

# **FSM Development Bank**

2025 Annual Report

*Transforming Lives*

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## LETTER TO THE SHAREHOLDERS:

Dear Shareholders:

On behalf of the Board of Directors, we are pleased to present the Annual Report for the year ended December 31, 2025 and the audited financial report for the years ended December 31, 2025 and December 31, 2024.

Throughout 2025, FSMDB demonstrated the power of its guiding principles, as well as the value of its people by providing products and services for the customers we serve in the good times and in bad times, too. The results can be seen in our growth each year, 2025 included. We continue to grow our assets adding any surpluses to our assets, increasing our resources to finance business proposals for current and potential customers. At the end of the year, our assets grew from \$79.1 MM in 2024 to \$84.4 MM, representing a 6% growth.

Loan Approvals in 2025 amounted \$25.2 million; \$16 million of which were for business loans, \$859 thousand were approved for residential home loans, and \$8.33 million livelihood loans. For Micro & Small loans, \$252 thousand were approved. Business loans represented 64% of approved loans with 36% of the remaining loans making up livelihood and residential loans. Of the 19 M&S loans approved loans for 2025, 47% of those loans were for women-owned and women-managed businesses. Total portfolio grew from \$47.7 MM in 2024 to \$49.7 MM in 2025, representing a 4% increase. 73% of the 49.7 outstanding loans were for business loans and the remaining 27% for livelihood and residential loans. By business sector, tourism loans represented the largest at 18% of the total portfolio. For a detailed breakdown of the portfolio, please see page 12.

Financially, FSMDB ended 2025 with a change in net position of \$5.5 million, most of that being attributed to investment gains. The bank was able to generate net operating revenues of \$4.2 million, and after covering expenses of \$2.5 million, net operating earnings totalled \$1.5 million.

In 2025, we continued to play our essential role in advancing economic growth in the FSM. Amidst the various challenges of the last few years, we have not stopped doing all the things we should be doing to serve our clients and our communities. In addition to our normal operations, we continue to work on GCF readiness obligations, and remain committed to looking for potential in our communities in assisting the private sector as well as individuals, including homeowners attain their livelihood goals.

As we move forward, we want to thank our shareholders for their continued support and to the Board of Directors for their guidance. We also want to acknowledge the dedication of FSMDB's management team and hardworking staff, who ensure that our Bank is operating and managed prudently. Bust most especially, we take this opportunity to thank you -- our valued customers for allowing us to *Transform Your Lives*.

Sincerely,



Anna Mendiola  
President/CEO



Sihna Lawrence  
Chair, Board of Directors

## ABOUT THE BANK:

### Establishment:

The Federated States of Micronesia Development Bank (FSMDB) is a component unit of the National Government of the Federated States of Micronesia. It was established in 1979 by Public Law 1-37. The Bank opened operations in 1980 with the establishment of lending in 1982. In 1994, the enabling law that created the Bank was amended to reorganize the structure of the Bank into a corporation. The bank's headquarters is located in the State of Pohnpei, the capital of the FSM. The Bank also has branch offices in the other three FSM states of Chuuk, Kosrae and Yap and an online presence at [www.fsmdb.fm](http://www.fsmdb.fm).

Initially, the primary function of the Bank was to provide financing to commercial businesses mainly in the FSM. Over the years, the Bank has added more programs to meet its strategic objectives and customer needs. The Bank in 2008 created its residential home loan program to help locals build or renovate homes. In 2019, this residential home loan program transitioned into an energy efficiency home loan program, from what originally was a 2015 grant to the Bank from the International Union for Conservation of Nature Resources (IUCN) with emphasis on energy efficiency, cost savings, and home comfort.

Consumer lending began in 2011 to help generate revenue, which has grown over the years. It is now called the Livelihood Loan Program, which aims to enhance our consumer's livelihoods and improve their socio-economic status. In 2021, through grant funding from the Asia Development Bank and in collaboration with the FSM Government, the bank introduced its Micro/Small loan program to budding entrepreneurs and existing small businesses.

The FSM Development Bank is a key player in the development of the private sector in the Federated States of Micronesia that enjoys the confidence of the national and state leaders, its customers, and stakeholders. The Bank has been growing organically for the past 18 years, maintaining its status as a viable lending institution.

### Vision:

To be Micronesia's Premiere Development Finance Partner and Leading Catalyst for Transforming FSM Sustainable Development.

### Mission:

To facilitate sustainable development of FSM through strategic partnership with our stakeholders, delivering financial products and services for the benefit of the people of FSM.

### Core Values:

- **Customer satisfaction** – through the provision of professional customer service;
- **Teamwork** – through mutual respect, cooperation, loyalty, commitment, collaboration and dedication;
- **Integrity** – through observing the highest standards of ethics, accountability, transparency and to treat all stakeholders equitably;
- **Inclusiveness** – through undertaking economic development that enhances the life of all the people of FSM whilst sensitive to the protection of the environment and respectful of our culture and heritage;
- **Excellence** – through achieving the highest level of performance by continuously improving our skills and business practices;
- **Resilience** – we remain positive and respond constructively to challenges;
- **Diversity** – through ensuring equal opportunity for all, no matter our differences.

**SHAREHOLDERS:**

The FSM National Government is the principal shareholder of the bank. It owns 98.8% of the outstanding shares. The States of Chuuk and Kosrae each own 0.9% and 0.3% of the bank’s outstanding shares respectively. All the FSM states are provided representation on the Bank’s Board of Directors.

Shareholders	No. of Shares	Amount
FSM National Government	3,197,883	\$31,978,830
State of Kosrae	9,000	\$90,000
State of Chuuk	30,000	\$300,000
Total Shares	3,236,883	\$32,368,830

**BOARD OF DIRECTORS:**

The Board of Directors is comprised of seven members. Six of them are elected by the shareholders. The seventh member is the President and Chief Executive Officer (CEO), who serves as the Ex-Officio to the board. Aside from the Ex-Officio, all board members serve a term of 3 years on a staggering basis. The composition and representation of the Board for the period under review were as follows:

**Chairman – Sihna Lawrence (Pohnpei State), Vice Chairman – Peter Aten (Chuuk State)**

**Members: Kun Sigrah (Kosrae State), Elina Akinaga (FSM Government),**

**Senny Phillip (FSM Government), Charles Yalaaruw (Yap State) and**

*Anna Mendiola (CEO & Ex-Officio)*



**MANAGEMENT:**

FSMDB is managed by a senior management team of corporate officers comprised of a President/Chief Executive Officer (CEO), a Senior Vice President/Chief Credit Officer (SVP/CCO), and a Chief Financial Officer (CFO). Assisting the senior management team are a General Counsel, an Internal Auditor, and a team of managers. For the period under review, the Bank’s corporate officers comprised of the following:

**President/CEO:**

*Anna H. Mendiola*

**Senior Vice President/CCO:**

*Alik J. Alik*

**Chief Financial Officer:**

*Brandon J. Tara*



.....  
*General Counsel, Nora Sigrah, Esq.*



*Internal Auditor, Charles Siales*



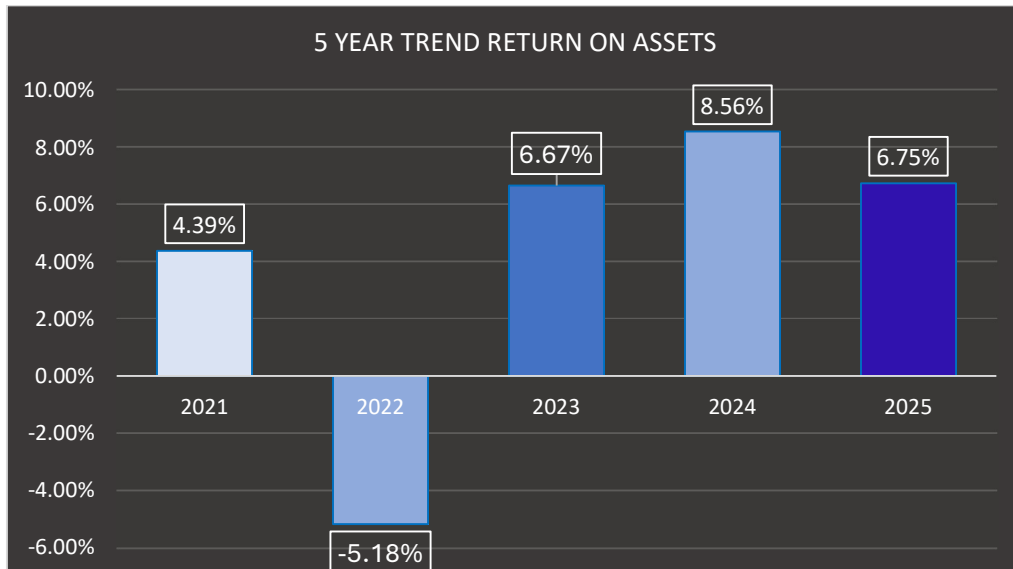
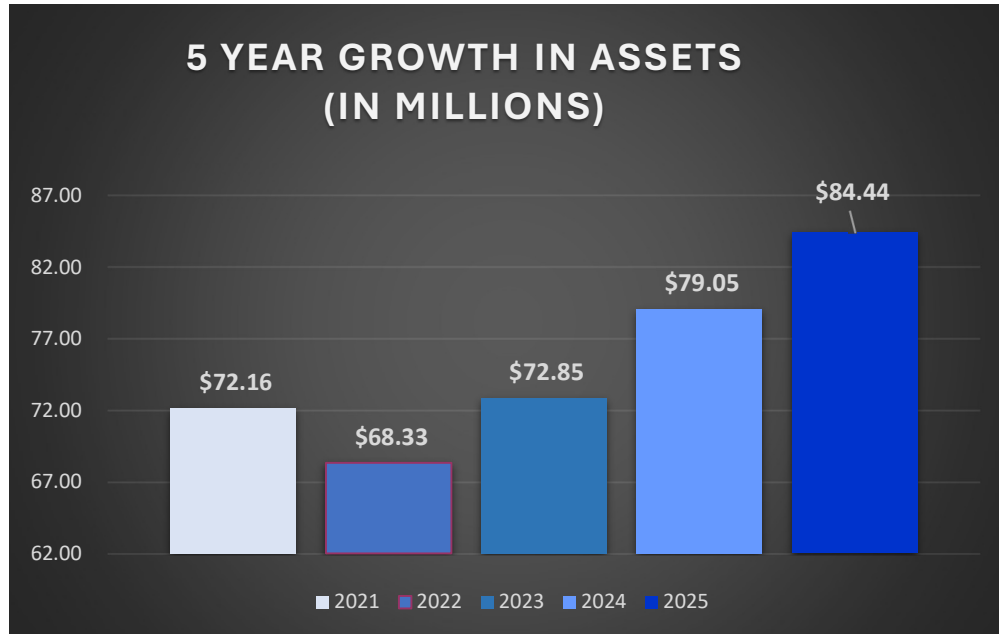
***Appreciation to former staff:***

The Bank would like to acknowledge former Chuuk Branch manager Crystal Sana-Ekichy and former Accountant Viner Macarubbo for their many years of service to FSMDB. We especially want to acknowledge and thank two of our retirees Peterika White and Rohma Silbanuz, who were loyal to the bank as administrative and legal secretaries 20+ years each. The Bank wishes all four individuals well.



## MANAGEMENT REPORT:

FSMDB's goals are to grow its assets by strategically ensuring that more than enough revenues are generated to cover operating expenses and surplus earnings are retained to increase assets. To ensure future growth and sustainability, within the last five years, the Bank grew its assets from \$72.2 MM beginning in 2021 to \$84.4 million in 2025. In 2022, losses in the investment markets caused the slight reductions in assets, which affected the ROA and ROE, however, the gains between 2023 and 2025 saw it grow again. After expenses, the bank generated a net operating income of \$1.5 million allowing the bank to take the surplus of \$5.7 million and increase its net assets, which means more available funding to lend to its borrowers. Finally, the bank has been able to streamline expenses over the years to maintain financial stability.



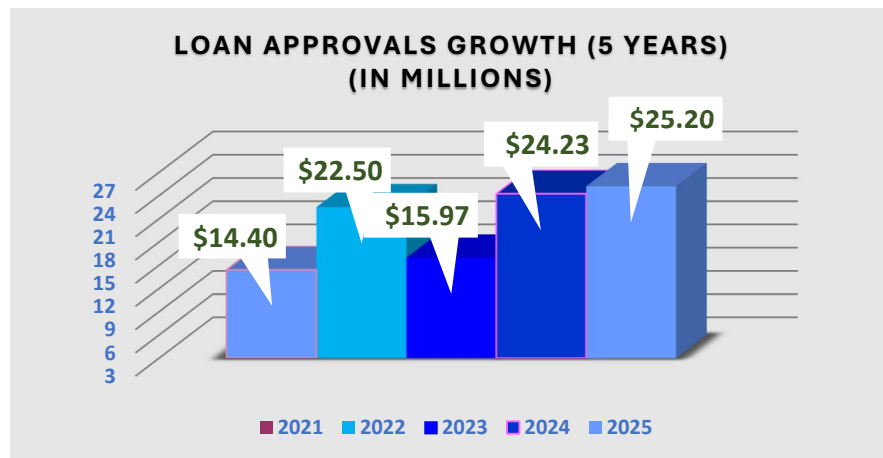
**LENDING UPDATES:**

In 2025, total loans approved amounted to \$25.2 million; \$16 million of which were for business loans, \$859 thousand were approved for residential home loans, and \$8.33 million livelihood loans. For Micro & Small (M&S) loans, \$252 thousand were approved. Business loans represented 64% of approved loans with 36% of the remaining loans making up livelihood and residential loans. Of the 19 M&S loans approved loans for 2025, 9 or 47% of those loans were for women-owned and women-managed businesses. For the total portfolio approvals in 2025, 23% were approved for women and 77% for men.

In terms of equality, FSMDB continues to progress against its objective outlined in its endorsed 2024 Gender Equality Policy to achieve gender parity relative to its products and services. An update to the Gender Baseline report produced in 2024 for the year 2025 showed a significant increase to the total number of clients of which women doubled in number particularly women in business from prior year. This is a modest and yet a significant gain for the Bank. Furthermore, to support women’s access to finance, FSMDB is aggressively looking at other funding streams/opportunities to increase its portfolio for women entrepreneurs. Initial engagements with other institutions started in the year 2025 and hopefully will be finalized and secured in the coming year.

Bank loans provide the opportunity to create jobs, generate income, utilize local resources, reduce imports and increase exports, and provide other essential services. The Bank has been growing organically for the past 23 years, maintaining its status as a viable lending institution.

2025 Loan Approvals	Stats	Amount	% of total
AGR/FISH/FORESTRY	7	\$ 65,171	0%
SERVICES	19	3,634,005	14%
MANUFACTURING	1	1,779	0%
REAL ESTATE	14	2,170,640	9%
WHOLESALE/RETAIL	22	3,291,316	13%
TOURISM	2	42,944	0%
TRANSPORTATION	10	296,544	1%
CONST.& MINING	9	6,517,189	26%
RESIDENTIAL HOME LOANS	13	858,888	3%
LIVELIHOOD LOANS	1,134	8,328,651	33%
<b>TOTAL</b>	<b>1,231</b>	<b>\$25,207,127</b>	<b>100%</b>



**MICRO & SMALL ENTERPRISE LOANS:**

2025 Micro & Small Loans	Stats	Amount	% of Total
AGR/FISH/FORESTRY	3	\$ 15,732	6%
SERVICES	7	93,352	37%
MANUFACTURING	0	-	0%
WHOLESALE/RETAIL	6	78,663	31%
TRANSPORTATION	3	64,150	26%
CONST.& MINING	0	-	0%
<b>Total</b>	<b>19</b>	<b>\$ 251,897</b>	<b>100%</b>

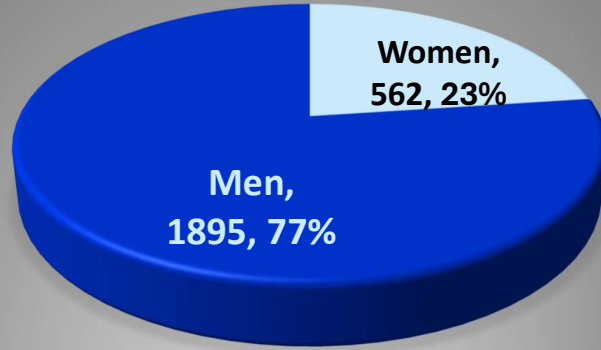
*Micro/Small Loans in 2025: 47% approved to women-run or women-owned businesses*

*2025 Total Portfolio: 23% to women-run or women-owned businesses*

*Pictured below: Women's Day activities featuring women made/women sold crafts in the FSM*

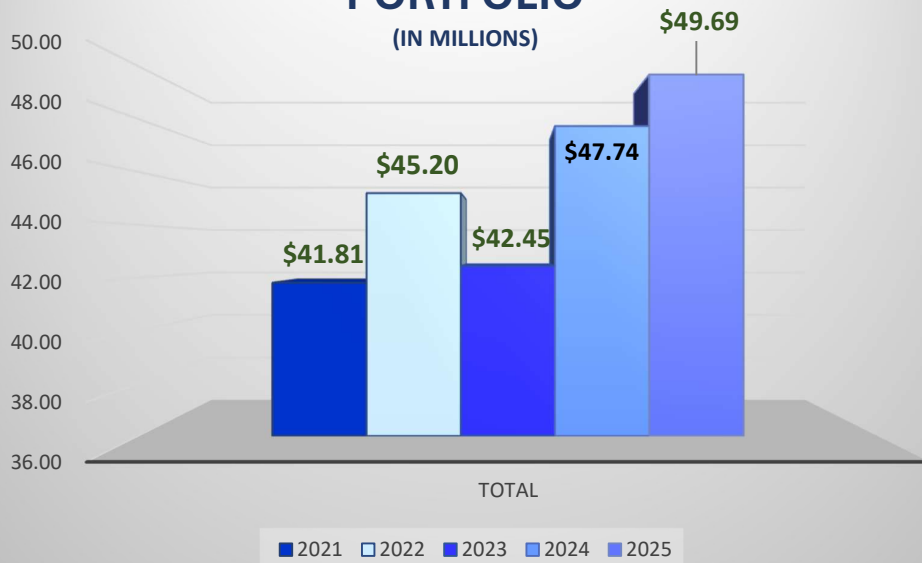


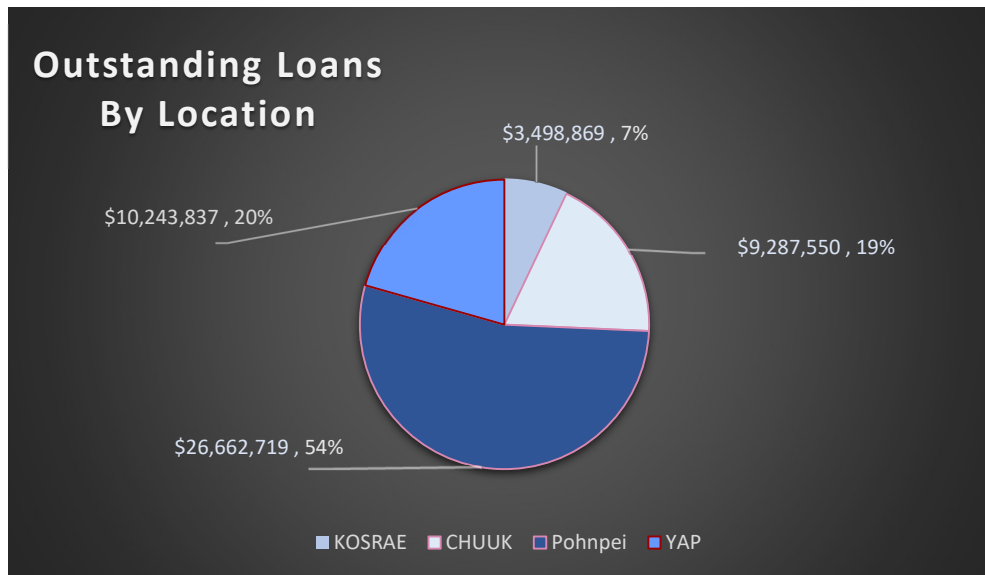
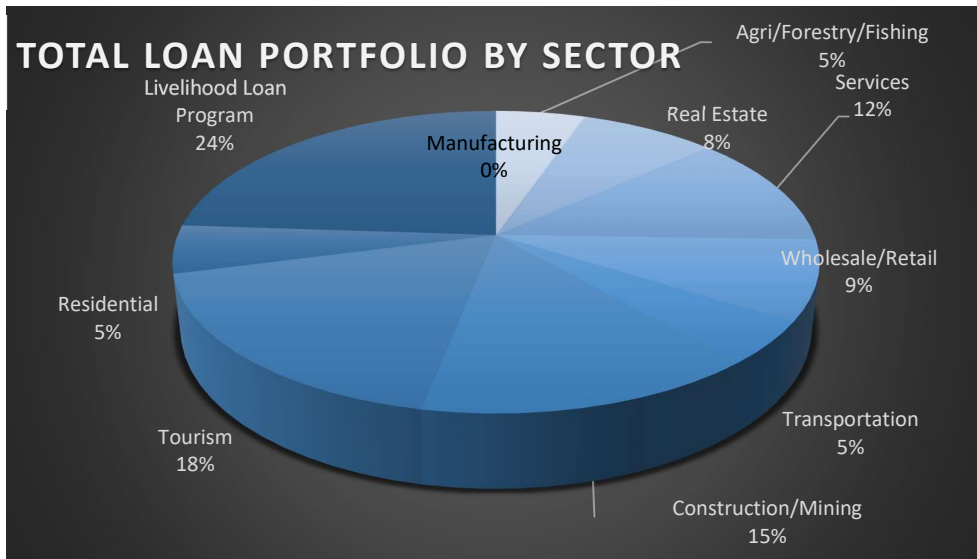
### 2025 TOTAL LOANS APPROVED BY GENDER



### 5 YEAR TREND TOTAL LOAN PORTFOLIO

(IN MILLIONS)





Outstanding Loans	Amount	Stats	% of Total
Agri/Forestry/Fishing	\$ 2,605,936	72	5%
Manufacturing	50,435	10	0%
Real Estate	3,985,495	32	8%
Services	6,002,425	93	12%
Wholesale/Retail	4,255,024	137	9%
Transportation	2,259,792	42	5%
Construction/Mining	7,227,806	21	15%
Tourism	8,858,367	13	18%
Residential	2,550,764	69	5%
Livelihood Loan Program	11,895,928	1,968	24%
<b>Total</b>	<b>\$ 49,691,972</b>	<b>2,457</b>	<b>100%</b>

**Project Photos: Retail/Wholesale Stores, Construction, Pig Feed Sales, Car & Truck Rentals, Boat Sales, Gas Station, Farming Projects**



Project Photos Continued...



## RESIDENTIAL LOANS:

Our Home Loan program aims to help FSM consumers construct new homes, renovate or improve existing homes with emphasis on energy efficiency, costs savings and comfort. The year 2025 saw 13 approved residential loans: 6 of them new constructions and 7 of them home renovations. At the conclusion of 2025, FSMDB had assisted over 226 families in the FSM build or renovate comfortable homes, which represents a loan portfolio of \$2.55 million.



**COMMUNITY ENGAGEMENT:**

The bank engages with our local communities by sponsoring or supporting various activities that enhance society and environment. Some of the 2025 activities included: local school trash-a-thons & talent shows, women’s conferences, scholarships, nation & state-wide competitions, rotary club activities, leadership meetings/functions, medical association meetings, and so on and so forth.



2025 STAFF RETREAT, AA Resort, Pohnpei



**STAFF RELATIONS & PERSONNEL TRAINING:**



*Above Photos: Staff Donations to local police stations and clinics during the holidays*

*Photo below: ADFIAP Loan Credit Proposal Packaging Training in Guam, Staff Training/Awareness on Healthy Exercises*



***Thank you*** for relying on FSMDB to *transform your lives.*



This annual report is printed in gloss paper using local resources, and distributed to our shareholders, board of directors, partner organizations, and the FSM leadership in limited published copies as well as uploaded on our website, consistent with our commitment to reduce our carbon footprint. Please visit our website at [www.fsmdb.fm](http://www.fsmdb.fm) for more information.



*Financial Statements, Required Supplementary  
Information, and Supplementary Information*

**Federated States of Micronesia  
Development Bank**

*(A Component Unit of the Federated States of  
Micronesia National Government)*

*Years ended December 31, 2025 and 2024  
with Report of Independent Auditors*



**Shape the future  
with confidence**

Federated States of Micronesia Development Bank  
(A Component Unit of the Federated States of Micronesia National Government)

Years ended December 31, 2025 and 2024

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Shape the future  
with confidence

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## Report of Independent Auditors

Board of Directors  
Federated States of Micronesia Development Bank:

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the financial statements of the business-type activities and fiduciary activities of Federated States of Micronesia (FSM) Development Bank (the Bank), a component unit of the FSM National Government, as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Bank’s basic financial statements as listed in the table of contents (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of Federated States of Micronesia Development Bank at December 31, 2025 and 2024, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinions***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Bank and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### ***Responsibilities of Management for the Financial Statements, continued***

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bank's basic financial statements. The Schedule of European Investment Bank December 2018 Finance Contract Ratios, as Amended November 2023 on page 34 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Schedule of European Investment Bank December 2018 Finance Contract Ratios, as Amended November 2023 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2026, on our consideration of the Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Bank's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bank's internal control over financial reporting and compliance.

*Ernst + Young LLP*

April 17, 2026

Federated States of Micronesia Development Bank  
*(A Component Unit of the Federated States of Micronesia National Government)*

Management's Discussion and Analysis

Years ended December 31, 2025 and 2024

The following is a discussion and analysis of the Federated States of Micronesia Development Bank's (FSMDB or the Bank) financial performance for the years ended December 31, 2025 and 2024.

The Bank embraced some positive changes in 2025, amidst the many things happening in the region and the world. Part of that was also embracing the Bank's ever-growing role in private sector development as we navigate through different challenges each and every year and seek ways in which we can improve our operations and serve our customers better.

The Bank's assets grew from \$79.1 million in 2024 to \$84.4 million in 2025, most of that growth attributed to investments growth and growth in our lending portfolio. The Bank's lone long-term liability with European Investment Bank (EIB) decreased from \$2.1 million in 2024 to \$1.8 million in 2025, which represents only 2% of assets. For additional information concerning the Bank's debt, please refer to Note 8 in the financial statements. No contributions or subsidies from the government were received in 2025.

Summary Statements of Net Position

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Assets	\$ <u>84,436,054</u>	\$ <u>79,054,945</u>	\$ <u>72,717,683</u>
Liabilities	\$ <u>2,169,044</u>	\$ <u>2,529,108</u>	\$ <u>2,960,174</u>
Net position:			
Net investment in capital assets	1,059,418	1,075,381	1,174,995
Unrestricted	<u>81,207,592</u>	<u>75,450,456</u>	<u>68,582,514</u>
Total net position	<u>82,267,010</u>	<u>76,525,837</u>	<u>69,757,509</u>
Total liabilities and net position	<u>\$84,436,054</u>	<u>\$79,054,945</u>	<u>\$72,717,683</u>

In 2025, total loans approved amounted to \$25.2 million; \$16 million of which were for business loans, \$859 thousand were approved for residential home loans, and \$8.33 million livelihood loans. For Micro & Small (M&S) loans, \$252 thousand were approved. Business loans represented 64% of approved loans with 36% of the remaining loans making up livelihood and residential loans. Of the 19 M&S loans approved loans for 2025, 47% of those loans were for women-owned and women-managed businesses.

**Federated States of Micronesia Development Bank**  
*(A Component Unit of the Federated States of Micronesia National Government)*

**Management's Discussion and Analysis, continued**

Financially, FSMDB ended 2025 with change in net position of \$5.7 million, most of that being attributed to investment gains. The Bank was able to generate net operating revenues of \$4.1 million, and after covering expenses of \$2.5 million, net operating earnings totaled \$1.55 million. The Bank was able to use any surpluses to increase net position.

Summary Statements of Revenues, Expenses and Changes in Net Position

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Operating revenues	\$ 4,235,632	\$ 3,907,405	\$ 3,433,786
(Provisions for) recoveries of loan losses	( 179,200)	1,900,000	---
Operating expenses	<u>( 2,509,716)</u>	<u>( 2,296,960)</u>	<u>( 2,490,374)</u>
Earnings from operations	1,546,716	3,510,445	943,412
Nonoperating revenues, net	<u>4,194,457</u>	<u>3,257,883</u>	<u>3,780,561</u>
Change in net position	5,741,173	6,768,328	4,723,973
Net position at beginning of year	<u>76,525,837</u>	<u>69,757,509</u>	<u>65,033,536</u>
Net position at end of year	<u>\$82,267,010</u>	<u>\$76,525,837</u>	<u>\$69,757,509</u>

The Bank manages two trust funds, namely, the Investment Development Fund (IDF) and Yap Development Loan Fund (YDLF). The total assets for each of these funds at the end of 2025 were \$2,115,059 and \$294,926 respectively. There are no active IDF and YDLF loans.

**Economic Outlook**

As a banking institution in this country with evolving needs and requirements, we anticipate to confront challenges ahead. In 2025, in addition to our general operations, we worked diligently to submit all of the Green Climate Fund (GCF) readiness fund requirements; and we are determined to meet every objective to get our GCF activities operational soon.

The major challenge we discussed in prior years relating to the bonding requirement for the Compact Infrastructure Fund continued to be a problem in 2025. The Bank finds that this type of 100% bond requirement could potentially strain financial resources for our construction clients as well as restrict our own financial resources. We continue to strive for ways to assist our clients in this front address these sorts of funding challenges so the country's needed infrastructure projects are not canceled or postponed.

We are prepared to meet these higher expectations of our stakeholders and the customers we serve, despite the many challenges ahead. As a partner, the Bank anticipates to be more proactive in developing ideas into viable business proposals and providing entrepreneurial training to help improve the management of successful businesses in the FSM.

Federated States of Micronesia Development Bank  
*(A Component Unit of the Federated States of Micronesia National Government)*

Management's Discussion and Analysis, continued

**Economic Outlook, continued**

Moving forward, the Bank remains committed to working with our government leaderships and with the private sector community as in prior years, to continue to advocate for a better business environment that would encourage more investment which then leads to job creation for our people and revenue source for the governments.

**Contacting Financial Management**

The Management's Discussion and Analysis report is intended to provide information concerning known facts and conditions affecting the Bank's operations. This financial report is designed to provide a general overview of the Bank's finances and to demonstrate the Bank's accountability for the funds it receives and expends.

Management's Discussion and Analysis for the year ended December 31, 2024 is set forth in the Bank's report on the audit of financial statements, which is dated May 12, 2025. That Discussion and Analysis explains the major factors impacting the 2024 financial statements and can be viewed at the Bank's website at [www.fsmdb.fm](http://www.fsmdb.fm) or Office of the Public Auditor's website at [www.fsmopa.fm](http://www.fsmopa.fm).

For additional information about this report, please contact Ms. Anna Mendiola, President/Chief Executive Officer, P.O. Box M, Pohnpei, FM 96941 or visit the website at [www.fsmdb.fm](http://www.fsmdb.fm).

Federated States of Micronesia Development Bank  
(A Component Unit of the Federated States of Micronesia National Government)

Statements of Net Position

	December 31, <u>2025</u>	2024 <u>2024</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,860,936	\$ 2,523,211
Time certificates of deposit	6,819,852	6,405,285
Current portion of loans receivable, net of allowance for loan losses	12,292,966	15,391,974
Investments	21,908,970	19,711,918
Interest and other receivables	207,031	159,763
Current portion of prepaid expenses	<u>143,596</u>	<u>43,789</u>
Total current assets	43,233,351	44,235,940
Loans receivable, net of allowance for loan losses, net of current portion	31,950,110	26,486,999
Equity investment	8,151,924	7,212,040
Depreciable capital assets, net	1,059,418	1,075,381
Prepaid expenses, net of current portion	<u>41,251</u>	<u>44,585</u>
Total assets	<u>\$84,436,054</u>	<u>\$79,054,945</u>
<b>Liabilities and Net Position</b>		
Current liabilities:		
Current portion of long-term debt	\$ 277,708	\$ 342,095
Accounts payable	112,855	131,589
Credit life payable	123,717	94,727
Payable to trust funds	70,563	70,563
Unearned grant revenues	<u>56,810</u>	<u>85,035</u>
Total current liabilities	641,653	724,009
Long-term debt, net of current portion	<u>1,527,391</u>	<u>1,805,099</u>
Total liabilities	<u>2,169,044</u>	<u>2,529,108</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	1,059,418	1,075,381
Unrestricted	<u>81,207,592</u>	<u>75,450,456</u>
Total net position	<u>82,267,010</u>	<u>76,525,837</u>
Total liabilities and net position	<u>\$84,436,054</u>	<u>\$79,054,945</u>

See accompanying notes.

Federated States of Micronesia Development Bank  
(A Component Unit of the Federated States of Micronesia National Government)

Statements of Revenues, Expenses, and Changes in Net Position

	Year ended December 31,	
	<u>2025</u>	<u>2024</u>
Operating revenues:		
Interest income on loans	\$ 3,742,542	\$ 3,420,880
Loan fees	256,599	265,908
Miscellaneous	204,831	181,920
Rental	26,363	29,700
Interest income on interest-bearing deposits	<u>5,297</u>	<u>8,997</u>
Total operating revenues	4,235,632	3,907,405
(Provisions for)/recoveries of loan losses	<u>( 179,200)</u>	<u>1,900,000</u>
Net operating revenues	<u>4,056,432</u>	<u>5,807,405</u>
Operating expenses:		
Interest expense	<u>57,306</u>	<u>50,834</u>
General and administrative expenses:		
Personnel services	1,340,772	1,283,689
Travel	174,229	112,137
Depreciation	155,534	153,753
Contractual services	142,458	98,279
Retirement plan contributions	110,927	105,709
Miscellaneous	88,269	72,432
Training	82,708	22,723
Branch automation	77,068	94,463
Rent	67,628	69,564
Communication	53,618	61,895
Utilities	50,878	60,447
Supplies	28,365	30,067
Equipment	21,069	17,307
Staff relations	15,140	15,315
Repair and maintenance	15,119	13,122
Community development	13,591	18,824
Fuel, oil and petroleum	9,830	10,689
Insurance	<u>5,207</u>	<u>5,711</u>
Total general and administrative expenses	<u>2,452,410</u>	<u>2,246,126</u>
Earnings from operations	1,546,716	3,510,445
Nonoperating revenues - investment income, net	<u>4,194,457</u>	<u>3,257,883</u>
Change in net position	5,741,173	6,768,328
Net position at beginning of year	<u>76,525,837</u>	<u>69,757,509</u>
Net position at end of year	<u>\$82,267,010</u>	<u>\$76,525,837</u>

*See accompanying notes.*

Federated States of Micronesia Development Bank  
*(A Component Unit of the Federated States of Micronesia National Government)*

Statement of Fiduciary Net Position

December 31, 2025

	Investment Development Fund (IDF)	Yap Development Loan Fund (YDLF)	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ ---	\$134,754	\$ 134,754
Time certificates of deposit	2,018,809	154,770	2,173,579
Receivable from FSMDB	71,935	---	71,935
Interest and other receivables	<u>24,315</u>	<u>5,402</u>	<u>29,717</u>
Total assets	<u>\$2,115,059</u>	<u>\$294,926</u>	<u>\$2,409,985</u>
<b>Liabilities and Net Position</b>			
Liabilities:			
Payable to FSMDB	\$ <u>1,372</u>	\$ <u>---</u>	\$ <u>1,372</u>
Unrestricted net position	<u>2,113,687</u>	<u>294,926</u>	<u>2,408,613</u>
Total liabilities and net position	<u>\$2,115,059</u>	<u>\$294,926</u>	<u>\$2,409,985</u>

*See accompanying notes.*

Federated States of Micronesia Development Bank  
*(A Component Unit of the Federated States of Micronesia National Government)*

Statement of Fiduciary Net Position

December 31, 2024

	Investment Development Fund (IDF)	Yap Development Loan Fund (YDLF)	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ ---	\$132,237	\$ 132,237
Time certificates of deposit	1,998,820	154,650	2,153,470
Receivable from FSMDB	71,935	---	71,935
Interest and other receivables	<u>19,313</u>	<u>3,861</u>	<u>23,174</u>
Total assets	<u>\$2,090,068</u>	<u>\$290,748</u>	<u>\$2,380,816</u>
<b>Liabilities and Net Position</b>			
Liabilities:			
Payable to FSMDB	\$ <u>1,372</u>	\$ <u>---</u>	\$ <u>1,372</u>
Unrestricted net position	<u>2,088,696</u>	<u>290,748</u>	<u>2,379,444</u>
Total liabilities and net position	<u>\$2,090,068</u>	<u>\$290,748</u>	<u>\$2,380,816</u>

*See accompanying notes.*

Federated States of Micronesia Development Bank  
*(A Component Unit of the Federated States of Micronesia National Government)*

Statement of Fiduciary Revenues, Expenses and Changes in Fiduciary Net Position

Year ended December 31, 2025

	Investment Development Fund (IDF)	Yap Development Loan Fund (YDLF)	<u>Total</u>
Addition:			
Investment interest	\$ <u>24,991</u>	\$ <u>4,178</u>	\$ <u>29,169</u>
Change in net position	24,991	4,178	29,169
Net position at beginning of year	<u>2,088,696</u>	<u>290,748</u>	<u>2,379,444</u>
Net position at end of year	<u>\$2,113,687</u>	<u>\$294,926</u>	<u>\$2,408,613</u>

*See accompanying notes.*

Federated States of Micronesia Development Bank  
*(A Component Unit of the Federated States of Micronesia National Government)*

Statement of Fiduciary Revenues, Expenses and Changes in Fiduciary Net Position

Year ended December 31, 2024

	Investment Development Fund (IDF)	Yap Development Loan Fund (YDLF)	<u>Total</u>
Addition:			
Investment interest	\$ <u>14,882</u>	\$ <u>4,924</u>	\$ <u>19,806</u>
Change in net position	14,882	4,924	19,806
Net position at beginning of year	<u>2,073,814</u>	<u>285,824</u>	<u>2,359,638</u>
Net position at end of year	<u>\$2,088,696</u>	<u>\$290,748</u>	<u>\$2,379,444</u>

*See accompanying notes.*

Federated States of Micronesia Development Bank  
*(A Component Unit of the Federated States of Micronesia National Government)*

Statements of Cash Flows

	Year ended December 31,	
	<u>2025</u>	<u>2024</u>
Cash flows from operating activities:		
Cash received from customers	\$4,183,067	\$3,919,657
Cash received from interest-bearing deposits	5,297	8,997
Cash paid to suppliers for goods and services	(1,070,546)	( 865,670)
Cash paid to employees for services	(1,340,772)	(1,283,689)
Net cash provided by operating activities	<u>1,777,046</u>	<u>1,779,295</u>
Cash flows from noncapital financing activities:		
Principal repayments of long-term debt	( 342,095)	( 462,454)
Interest paid	( 57,306)	( 50,834)
Cash used in noncapital financing activities	<u>( 399,401)</u>	<u>( 513,288)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	( 139,571)	( 54,139)
Cash used in capital and related financing activities	<u>( 139,571)</u>	<u>( 54,139)</u>
Cash flows from investing activities:		
Loan origination and principal disbursements, net	(2,543,303)	(4,885,837)
(Increase) decrease in time certificates of deposit	( 414,567)	1,526,801
Sales (purchases) of investments, net	495,018	(1,434,128)
Dividends received	<u>562,503</u>	<u>456,752</u>
Net cash used in investing activities	<u>(1,900,349)</u>	<u>(4,336,412)</u>
Net change in cash and cash equivalents	( 662,275)	(3,124,544)
Cash and cash equivalents at beginning of year	<u>2,523,211</u>	<u>5,647,755</u>
Cash and cash equivalents at end of year	<u>\$1,860,936</u>	<u>\$2,523,211</u>

*See accompanying notes.*

Federated States of Micronesia Development Bank  
*(A Component Unit of the Federated States of Micronesia National Government)*

Statements of Cash Flows, continued

	Year ended December 31,	
	<u>2025</u>	<u>2024</u>
Reconciliation of earnings from operations to net cash provided by operating activities:		
Earnings from operations	\$1,546,716	\$3,510,445
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Provisions for (recoveries of) of loan losses	179,200	(1,900,000)
Depreciation	155,534	153,753
Others	57,306	50,834
Decrease (increase) in assets:		
Interest and other receivables	( 47,268)	21,249
Prepaid expenses	( 96,473)	( 88,374)
Increase (decrease) in liabilities:		
Accounts payable	( 18,734)	7,210
Credit life payable	28,990	24,178
Unearned grant revenues	<u>( 28,225)</u>	<u>---</u>
Net cash provided by operating activities	<u>\$1,777,046</u>	<u>\$1,779,295</u>

*See accompanying notes.*

Federated States of Micronesia Development Bank  
*(A Component Unit of the Federated States of Micronesia National Government)*

Notes to Financial Statements

Years ended December 31, 2025 and 2024

**1. Organization and Summary of Significant Accounting Policies**

**Organization**

The Federated States of Micronesia (FSM) Development Bank (the Bank) was created in 1979 by Public Law 1-37 of the First Congress of the Federated States of Micronesia. The Bank began its operations on October 1, 1980. The Bank was reorganized in January 1994 by Public Law 8-47 of the Eighth Congress of the FSM. The purpose of the Bank is to provide loans for economic development of the FSM. Such loans may otherwise be too risky for commercial banks to underwrite. Additionally, the Bank's repayment terms tend to be longer than those offered by commercial banks. As of December 31, 2025, and 2024, the Bank has issued 3,236,883 shares to the FSM National Government (98.80%), Chuuk State (0.92%) and Kosrae State (0.28%). These shares do not convey ownership and have been made in accordance with the aforementioned law, but these shares have no financial impact on the accompanying financial statements.

**Primary Government Financial Statements**

The primary government financial statements consist of the statements of net position, statements of revenues, expenses, and changes in net position and statements of cash flows. Fiduciary activities are not included in the primary government financial statements.

**Fiduciary Fund Financial Statements**

Separate financial statements are provided for fiduciary funds. Fiduciary financial statements include assets, liabilities and activities of the Investment Development Fund (IDF) and the Yap Development Loan Fund (YDLF), for which the Bank has been legally designated to control but the Bank itself is not a beneficiary.

IDF was established by Public Law 5-122 in January 1989. The purpose of the IDF is to finance projects which will (1) have their operations primarily located within the FSM; (2) improve the balance of payments position of the FSM; (3) increase the value of visible and invisible exports or result in import substitutions; (4) demonstrate positive economic returns; and (5) contribute to the furtherance of close economic relations with the United States.

YDLF is administered by the Bank in a Trust capacity. All loan decisions are made by executives of the respective state governments.

Federated States of Micronesia Development Bank  
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements, continued

**1. Organization and Summary of Significant Accounting Policies, continued**

**Fund Structure and Basis of Accounting**

The Bank is a component unit (a discretely presented proprietary fund type) of the FSM National Government. The financial statements in this report do not represent the financial position, results of operations or cash flows of the FSM National Government as a whole. The primary government financial statements of the Bank are not obligations of the FSM National Government unless specifically authorized by the FSM National Government. To date, no such authorizations have been made.

The accounts of the Bank are organized as a discretely presented component unit - proprietary fund of the FSM National Government. Proprietary funds are used by governmental units to account for operations that are financed and operated in a manner similar to a private business. This accounting is appropriate when costs of providing goods or services to the general public are to be financed primarily through user charges or where the periodic determination of net income is appropriate for accountability purposes.

The accounting policies of the primary government financial statements and fiduciary fund financial statements conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities, specifically proprietary funds. The Bank utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, requires assets and liabilities of enterprise funds be presented in a classified format to distinguish between current and long-term assets and liabilities.

**Accounting Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

Federated States of Micronesia Development Bank  
*(A Component Unit of the Federated States of Micronesia National Government)*

Notes to Financial Statements, continued

**1. Organization and Summary of Significant Accounting Policies, continued**

**Cash and Cash Equivalents**

For the purposes of the statements of net position and cash flows, cash and cash equivalents are defined as cash in bank checking, savings and time certificate of deposit accounts with original maturity dates of three months or less, money market funds, and commercial paper with original maturities of three months or less from the date of acquisition.

Time certificates of deposit with original maturities of greater than three months are separately classified.

**Investments**

Investments and related investment earnings are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

An equity investment in the common stock of Bank of the FSM (investee) is stated at the net asset value (NAV). The NAV is used as a practical expedient to estimate fair value. The NAV is determined based on the total shareholders' equity reported by the investee.

**Loans and Allowance for Loan Losses**

Loans receivable are stated at unpaid principal balance less the allowance for loan losses.

Management maintains the allowance for loan losses at a level adequate to absorb probable losses. Management determines the adequacy of the allowance based upon reviews of individual loans, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Loans deemed uncollectible are charged to the allowance. Provisions for losses and recoveries on loans previously charged off are added to the allowance and recorded as reduction or addition to operating revenues.

For the statements of net position presentation purpose, the current portion of loans is determined based on expected principal collections, including those loans that are scheduled to mature, within the next twelve months. Actual loan collections in subsequent period may differ significantly due to term extensions that may be in the normal course of business.

Interest on loans is accrued and credited to income based on the principal amount outstanding. The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, all unpaid accrued interest is reversed.

Federated States of Micronesia Development Bank  
*(A Component Unit of the Federated States of Micronesia National Government)*

Notes to Financial Statements, continued

**1. Organization and Summary of Significant Accounting Policies, continued**

**Capital Assets**

Capital assets are stated at cost, less accumulated depreciation. Depreciation is based on the straight-line method over the estimated useful lives of the respective assets. All assets have estimated useful lives of three to twenty-five years.

The Bank's policy on capital assets requires that assets with a purchase value of \$5,000 and over are capitalized and depreciated based on their useful lives. Assets with a purchase value less than \$5,000 are expensed fully in the year of purchase.

**Deferred Outflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. As of December 31, 2025, and 2024, the Bank has no items that qualify for reporting in this category.

**Deferred Inflows of Resources**

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. As of December 31, 2025, and 2024, the Bank has no items that qualify for reporting in this category.

**Unearned Grant Revenues**

Unearned grant revenues represent amounts received from grant and contract sponsors that have not yet been earned.

**Compensated Absences**

Earned but unused annual leave is paid to employees upon termination of their employment. Accordingly, vested or accumulated vacation leave is only recorded when used or paid upon termination of employment. As of December 31, 2025 and 2024, vested or accumulated vacation leave approximated \$35,000 and \$50,000, respectively.

It is the policy of the Bank to record the cost of sick leave when leave is actually taken, and an expense is actually incurred. Accordingly, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits, which approximated \$202,000 and \$180,000 on December 31, 2025 and 2024, respectively.

Federated States of Micronesia Development Bank  
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements, continued

**1. Organization and Summary of Significant Accounting Policies, continued**

**Taxes**

The Bank exists and operates solely for the benefit of the public and shall be exempted from any State or Municipal taxes or assessments on any of its property, operations or activities. The Bank shall be liable for employees' contributions to the National Social Security System or other employees' benefits of the State or FSM National Governments, if any, in such manner as provided by law.

**Net Position**

Net position represents the residual interest in the Bank's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consist of two sections:

Net investment in capital assets - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets as well as deferred outflows of resources and deferred inflows of resources that are attributable to those assets or related debt.

Unrestricted - the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

**Operating and Nonoperating Revenues and Expenses**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations, which is lending. Operating expenses include the cost to provide services, including cost of funds, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Off-Balance Sheet Financial Instruments**

In the ordinary course of business, the Bank enters into off-balance sheet financial instruments consisting of commitments to extend credit and loan guarantees. Such financial instruments are recorded in the financial statements when they become payable.

Federated States of Micronesia Development Bank  
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements, continued

**1. Organization and Summary of Significant Accounting Policies, continued**

**Recently Adopted Accounting Pronouncement**

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of this Statement is to provide users of the government financial statements with essential information about risks related to a government's vulnerabilities due to ascertain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. The adoption of GASB Statement No. 102 during the year ended December 31, 2025 did not have an effect on the accompanying financial statements.

**Upcoming Accounting Pronouncements**

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement requires that the information presented in Management's Discussion and Analysis be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this Statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. This Statement also requires presenting the inflows and outflows related to each unusual or infrequent item separately and sets out definitions of operating revenues and expenses and of nonoperating revenues and expenses that will replace accounting policies that vary from government to government, thereby improving comparability. GASB Statement No. 103 will be effective for fiscal year ending December 31, 2026.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by GASB Statement No. 34. Leased assets recognized in accordance with GASB Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, should also be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. GASB Statement No. 104 will be effective for fiscal year ending December 31, 2026.

Federated States of Micronesia Development Bank  
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Notes to Financial Statements, continued

**1. Organization and Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Pronouncements, continued**

In December 2025, GASB issued Statement No. 105, *Subsequent Events*. The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. This Statement defines subsequent events as transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued. This Statement describes the date the financial statements are available to be issued as the date at which (1) the financial statements are complete in a form and format that complies with generally accepted accounting principles and (2) approvals necessary for issuance have been obtained. That definition modifies the subsequent events time frame throughout the GASB literature. This Statement also requires the date through which subsequent events have been evaluated to be disclosed. This Statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events. GASB Statement No. 105 will be effective for fiscal year ending December 31, 2027.

Management is currently evaluating the effects the above upcoming accounting pronouncements might have on the financial statements.

**2. Deposits and Investments**

The deposit and investment policies of the Bank are governed by its enabling legislation. The Board is required to engage one or more fund custodians to assume responsibility for the physical possession of the Bank's investments. Legally authorized investments are as follows:

- (i) Government obligations - Obligations issued or guaranteed as to principal and interest by the National Government and/or State governments of the Federated States of Micronesia or by the Government of the United States of America, provided that the principal and interest on each obligation are payable in the currency of the United States of America.
- (ii) Corporate obligations and mortgage-backed securities - Obligations of any public or private entity or corporation created or existing under the laws of the Federated States of Micronesia or of the United States of America or any state, territory or commonwealth thereof, or obligations of any other government or economic community which are payable in United States dollars, or other mortgage-backed securities provided that the obligation is an agency of the United States Government, the National Government of the Federated States of Micronesia, or is rated in one of the three highest categories by two nationally recognized rating agencies. No investment under this heading shall exceed ten percent of the market value of the investment fund or ten percent of the outstanding value of the issue at the time of purchase.

Federated States of Micronesia Development Bank  
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements, continued

**2. Deposits and Investments, continued**

- (iii) Preferred and common stocks - Shares of preferred or common stocks of any corporation created or existing under the laws of the Federated States of Micronesia or under the laws of the United States or any state, territory or commonwealth thereof provided that the purchase of such shares shall be considered reasonable and prudent by the Bank's investment advisor at the time of purchase, that not more than five percent of the market value of its investments shall be invested in the stock of any one corporation, and that not more than ten percent of the market value of its investments shall be invested in any one industry group.
- (iv) Insurance company obligations - Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in the Federated States of Micronesia or in any state, territory or commonwealth of the United States provided that the total market value of these investments at no time shall exceed ten percent of all investments.

**A. Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Bank's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Bank does not have a deposit policy for custodial credit risk.

As of December 31, 2025, and 2024, the carrying amount of the Bank's total cash and cash equivalents and time certificates of deposit, including fiduciary funds, amounted to \$10,989,121 and \$11,214,203, respectively, and the corresponding bank balances were \$11,137,297 and \$12,064,792, respectively, which were all maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of December 31, 2025 and 2024, bank deposits in the amounts of \$7,565,154 and \$7,047,437, respectively, are subject to the FDIC insurance limit. The Bank does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. Management's confidence in the financial strength of their banking institutions was the basis of the decision to not require collateralization. No losses as a result of this practice were incurred for the years ended December 31, 2025 and 2024.

Federated States of Micronesia Development Bank  
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Notes to Financial Statements, continued

**2. Deposits and Investments, continued**

**B. Investments**

As of December 31, 2025, and 2024, investments at fair value are as follows:

	<u>2025</u>	<u>2024</u>
Fixed income securities:		
Domestic fixed income	\$ 7,262,906	\$ 6,786,066
Equity securities:		
Domestic equities	13,046,040	11,300,150
Exchange traded products	1,562,809	1,584,810
Real estate investment trusts	<u>37,215</u>	<u>40,892</u>
	<u>\$21,908,970</u>	<u>\$19,711,918</u>

As of December 31, 2025, and 2024, investments in domestic fixed income securities are as follows:

2025

	Moody's Credit Rating	Investment maturities (in Years)					Fair Value
		Less Than 1	1 to 5	6 to 10	Greater Than 10		
U.S. Government securities:							
U.S. Treasury Notes	Aa1	\$ ---	\$2,949,427	\$129,594	\$ ---	\$3,079,021	
U.S. Government agencies:							
Fannie Mae Pool	Not rated	---	---	---	2,005,308	2,005,308	
Freddie Mac Group	Not rated	---	---	---	1,563,307	1,563,307	
Corporate bonds	A1	---	135,550	---	---	135,550	
Corporate bonds	A2	---	94,172	---	---	94,172	
Corporate bonds	A3	---	124,489	---	---	124,489	
Corporate bonds	Aa2	---	---	117,643	---	117,643	
Corporate bonds	Not rated	---	---	---	143,416	143,416	
		<u>\$ ---</u>	<u>\$3,303,638</u>	<u>\$247,237</u>	<u>\$3,712,031</u>	<u>\$7,262,906</u>	

2024

	Moody's Credit Rating	Investment maturities (in Years)					Fair Value
		Less Than 1	1 to 5	6 to 10	Greater Than 10		
U.S. Government securities:							
U.S. Treasury Notes	Aaa	\$ ---	\$2,205,491	\$518,107	\$ ---	\$2,723,598	
U.S. Government agencies:							
Fannie Mae Pool	Not rated	---	---	---	1,984,828	1,984,828	
Freddie Mac Group	Not rated	---	---	---	1,569,953	1,569,953	
Corporate bonds	A1	---	106,032	76,672	---	182,704	
Corporate bonds	A2	---	90,927	---	---	90,927	
Corporate bonds	A3	---	52,510	67,282	---	119,792	
Corporate bonds	Aa2	---	---	114,264	---	114,264	
		<u>\$ ---</u>	<u>\$2,454,960</u>	<u>\$776,325</u>	<u>\$3,554,781</u>	<u>\$6,786,066</u>	

Federated States of Micronesia Development Bank  
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Notes to Financial Statements, continued

**2. Deposits and Investments, continued**

**B. Investments, continued**

The Bank categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Bank has the following recurring fair value measurements as of December 31, 2025 and 2024:

	December 31, 2025	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income:				
U.S. Treasury obligations	\$ 3,079,021	\$ 3,079,021	\$ ---	\$ ---
U.S. Government agencies	3,568,615	---	3,568,615	---
Corporate notes	<u>615,270</u>	<u>---</u>	<u>615,270</u>	<u>---</u>
Total fixed income	<u>7,262,906</u>	<u>3,079,021</u>	<u>4,183,885</u>	<u>---</u>
Equity securities:				
U.S. equities	9,698,354	9,698,354	---	---
Non U.S. equities	3,347,686	3,347,686	---	---
Exchange traded products	1,562,809	1,562,809	---	---
Real estate investment trusts	<u>37,215</u>	<u>37,215</u>	<u>---</u>	<u>---</u>
Total investments at fair value	<u>\$21,908,970</u>	<u>\$17,725,085</u>	<u>\$4,183,885</u>	<u>\$ ---</u>

	December 31, 2024	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income:				
U.S. Treasury obligations	\$ 2,723,598	\$ 2,723,598	\$ ---	\$ ---
U.S. Government agencies	3,554,781	---	3,554,781	---
Corporate notes	<u>507,687</u>	<u>---</u>	<u>507,687</u>	<u>---</u>
Total fixed income	<u>6,786,066</u>	<u>2,723,598</u>	<u>4,062,468</u>	<u>---</u>
Equity securities:				
U.S. equities	8,417,496	8,417,496	---	---
Non U.S. equities	2,882,654	2,882,654	---	---
Exchange traded products	1,584,810	1,584,810	---	---
Real estate investment trusts	<u>40,892</u>	<u>40,892</u>	<u>---</u>	<u>---</u>
Total investments at fair value	<u>\$19,711,918</u>	<u>\$15,649,450</u>	<u>\$4,062,468</u>	<u>\$ ---</u>

Federated States of Micronesia Development Bank  
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Notes to Financial Statements, continued

**2. Deposits and Investments, continued**

**B. Investments, continued**

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Bank will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Bank's investments are held and administered by a trustee. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in the Bank's name by the Bank's custodial financial institution at December 31, 2025 and 2024.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Bank. The Bank's investment in securities of U.S Treasury Notes and agency obligations of the Fannie Mae Pool and Freddie Mac Group constituted 14%, 9%, and 7%, respectively, of its total investments as of December 31, 2025, and 14%, 10% and 8%, respectively, of its total investments as of December 31, 2024.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The Bank has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**3. Equity Investment**

At December 31, 2025 and 2024, the equity investment in Bank of the FSM represents 225,001 common shares and approximately 24% ownership interest. Total shareholders' equity reported by Bank of the FSM approximated \$33.9 million and \$29.9 million as of December 31, 2025 and 2024, respectively, which equates to approximately \$8.2 million and \$7.2 million at December 31, 2025 and 2024, respectively, for the Bank's ownership interest.

Federated States of Micronesia Development Bank  
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Notes to Financial Statements, continued

**4. Loans Receivable, net of Allowance for Loan Losses**

A summary of loans receivable at December 31, 2025 and 2024 follows:

	<u>2025</u>	<u>2024</u>
Unpaid principal balance	\$49,693,205	\$47,802,502
Allowance for loan losses	( 5,450,129)	( 5,923,529)
Loans receivable, net of allowance for loan losses	44,243,076	41,878,973
Current portion	(12,292,966)	(15,391,974)
Loans receivable, net of allowance for loan losses, net of current portion	<u>\$31,950,110</u>	<u>\$26,486,999</u>

At December 31, 2025, estimated total principal collections and loan maturities in 2026 approximated \$13,804,000.

Movements in the allowance for loan losses during the years ended December 31, 2025 and 2024, are as follow:

	<u>2025</u>	<u>2024</u>
Balance at beginning of year	\$5,923,529	\$7,352,128
Provisions for (recoveries of) loan losses	179,200	(1,900,000)
Loans charged off	(2,624,725)	(1,042,631)
Loan recoveries from previously charged off loans	<u>1,972,125</u>	<u>1,514,032</u>
Net (charge-offs) recoveries	( 652,500)	<u>471,401</u>
Balance at end of year	<u>\$5,450,129</u>	<u>\$5,923,529</u>

During the year ended December 31, 2024, due to improving financial conditions of a borrower and continuous on time payments, the Bank upgraded the loan grading and recorded a recovery of approximately \$1.3 million, which was 50% of the loan which was fully allowed in the prior years. At December 31, 2025, management assessed that there were no significant changes to the borrower's financial condition and maintains an allowance for loan losses of \$1.3 million.

At December 31, 2025, the allowance includes approximately \$2.14 million for loans to a Yap State Government component unit for which collectability has been assessed to be remote.

During the year ended December 31, 2025, one Pohnpei loan with an outstanding balance of \$1.1 million was charged off.

**Federated States of Micronesia Development Bank**  
*(A Component Unit of the Federated States of Micronesia National Government)*

**Notes to Financial Statements, continued**

**5. Depreciable Capital Assets, net**

A summary of capital assets as of December 31, 2025 and 2024, are as follows:

	Beginning January 1, <u>2025</u>	Additions/ <u>Transfers</u>	Deletions/ <u>Transfers</u>	Ending December 31, <u>2025</u>
Land	\$ 7,889	\$ ---	\$ ---	\$ 7,889
Building	1,674,348	90,911	---	1,765,259
Computers and software	854,154	13,178	(52,582)	814,750
Vehicles	225,509	35,482	(46,787)	214,204
Office furniture, fixtures and equipment	<u>15,658</u>	<u>---</u>	<u>---</u>	<u>15,658</u>
	2,777,558	139,571	(99,369)	2,817,760
Less accumulated depreciation	<u>(1,702,177)</u>	<u>(155,534)</u>	<u>99,369</u>	<u>(1,758,342)</u>
	<u>\$1,075,381</u>	<u>\$( 15,963)</u>	<u>\$ ---</u>	<u>\$1,059,418</u>
	Beginning January 1, <u>2024</u>	Additions/ <u>Transfers</u>	Deletions/ <u>Transfers</u>	Ending December 31, <u>2024</u>
Land	\$ 7,889	\$ ---	\$ ---	\$ 7,889
Building	1,674,348	---	---	1,674,348
Computers and software	837,148	34,171	(17,165)	854,154
Vehicles	232,976	19,968	(27,435)	225,509
Office furniture, fixtures and equipment	<u>15,658</u>	<u>---</u>	<u>---</u>	<u>15,658</u>
	2,768,019	54,139	(44,600)	2,777,558
Less accumulated depreciation	<u>(1,593,024)</u>	<u>(153,753)</u>	<u>44,600</u>	<u>(1,702,177)</u>
	<u>\$1,174,995</u>	<u>\$( 99,614)</u>	<u>\$ ---</u>	<u>\$1,075,381</u>

**6. Related Party Transactions**

As of December 31, 2025 and 2024, the Bank has direct loans with outstanding balances of \$1,562,613 and \$1,613,572, respectively, to Bank employees and family members and project loans extended to one and four component units of FSM governments, respectively, totaling \$2,144,671 (see Note 4) and \$3,535,563, respectively. These loans were made under similar terms and conditions that exist with other borrowers. Officers and Board members are not eligible to borrow from the Bank.

During the year ended December 31, 2021, the Bank received a \$3,000,000 grant from the FSM National Government for the FSM Health Expenditure and Livelihood Support Program which is supported by the Asian Development Bank Group. The grant is for the Bank to launch its micro and small business loans for the program for a total of \$2,500,000 which were fully disbursed as of December 31, 2022. The loans are interest-free for the first two years for loans approved as of September 30, 2021 with subsequent loans bearing an interest of 3%. At December 31, 2025 and 2024, outstanding balances under the loan program approximated \$123,000 and \$290,000 respectively.

Federated States of Micronesia Development Bank  
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Notes to Financial Statements, continued

**7. Unearned Grant Revenues**

During the year ended December 31, 2015, the Bank was awarded a \$250,000 Home Energy Loan Program grant from the International Union for Conservation of Nature Resources (IUCN). \$232,000 of the grant is to be awarded to the qualified borrowers for new loans to construct homes that demonstrate features and measures designed to conserve energy, reduce consumption of fossil fuels and enhance energy efficiency as principal reduction of loans, while the remaining \$18,000 will be used by the Bank for renovations to improve energy efficiency. As of December 31, 2025 and 2024, unearned grant revenues amounted to \$56,810 and \$85,035, respectively.

**8. Long-Term Debt**

Long-term debt consists of the following at December 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Unsecured loans payable to European Investment Bank (EIB) under a December 2018 master finance contract of USD 4 million:		
Drawn on March 9, 2020; original amount of \$3,193,637, bearing interest fixed at 2.774%, and payable through semi-annual interest payment beginning on September 9, 2020 and principal installments of \$138,854 beginning on March 9, 2021 through maturity on March 9, 2032.	\$1,805,099	\$2,082,807
Unsecured loans payable to EIB under an August 2010 master finance contract of EUR 4 million:		
Drawn on August 20, 2014; original amount of \$334,550 (equivalent EUR 250,000), bearing interest fixed at 4.520%, and payable through semi-annual principal and interest installments of \$17,997 on January 15, 2015 and equal installments of \$19,467 beginning on July 15, 2015 through maturity on July 15, 2025.	---	19,037
Drawn on August 20, 2014; original amount of \$796,976 (equivalent EUR 595,558), bearing interest fixed at 4.520%, and payable through semi-annual principal and interest installments of \$42,873 on January 15, 2015 and equal installments of \$46,375 beginning on July 15, 2015 through maturity on July 15, 2025.	---	<u>45,350</u>

Federated States of Micronesia Development Bank  
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Notes to Financial Statements, continued

**8. Long-Term Debt, continued**

	<u>2025</u>	<u>2024</u>
	\$1,805,099	\$2,147,194
Less current portion	<u>277,708</u>	<u>342,095</u>
	<u>\$1,527,391</u>	<u>\$1,805,099</u>
<i>Immediate Demand</i>		

Under the 2010 and 2018 Agreements, including Amendments dated November 2023, the EIB (or the “Lender”) loans contain a provision that in an event of default, the timing of repayment of outstanding amounts may become immediately due if:

- a. the Bank fails on due date to repay any part of the loan, to pay interest thereon or to make any other payment to the Lender unless:
  - i. its failure is caused by an administrative or technical error or a disruption event, and
  - ii. payment is made within three (3) business days of its due date;
- b. any information or document given to the Lender by the Bank or on its behalf is or proves to be incorrect, incomplete or misleading in any material respect;
- c. following any default of the Bank in relation to any loan, or any obligation arising out of any financial transaction, other than the loan:
  - i. the Bank is required or is capable of being required or will, following expiry of any applicable contractual grace period, be required or capable of being required to prepay, discharge, close out or terminate ahead of maturity such other loan or obligation, or
  - ii. any financial commitment for such other loan or obligation is cancelled or suspended;
- d. the Bank is unable to pay its debts as they fall due, or suspends its debts, or makes or seeks to make a composition with its creditors, including a moratorium, or commences negotiations with one or more of its credits with a view of rescheduling any of its financial indebtedness;
- e. any corporate action, legal proceedings or other procedure or step is taken in relation to the suspension of payments, a moratorium of any indebtedness, dissolution, administration or reorganization, including in particular without limitation to bankruptcy, controlled management, suspension of payments arrangement with creditors and judicial liquidation proceedings or any analogous procedure or step is taken under any applicable law in any jurisdiction or an order is made or an effective resolution is passed for the winding up of the Bank, or if the Bank takes steps towards a substantial reduction in its capital, is declared insolvent or ceases or resolves to cease to carry on the whole or any substantial part of its business or activities or any situation similar to any of the above occurs under any applicable law;
- f. an encumbrancer takes possession of, or a receiver, liquidator, administrator, administrative receiver or similar officer is appointed, whether by a court of competent jurisdiction or by any competent administrative authority or by any person, of or over, any part of the business or assets of the Bank;

Federated States of Micronesia Development Bank  
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements, continued

**8. Long-Term Debt, continued**

*Immediate Demand, continued*

- g. the Bank defaults in the performance of any obligation in respect of any other loan granted by the Lender or financial instrument entered into with the Lender;
- h. the Bank defaults in the performance of any obligation in respect of any other loan made to it from the resources of the Lender or the European Union;
- i. any expropriation, attachment, arrestment, distress, execution, sequestration, or other process is levied or enforced upon the property of the Bank and is not discharged or stayed within 14 days;
- j. a material adverse change occurs, as compared to the Bank's condition at the time of the loan agreement;
- k. it is or becomes unlawful for the Bank to perform any of its obligation under the loan agreement or this loan agreement is not effective in accordance with its terms or is alleged by the Bank to be ineffective in accordance with its terms.

At December 31, 2025 and 2024, no events of default have occurred with respect to the Bank's debt agreements.

*Financial Covenants*

The Bank is also required to maintain, on a quarterly basis, the following financial ratios:

- a. the capital to total assets ratio shall remain higher than 20% for each quarter;
- b. the non-performing loans to total loans ratio shall not exceed 15% for each quarter;
- c. the open exposure ratio, which is the ratio of the difference between non-performing loans and allowance for loan losses to the net position, shall not be more than 10% for each quarter.

During 2025, the Bank was not in compliance with the ratio of non-performing loans to total loans requirement of the November 2023 finance contract amendments. Management is working on obtaining a waiver from the lender. During 2024, the Bank was in compliance with the financial ratios.

Federated States of Micronesia Development Bank  
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Notes to Financial Statements, continued

**8. Long-Term Debt, continued**

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 277,708	\$ 48,148	\$ 325,856
2027	277,708	40,444	318,152
2028	277,708	32,740	310,448
2029	277,708	25,037	302,745
2030	277,708	17,333	295,041
Thereafter	<u>416,559</u>	<u>11,555</u>	<u>428,114</u>
	<u>\$1,805,099</u>	<u>\$175,257</u>	<u>\$1,980,356</u>

Long-term debt changes during the years ended December 31, 2025 and 2024 are as follows:

	<u>Balance January 1,</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31,</u>	<u>Due Within One Year</u>
<u>2025:</u>					
Long-term debt	<u>\$2,147,194</u>	<u>\$ ---</u>	<u>\$(342,095)</u>	<u>\$1,805,099</u>	<u>\$277,708</u>
<u>2024:</u>					
Long-term debt	<u>\$2,609,648</u>	<u>\$ ---</u>	<u>\$(462,454)</u>	<u>\$2,147,194</u>	<u>\$342,095</u>

**9. Retirement Plan**

The Bank's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees receive from the FSM Social Security Administration. The Plan is a contributory plan in which the Bank matches 100% of the participants' contributions up to a maximum of 10% of the participant's annual salary, if the participant contributes 3% or more of his or her annual salary. Employee participation is optional. The Bank's Chief Financial Officer is the designated Plan Administrator. Matching contributions to the Plan during the years ended December 31, 2025 and 2024 were \$67,945 and \$74,460, respectively. Total Plan assets as of December 31, 2025 and 2024 were \$1,965,192 and \$1,810,938, respectively. Management is of the opinion that the Plan does not represent an asset or a liability of the Bank.

Federated States of Micronesia Development Bank  
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Notes to Financial Statements, continued

**10. Commitments and Contingencies**

*Guaranty*

The Bank, from time-to-time, is contingently liable on loan guarantees ranging from 50% to 90% of the outstanding loan balances for commercial projects within the FSM. There were no outstanding guaranteed loan balances as of December 31, 2025 and 2024.

*Loan Commitments*

Undrawn balances on lines of credit and loan commitments for loans approved but undisbursed approximated \$3,867,000 and \$5,304,000 at December 31, 2025 and 2024, respectively, of which \$2,322,000 and \$2,370,000, respectively, represent undisbursed funds on two loans.

*Litigation*

The Bank is a party to various legal proceedings in the normal course of business for debt collections and other related matters, which may give rise to counter lawsuits against the Bank. The ultimate impact of these ongoing proceedings is not currently predictable. Therefore, no liability has been recorded in the accompanying financial statements due to management's inability to predict the ultimate outcome of these proceedings.

*Insurance*

The Bank carries insurance to cover its potential risks from vehicle usage. The Bank is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice during the past three years.

*Lease Commitments*

The Bank has four operating leases for its State operating locations. These leases expire at varying dates through May 2039. Several of these leases provide options to renew upon expiration, based on renegotiated rates. A lease pertaining to parking space with a lease term of 15 years was fully paid in advance amounting to \$50,000 during the year ended December 31, 2024. Unamortized portion of the prepaid lease amounted to \$44,584 and \$47,918 as of December 31, 2025 and 2024, of which \$3,333 is recorded as a component of current prepaid expenses for each of the years and \$41,251 and \$44,585, respectively, are recorded as non-current prepaid expenses in the accompanying statements of net position. Future minimum annual lease payments payable under the noncancellable leases are as follows:

Federated States of Micronesia Development Bank  
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Notes to Financial Statements, continued

**10. Commitments and Contingencies, continued**

*Lease Commitments, continued*

<u>Year ending December 31,</u>	
2026	\$ 56,720
2027	55,770
2028	27,600
2029	27,600
2030	27,600
Thereafter	<u>11,500</u>
	<u>\$206,790</u>

The Bank leases a portion of its headquarters building under an agreement with a private corporation expiring in September 2030. Future minimum annual lease income under the remaining noncancellable lease are as follows:

<u>Year ending December 31,</u>	
2026	\$ 9,360
2027	9,360
2028	9,360
2029	9,360
2030	<u>7,020</u>
	<u>\$44,460</u>

Additionally, the Bank provides housing benefits for certain contract employees with payment included as part of rent expense. The leases are between the respective landlords and the employees.

Total recorded rent expense and income under the aforementioned agreements amounted to \$67,628 and \$26,363, respectively, for the year ended December 31, 2025 and \$69,564 and \$29,700, respectively, for the year ended December 31, 2024.

## Supplementary Information

Federated States of Micronesia Development Bank  
(A Component Unit of the Federated States of Micronesia National Government)

Schedule of European Investment Bank  
December 2018 Finance Contract Ratios,  
as Amended November 2023

December 31, 2025

- 1) Ratio of Capital (paid in capital plus reserves) to total assets should be above 20%:

Total net position	\$82,267,010
Total assets	<u>\$84,436,054</u>
	<u>97%</u>

- 2) Ratio of non-performing loans, as defined, to total loans should not exceed 15%:

Total non-performing loans	\$ 7,946,945
Total loans	<u>\$49,693,205</u>
	<u>16%</u>

- 3) Ratio of open exposure (non-performing loans less allowance for loan losses) to total net position should not exceed 10%:

Total non-performing loans	\$ 7,946,945
Less: allowance for loan losses	<u>5,450,129</u>
Open exposure	\$ 2,496,816
Total net position	<u>\$82,267,010</u>
	<u>3%</u>



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## Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors  
Federated States of Micronesia Development Bank:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Audit Standards*), the financial statements of the Federated States of Micronesia Development Bank (the Bank), which comprise the statement of net position as of December 31, 2025, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Bank's basic financial statements (collectively referred to as the "financial statements"), and have issued our report thereon dated April 17, 2026.

### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Bank's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bank's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Bank's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ernst + Young LLP*

April 17, 2026

