bank Name	Home Country	Palau Charter Date	Status	Primary Regulator	Deposits Insured
Asia Pacific Commercial Bank	Palau	1/21/2000	Active	FIC	No
Bank of Guam	Guam / USA	3/13/1984	Active	FDIC / Guam DRT	Yes
Bank of Hawaii	Hawaii / USA	9/18/1961	Active	Federal Reserve / FDIC	Yes
BankPacific, Ltd.	Guam / USA	7/28/1995	Active	FDIC / Guam DRT	Yes
Palau Investment Bank	Palau	7/28/1995	Active	FIC	No
National Development Bank of Palau	Palau	est. 1982	N/A	N/A	N/A

Note: NDBP is listed for reference; it is not currently licensed by the FIC. NDBP statistics are excluded from industry aggregate data.

Glossary of Terms

ADB — Asian Development Bank.

ADB PSDI — ADB Private Sector Development Initiative

AML/CFT — Anti-Money Laundering / Countering the Financing of Terrorism.

AFSPC — Association of Financial Supervisors of Pacific Countries.

Basel — or Basel Accords, international banking regulations set by the Basel Committee on Baking Supervision.

Basel III — International capital, liquidity, and leverage framework issued by the Basel Committee on Banking Supervision.

CAMELS — Supervisory rating framework: Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk.

CET1 — Common Equity Tier 1 — highest quality regulatory capital comprising ordinary shares and retained earnings.

CRA-23 — Compact Review Agreement of 2023 between the Republic of Palau and the United States.

FDIC — Federal Deposit Insurance Corporation (United States).

FIA — Financial Institutions Act of 2001 (Republic of Palau), 26 PNCA Chapter 10.

FIC — Financial Institutions Commission (Republic of Palau).

FIU — Financial Intelligence Unit — primary AML/CFT regulator under the Money Laundering and Proceeds of Crime Act, 17 PNCA Chapter 33.

IMF — International Monetary Fund

IMF PFTAC — IMF Pacific Financial Technical Assistance Centre.

IMF-STI — IMF Singapore Training Institute

NDBP — National Development Bank of Palau, established under Public Law No. 1-27 (1982).

NIM — Net Interest Margin = Net Interest Income / Average Earning Assets (annualized).

NPL — Non-Performing Loans — loans past due 90 days or more, or otherwise classified non-performing.

N-SIFI — Nationally Systemically Important Financial Institution.

OEK — Olbiil Era Kelulau — National Congress of the Republic of Palau.

PR-01, PR-03, PR-07, PR-10 — FIC Prudential Regulations governing capital, reporting, licensing, and liquidity, respectively.

ROA — Return on Assets = Net Income / Average Total Assets (annualized).

SREP — Supervisory Review and Evaluation Process — structured process for assessing institution-specific capital adequacy.

UBPR — Uniform Bank Performance Report — FIC's standardized ratio database compiled from quarterly prudential returns (PR-03).

VASP — Virtual Asset Service Provider — entities providing virtual asset exchange, transfer, or custody services.

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Data Note: UBPR data through December 31, 2025 (2025Q4). Figures and ratios sourced from quarterly prudential returns pursuant to FIC Prudential Regulation PR-03. Unless otherwise stated, tables present annual year-end (Q4 / December 31) figures only. Ratios are rolling 12-month annualized where applicable. Comparative Industry, Insured, and Uninsured historical figures in this report may differ from figures presented in earlier annual reports; where such differences exist, this report reflects the Commission's most current validated aggregate data as of the UBPR database update dated April 16, 2026.