MONETARY AUTHORITY OF THE MARSHALL ISLANDS

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Marshall Islands Banking System Remains Sound and Well Capitalized

MAJURO, 19 November 2026 — The Monetary Authority of the Marshall Islands (MAMI) has prepared this statement in response to certain questions raised by an individual on social media about the protection of bank deposits and the licensing of insurance companies in the Republic of the Marshall Islands (RMI).

MAMI's latest supervisory assessments show that the banking sector of the RMI remains sound. As at end-September 2026, the two domestic banks recorded risk-based capital ratios of 18 percent and 39 percent against a statutory minimum of 15 percent, and the liquid asset ratio of the banking sector stood at 88 percent against a statutory requirement of 20 percent.

The RMI does not currently operate a deposit insurance scheme. Deposits at the Bank of Guam are covered by insurance from the United States Federal Deposit Insurance Corporation (FDIC), subject to FDIC coverage limits and requirements. Deposits at the Bank of the Marshall Islands (BOMI) and Pacific Regional Bank (PRB) are not covered by deposit insurance. Both banks are subject to MAMI's prudential supervision under the Banking Act 1987, which is designed to identify and correct weaknesses at a bank early. Prudential supervision reduces the risk of bank failure, but it is not a guarantee of deposits.

MAMI's full response to the questions raised is set out below.

Deposit insurance coverage for domestic banks in the RMI

The RMI does not currently operate an established deposit insurance scheme for licensed commercial banks. The latest approved Compact of Free Association between the United States and the RMI authorizes the FDIC to extend deposit insurance coverage to banks chartered by any Freely Associated State, including the RMI. This new provision does not oblige RMI-licensed banks to apply for FDIC coverage. It does, however, remove the previous legal impediment that precluded locally chartered Marshallese banks from qualifying for FDIC insurance, and so enables such banks to apply for coverage.

Why the FDIC was created

The FDIC was established in the United States to safeguard the stability of the nation's financial system and to uphold public confidence in it. Created in 1933 in response to the widespread bank failures of the Great Depression, the FDIC was designed to avert bank runs and financial panic through three core functions.

- **Deposit insurance.** This is the FDIC's most essential role. It insures deposits held at member banks, with standard coverage of up to US$250,000 per depositor, per insured bank, per ownership category.

- **Supervision and examination.** The FDIC directly examines and supervises certain financial institutions, particularly state-chartered banks that are not members of the Federal Reserve System, to confirm their safety and soundness and their compliance with consumer protection laws.
- **Failure resolution.** When a bank fails, the FDIC acts as receiver, most commonly by arranging for a healthy institution to assume the failed bank's deposits and loans. This ensures that depositors can access their funds promptly and minimizes disruption to the financial system and the wider economy.

Limitations of the FDIC deposit insurance program

Research shows that there are structural limitations in the ability of the FDIC insurance program to fully protect depositors' funds. FDIC coverage offers meaningful protection, but it is not a complete guarantee. Coverage is strictly capped at US$250,000 per depositor, per ownership category, leaving balances above that threshold exposed. Deposit insurance may also introduce moral hazard by reducing depositors' incentive to scrutinize a bank's financial health, which may enable weaker institutions to attract deposits with high interest rates while taking excessive risks until regulators intervene.

How MAMI safeguards depositors' funds in the absence of deposit insurance

In jurisdictions without formal deposit insurance systems, such as several Pacific countries, effective prudential supervision serves as the first line of defense by promoting the safety and soundness of banks, while deposit insurance provides a safety net should preventive measures fail. Most Pacific countries with established regulatory institutions, such as central banks or financial supervisory authorities, implement risk-based supervisory frameworks for banks. These safeguard the soundness of the banking system and reinforce confidence in the protection of depositors' funds.

Under the Banking Act 1987, MAMI is mandated to safeguard depositors' funds through prudential supervision. As in other jurisdictions, particularly larger Pacific countries with central banks or financial supervisory authorities, the protection of depositors' funds is underpinned by the effectiveness of the prudential supervisory framework in place.

MAMI implements the CAMELS supervisory framework for the on-site supervision of banks and the CAELS framework for off-site surveillance. The framework was designed and implemented to act as a preventive measure against bank failures and as a system for protecting depositors' funds

The framework gives MAMI supervisors a standardized, forward-looking early warning system that identifies banks with deteriorating financial conditions or inadequate risk management before such issues threaten solvency and give rise to depositor losses. It assesses the safety and soundness of a licensed bank across six dimensions (capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market risk) and triggers corresponding regulatory interventions based on composite ratings.

How MAMI identifies risks that threaten depositors' funds

The CAMELS framework directly targets the main pathways through which bank failures erode depositors' funds.

- **Capital adequacy (C).** Assesses whether a bank has a sufficient capital buffer to absorb losses. When a bank's capital is insufficient to cover loan or investment losses, depositors' funds become the next line of defense.
- **Asset quality (A).** Examines whether loans are likely to be repaid and whether investments are sound. Deterioration in asset quality is typically the primary source of bank losses.
- **Management (M).** Evaluates whether management can identify, measure, monitor and control risks. Inadequate management is a common root cause of bank failures.
- **Earnings (E).** Assesses profitability and its sustainability. Sustained losses directly erode capital and reduce the bank's ability to protect depositors.
- **Liquidity (L).** Assesses whether a bank can meet deposit withdrawals and other funding needs in a timely manner. A liquidity crisis can trigger a bank run and leave depositors unable to withdraw funds in the short term.

Off-site surveillance

MAMI's off-site framework is a bank supervision rating system derived from the on-site rating system. It assesses banks using four quantitative components: capital adequacy (C), asset quality (A), earnings (E) and liquidity (L). It deliberately excludes the qualitative Management component, so that it relies on financial data that can be calculated from regulatory reports. Some jurisdictions have expanded the framework to CAELS by adding a fifth component for sensitivity to market risk (S).

The framework typically operates as follows.

- **Quantitative basis.** Ratings are generated using financial ratios derived from periodic regulatory returns. A standard system may use around 19 core financial ratios to assess the components.
- **Rating scale.** Banks are assigned a composite rating, usually on a scale from 1 to 5, where a lower score indicates a sounder institution and a higher score signals greater supervisory concern.

The primary purpose of the off-site framework is to serve as an early warning and prioritization tool for off-site supervisors.

- **Off-site monitoring.** It allows MAMI's supervisors to monitor a bank's financial condition continuously between on-site examinations, using standardized data.
- **Resource allocation.** The composite rating helps determine the frequency and scope of on-site examinations. A bank with a poor rating (4 or 5) would typically be subject to more frequent and intensive full-scope examinations than a bank rated 1 or 2.
- **Trigger for action.** A deteriorating rating can trigger further analysis or targeted supervisory action. Some frameworks compare the off-site rating with the last on-site rating. If the off-site rating is significantly worse, the bank is flagged for closer review.

Key prudential indicators as at end-September 2026

MAMI's off-site framework provides a complete view of each bank's financial health. By analyzing weekly, monthly and quarterly regulatory filings, MAMI examiners closely track key prudential indicators across the banking sector. All figures in this section are as at end-September 2026.

Indicator	What it measures	Position at end-September 2026
Risk-based capital ratio	Total eligible capital divided by risk-weighted assets. It measures a bank's solvency and capacity to absorb unexpected losses without endangering depositors' funds	18% and 39% at the two domestic banks, against a statutory minimum of 15%. Both remained well capitalized
Non-performing loans to gross loans	Loans past due by more than 90 days as a share of total gross loans. A primary early-warning indicator of credit distress	4.11% for the banking sector. Overall loan portfolio quality remains satisfactory
Allowance for loan losses	Reserves set aside to cover potential defaults across the entire loan portfolio	US$11.4 million held against a target allowance of US$3.9 million, an ample cushion to absorb expected and unexpected credit losses
Liquid asset ratio	High-quality liquid assets (such as cash and short-term bank deposits maturing within 30 days) divided by total assets. It gauges a bank's ability to meet immediate cash outflows and customer withdrawals	88% for the banking sector, against a statutory requirement of 20%. Rated Strong

Additional supervisory measures to protect depositors' funds

- **Proactive engagement and hands-on supervision.** Beyond tracking metrics, MAMI takes a proactive, hands-on approach to financial stability. Whenever prudential ratios show early signs of deterioration, MAMI engages directly with bank leadership to diagnose the underlying causes and ensure timely corrective action.
- **Safeguarding depositors through strong supervision.** In the absence of a deposit insurance scheme, the primary safeguard for depositors' funds is a rigorous, proactive prudential supervisory framework that enables MAMI to monitor every institution closely, maintain banking sector stability and reduce the risk of bank failures. Deposits at the Bank of Guam are covered by U.S. FDIC insurance, while BOMI and PRB are subject to MAMI's prudential oversight. To help these institutions remain well capitalized and resilient, MAMI conducts continuous off-site monitoring, analyzing and verifying weekly, monthly and quarterly financial submissions. Each fiscal quarter, these findings are consolidated into an Off-site

Monitoring Report that assesses bank health across five components (capital adequacy, asset quality, earnings, liquidity and sensitivity to market risk), each rated Strong, Satisfactory, Fair, Unsatisfactory or Unacceptable.

- **Risk-based on-site examinations.** Where quarterly monitoring identifies emerging vulnerabilities or adverse trends, MAMI escalates its oversight through on-site examinations under the CAMELS framework. Depending on the severity of the findings, examiners conduct either a targeted review or a full-scope examination guided by standardized supervisory manuals. MAMI then issues a formal examination report to the bank's Board of Directors, outlining mandatory corrective actions and matters requiring urgent board attention. Following board review and comment, the report is finalized, MAMI sets compliance deadlines for all recommendations and monitors each one to confirm timely completion.
- **Strengthening standards with Basel III.** MAMI currently evaluates institutional soundness under the CAMELS framework while progressively adopting the Risk-Based Supervisory Framework for banks in accordance with Basel III prudential standards. Integrating Basel III's stricter capital and liquidity benchmarks will enhance institutional resilience and align the Marshall Islands with international regulatory best practice.
- **Decisive enforcement and financial integrity.** Where supervisory recommendations prove insufficient, MAMI holds broad statutory authority to enforce safe and sound banking practices, including the power to issue cease and desist orders and to revoke banking licenses. In parallel, MAMI coordinates closely with the Financial Intelligence Unit (FIU) to detect, investigate and prevent financial crime.
- **Rigorous fit and proper vetting.** All prospective senior managers and board directors of banks must undergo mandatory vetting under MAMI's Fit and Proper Regulations before appointment. Applicants submit a fit and proper questionnaire, curriculum vitae, employment history, personal financial statements, credit checks from domestic financial institutions, police clearances from the RMI (and any country of residence, where applicable) and an FIU background check. This enables MAMI to verify professional competence, financial soundness and a clean criminal record.
- **The advantage of focused oversight.** In a smaller banking market such as the RMI, supervising three commercial banks allows MAMI to maintain close, hands-on oversight. Rather than waiting for problems to escalate, MAMI engages directly with bank leadership through early consultation at the first sign of adverse trends, so that intervention is timely.
- **A reliable foundation for the future.** While MAMI continues its transition toward Basel III standards, the existing CAMELS supervisory framework, supported by frequent data reporting, targeted examinations and strong enforcement tools, remains effective in safeguarding banking stability and protecting depositors' funds.

Financial condition of the banking sector for the quarter ended June 2026

The figures in this section are for the quarter ended June 2026, the third quarter of fiscal year 2026. They pre-date the end-September 2026 indicators shown above.

As at the third quarter of fiscal year 2026, the RMI banking sector remained sound across all four assessed dimensions. Capital adequacy was satisfactory, with all banks compliant with the applicable RMI and FDIC requirements. Asset quality was satisfactory, although the non-performing loan ratio rose to 5.07 percent from 3.21 percent. Earnings performance was satisfactory, with return on assets at 2.08 percent. Liquidity was strong, with a ratio of liquid assets to deposits of 88 percent and a loan-to-deposit ratio of 25 percent.

Capital adequacy: Satisfactory

Capital levels and trends at each bank were assessed against the frameworks established by MAMI and the FDIC. Domestic banks in the RMI are required to maintain a minimum risk-based capital ratio of 15 percent. The FDIC prescribes minimum total risk-based capital, Tier 1 risk-based capital and common equity Tier 1 capital ratios of 8 percent, 6 percent and 4.5 percent for adequately capitalized U.S. banks, and 10 percent, 8 percent and 6.5 percent for well-capitalized banks. Banks complied with the statutory requirements applicable to them.

As at June 2026, the Bank of Guam was rated well capitalized under FDIC standards, with a total risk-based capital ratio of 15.27 percent, a Tier 1 risk-based capital ratio of 14.01 percent and a common equity Tier 1 capital ratio of 14.01 percent. Its overall capital at the parent level appears adequate at present to support its risk-taking activities at the Majuro Branch. The risk-based capital ratios of BOMI and PRB were well above 15 percent, at 40 percent and 27 percent respectively, in accordance with section 150 of the Act and Directive 5 of 2017.

Asset quality: Satisfactory

The ratio of non-performing loans (NPLs) to gross loans stood at 5.07 percent, compared with 3.21 percent in the prior quarter. Aggregate NPLs grew by approximately 60 percent, from US$2.9 million to US$4.6 million. The primary driver of the increase was late payments on eight LUA loans due to settlement procedures.

The allowance for loan losses relative to NPLs was 229 percent, compared with 350 percent in the prior quarter. The aggregate allowance and the target allowance were US$10.6 million and US$3.8 million respectively. The allowance complies with Directive 3 and is sufficient to absorb expected and unexpected loan losses. The ratio of the allowance to NPLs for June 2025, September 2025, December 2025, March 2026 and June 2026 was 237 percent, 290 percent, 288 percent, 350 percent and 229 percent respectively.

Outstanding loans increased by 1 percent, from US$90.7 million to US$91.7 million, reflecting slight increases in private-sector, commercial and individual loans.

Earnings performance: Satisfactory

Return on assets for the banking sector was 2.08 percent, up from 1.85 percent in the previous quarter. Total profit before tax was US$2.4 million, up approximately 28 percent from US$1.9 million, reflecting a 15 percent increase in net interest and other income, from US$3.2 million to US$3.6 million. Profit before tax for June 2025, September 2025, December 2025, March 2026 and June 2026 was US$2.3 million, US$2.5 million, US$2.9 million, US$1.9 million and US$2.4 million respectively.

The net interest margin has remained stable. It increased from 3.11 percent to 3.30 percent between March 2026 and June 2026, following a 9 percent increase in interest income and a 5 percent

decrease in interest expense. Overall, the net interest margin indicates favorable returns on aggregate earning assets in the RMI financial system.

Liquidity: Strong

The ratio of total liquid assets to total deposits was 88 percent, an increase of approximately 1 percent from the previous quarter. Total deposits decreased by 2 percent, from US$381.1 million to US$372.6 million, and total liquid assets decreased by 2 percent, from US$332.3 million to US$327.0 million. The ratio has consistently remained above the threshold. It was 82 percent, 83 percent, 85 percent, 87 percent and 88 percent for the quarters ended June 2025, September 2025, December 2025, March 2026 and June 2026 respectively. The capacity of banks to meet short-term obligations, including customer withdrawals, is not expected to raise supervisory concern, at least during this fiscal year.

The aggregate loan-to-deposit ratio was 25 percent, compared with 24 percent in the previous quarter. This implies that banks operating in the RMI have room for further lending to stimulate economic activity.

MAMI's escalating supervisory ladder

MAMI's financial supervisors follow an escalating supervisory ladder designed to secure the timely rectification of supervisory concerns and weaknesses detected in off-site or on-site supervision. MAMI systematically increases the intensity of its response when a licensed bank fails to address identified deficiencies. The purpose is to prevent small issues from becoming existential threats, to protect depositors' funds and to maintain the safety and soundness of the financial system. Under the Banking Act 1987, MAMI may take the following supervisory actions.

Stage	When it applies	Supervisory action
1. Detection and assessment	At all times	Early warning system through reports; off-site and on-site supervision ratings
2. Supervisory direction	A material threat to safety and soundness	Supervisory directives; matters requiring immediate board attention; a formal remediation plan and timeline
3. Enforcement	The bank does not remediate effectively and on time	Possible cease and desist orders and civil monetary penalties; removal or prohibition of senior officers, including board members; prompt corrective action, capital calls, dividend bans and prohibition of increases in salaries and benefits

Deposit insurance development and supervisory priorities

A plan to establish a deposit insurance scheme for the RMI is still being considered, as a continuation of work carried out by the former Office of the Banking Commission. That Office had initiated dialogue with the FDIC to explore technical assistance for designing the scheme, drawing on the advisory support provisions of the renewed Compact of Free Association, which permit the

RMI to request assistance from U.S. federal agencies, including the FDIC, the Federal Reserve and the U.S. Treasury. MAMI intends to continue this project once the MAMI Board has approved it as a priority strategy.

MAMI was established to strengthen oversight and address structural gaps in the financial sector. While a formal deposit insurance scheme requires careful planning and time, MAMI regards the protection of depositors' funds as its highest priority and is actively working to resolve this and other pressing challenges across the financial system.

In the interim, a strong supervisory framework remains the primary safeguard. Through proactive, hands-on supervisory oversight, MAMI works to ensure that banks in the RMI operate in a safe and sound manner, continuously monitoring institutional health to protect depositors' funds and maintain a resilient banking sector that supports economic growth.

Licensing and regulation of private insurance companies

Current legal framework

Pursuant to the Banking Act 1987 and section 433(1) of the Monetary Authority Act 2025, MAMI is the statutory authority responsible for licensing insurance companies in the RMI. MAMI has established the legal framework necessary to license private insurance companies. All licensed insurers are fully subject to the RMI's laws and regulations on anti-money laundering and countering the financing of terrorism (AML/CFT), and are actively supervised by MAMI for AML/CFT compliance.

Four licensed insurance companies currently operate in the RMI: IAC Life Insurance, Moylan's Insurance, Marshall Insurance Agency and Hartford Fire Insurance.

Current licensing requirements

Under section 10 of the Banks and Financial Service Providers Licensing Regulations 2020, an applicant for a license must submit the following.

- **Business licenses.** All relevant business licenses issued by the RMI Government or a local government. A foreign business must also provide its foreign business license, including an Employer Identification Number issued by the Marshall Islands Social Security Administration.
- **Corporate and legal documentation.** Articles of incorporation, by-laws and any other relevant documentation, including the agent agreement for a foreign-owned company operating through an agent in the RMI. Applicants must also fully disclose their beneficial owners, being the natural persons who ultimately own or control the entity, with valid identification for each.
- **Financial statements and fees.** The most recent certified audited financial statements, including the balance sheet, and a non-refundable fee of US$300 payable to MAMI.

Foreign ownership of a locally registered company

Under the Business Corporations Act, locally registered companies may have foreign ownership and investment, subject to other applicable local regulatory and licensing laws. MAMI requires every licensed financial institution to file an annual ownership control report identifying the persons who are affiliated with, or who own or control, the institution.

Prudential framework under development

MAMI is developing a comprehensive prudential framework to supervise and regulate the insurance sector. MAMI recognizes the importance of such a framework in protecting policyholders, ensuring the solvency of insurers and maintaining overall financial stability in the RMI. Work is under way to draft new RMI insurance legislation, which will be followed by regulations administered by MAMI.

To develop its prudential supervisory regime, MAMI is pursuing membership of the International Association of Insurance Supervisors (IAIS). Membership will give MAMI direct access to the globally recognized Insurance Core Principles and prudential frameworks on solvency, market conduct and consumer protection.

Work also remains ongoing to introduce minimum capital requirements for insurers. These standards will require insurers to maintain adequate financial backing, either through a fixed minimum paid-up capital threshold at entry or through dedicated statutory funds with specific capital thresholds. The thresholds are currently being determined.

Proposed requirements for selling life insurance policies to RMI residents (not yet in force)

The requirements below are proposals that MAMI envisages including in the new RMI Insurance Act and its regulations. They are not current legal requirements and may change before the legislation is enacted.

- **Entity form.** An insurer would have to be a corporation, partnership or association established under RMI law, and would have to obtain authorization from MAMI as the insurance regulator.
- **Certificate of authority.** An insurer could not conduct insurance business until it obtained a certificate of authority from MAMI. The certificate would be renewed annually, and renewal would require continued compliance with the Insurance Code and regulatory circulars.
- **Paid-up capital and contributed surplus.** A domestic stock life insurance company would need paid-up capital of at least US$100,000. MAMI could also require shareholders to pay in a contributed surplus fund of at least US$50,000 in cash as a pre-licensing condition.
- **Security deposit.** A foreign insurance company would deposit securities with MAMI that meet specified requirements, with an actual market value not less than the prescribed amount. At least 50 percent would have to be U.S. Treasury bonds or similar instruments. The deposit is to protect policyholders and creditors in the RMI.
- **Solvency requirements.** An insurer would have to maintain at all times the paid-up capital and net worth prescribed by MAMI, with standards based on internationally accepted solvency frameworks.
- **Principal owners, directors and officers.** They would have to be of good moral character, unquestioned integrity and recognized competence, with no history of mismanaging a business venture or undergoing bankruptcy. MAMI would be empowered to prescribe specific qualification requirements for executive officers and other key personnel.

- **Business plan and feasibility.** An applicant would submit a business plan showing estimated income and expenditure for the next three years and their basis, to demonstrate the feasibility of sustainable operations.
- **Application materials.** An applicant would submit its most recent annual report or verified financial statement, articles of incorporation and by-laws. A company established overseas would also provide a certificate from the insurance regulatory authority of its home country, confirming that it is legally established there and meets the capital and statutory reserve requirements stipulated by RMI law.
- **Discretion of MAMI.** MAMI would have discretion when issuing licenses and could refuse a certificate of authority where this is deemed to best protect the public interest. MAMI would also have to be satisfied that the company's name will not mislead the public or be confused with existing companies.

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