



**Consolidated Financial Statements**

December 31, 2022

**BankGuam Holding Company**

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
BankGuam Holding Company

**Report on the Audit of the Consolidated Financial Statements**  
***Opinion***

We have audited the consolidated financial statements of BankGuam Holding Company and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive (loss) income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, based on our audits and the report of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of BankGuam Holding Company and its subsidiaries as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of ASC Trust LLC, a majority-owned subsidiary, which statements reflect total assets constituting 0.15 percent and 0.11 percent, respectively, of consolidated total assets at December 31, 2022 and 2021, and total revenues constituting 10.86 percent and 12.03 percent, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for ASC Trust LLC, is based solely on the report of the other auditors.

***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of BankGuam Holding Company and its subsidiaries 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 opinion.

***Other Matters***

We have audited, in accordance with auditing standards generally accepted in the United States of America, BankGuam Holding Company's internal control over financial reporting as of December 31, 2022, based on criteria established in the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, as required by Section 112 of the Federal Deposit Insurance Corporation Improvement Act, and our report dated April 4, 2023 expressed an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about BankGuam Holding Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about BankGuam Holding Company'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.

*Baker Tilly US, LLP*

**Baker Tilly US, LLP**

Irvine, California  
April 4, 2023

**BankGuam Holding Company**  
**Consolidated Statements of Financial Condition**  
(Dollar Amounts in Thousands, Except Par Value)

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<b><u>ASSETS</u></b>		
Cash and due from banks	\$ 31,152	\$ 36,660
Interest bearing deposits in banks	160,789	520,743
Total cash and cash equivalents	191,941	557,403
Restricted cash	150	150
Investment securities available-for-sale, at fair value	501,899	499,366
Investment securities held-to-maturity, at amortized cost (Fair Value \$239,210 at 12/31/2022 and \$310,372 at 12/31/2021)	318,674	312,294
Federal Home Loan Bank stock, at cost	3,318	2,814
Loans, net of allowance for loan losses ((\$36,797 at 12/31/2022 and \$34,408 at 12/31/2021))	1,379,613	1,283,690
Accrued interest receivable	7,613	6,715
Premises and equipment, net	19,396	20,802
Goodwill	13,014	13,014
Intangible assets	9,980	10,720
Other assets	116,526	84,620
Total assets	<u>\$ 2,562,124</u>	<u>\$ 2,791,588</u>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 850,480	\$ 981,537
Interest bearing	1,497,217	1,551,694
Total deposits	2,347,697	2,533,231
Accrued interest payable	30	46
Subordinated debt, net	34,469	34,400
Other liabilities	47,475	43,162
Total liabilities	<u>2,429,671</u>	<u>2,610,839</u>
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock \$104.15 par value; 96,000 shares authorized; 19,520 and 19,505 shares issued and 18,226 and 19,441 shares outstanding at 12/31/2022 and 12/31/2021, respectively <sup>(1)</sup>	2,034	2,033
Preferred stock \$100 par value; 300,000 shares authorized; 9,800 shares issued and outstanding at 12/31/2022 and 12/31/2021, respectively	980	980
Additional paid-in capital, Common stock	24,989	24,910
Additional paid-in capital, Preferred stock	8,803	8,803
Retained earnings	168,193	153,740
Accumulated other comprehensive (loss) income	(70,408)	(16,721)
Non-controlling interest	7,220	7,294
Common stock in treasury, at cost (1,294 and 64 shares at 12/31/2022 and 12/31/2021, respectively) <sup>(1)</sup>	(9,358)	(290)
Total stockholders' equity	132,453	180,749
Total liabilities and stockholders' equity	<u>\$ 2,562,124</u>	<u>\$ 2,791,588</u>

(1) Common stock issued and outstanding at December 31, 2021 were adjusted to reflect the 1 for 500 reverse stock split that was effective on October 31, 2022.

The accompanying notes are an integral part of the consolidated financial statements.

**BankGuam Holding Company**  
**Consolidated Statements of Income**  
(Dollar and Share Amounts in Thousands, Except Per Share Amounts)

	<b>Years Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Interest income:</b>		
Loans	\$ 75,288	\$ 71,686
Investment securities	14,059	10,042
Deposits with banks	3,840	774
Total interest income	93,187	82,502
<b>Interest expense:</b>		
Savings deposits	151	433
Time deposits	14	34
Other borrowed funds	1,893	1,443
Total interest expense	2,058	1,910
Net interest income	91,129	80,592
Provision for loan losses	5,700	2,150
Net interest income, after provision for loan losses	85,429	78,442
<b>Non-interest income:</b>		
Service charges and fees	20,745	11,842
Gains on sale of investment securities	-	323
Income from merchant services, net	3,137	2,946
Cardholders income, net	4,061	4,387
Trustee fees	2,617	670
Other income	3,644	7,759
Total non-interest income	34,204	27,927
<b>Non-interest expense:</b>		
Salaries and employee benefits	40,497	38,975
Occupancy	9,646	8,663
Equipment and depreciation	23,104	14,486
Insurance	1,858	1,973
Telecommunications	1,701	1,588
FDIC assessment	1,187	2,155
Professional services	2,850	2,597
Contract services	2,043	1,726
Other real estate owned	51	(599)
Stationery and supplies	750	371
Training and education	1,194	719
General, administrative and other	11,594	7,621
Total non-interest expense	96,475	80,275
Income before income taxes	23,158	26,094
Income tax expense	3,479	5,095
Net income	19,679	20,999
Net income attributable to noncontrolling interest	790	498
Net income available to BankGuam Holding Company	18,889	20,501
Preferred stock dividend	(600)	(520)
Net income attributable to common stockholders	\$ 18,289	\$ 19,981
<b>Earnings per common share (EPS):</b>		
Basic and diluted EPS	\$ 950.41	\$ 1,027.97
Dividends declared per common share <sup>(1)</sup>	\$ 200.00	\$ 200.00
Basic and diluted weighted average common shares <sup>(1)</sup>	19.2	19.4

(1) For the year ended December 31, 2021, dividends declared per common share and the weighted average common shares were adjusted for the 1 for 500 reverse stock split that was effective October 31, 2022.

The accompanying notes are an integral part of the consolidated financial statements.

**BankGuam Holding Company**  
**Consolidated Statements of Comprehensive (Loss) Income**  
(Dollar Amounts in Thousands)

	Years Ended December 31,	
	2022	2021
Net income	\$ 19,679	\$ 20,999
Other comprehensive income:		
Unrealized holding (loss) gain on available-for-sale securities arising during the period, net of tax	(54,547)	(23,452)
Reclassification for gain realized on available-for-sale securities	-	(272)
Amortization of post-transfer unrealized holding loss on held-to-maturity securities during the period, net of tax	860	3,892
Total other comprehensive (loss) income	(53,687)	(19,832)
Total comprehensive (loss) income	\$ (34,008)	\$ 1,167

The accompanying notes are an integral part of the consolidated financial statements.

**BankGuam Holding Company**  
**Consolidated Statements of Stockholders' Equity**  
(Dollar Amounts in Thousands)

	Number of Common Shares	Common Stock	Preferred Stock	Additional Paid-in Capital - Common	Additional Paid-in Capital - Preferred	Retained Earnings	Accumulated Other Comprehensive loss	Treasury Stock	Noncontrolling Interests	Total
<b>Balances, December 31, 2020</b>	19,404	\$ 2,029	\$ 980	\$ 24,777	\$ 8,803	\$ 137,646	\$ 3,111	\$ (290)	\$ -	\$ 177,056
Noncontrolling interest in connection with acquisition of ASC	-	-	-	-	-	-	-	-	7,424	7,424
Comprehensive income:										-
Net income	-	-	-	-	-	20,501	-	-	498	20,999
Change in accumulated other comprehensive income:										-
Unrealized loss on available-for-sale securities	-	-	-	-	-	-	(19,832)	-	-	(19,832)
Common stock issued under Employee Stock Purchase Plan & Service Awards <sup>1</sup>	72	8	-	345	-	-	-	-	-	353
Return of capital from stocks owned by subsidiary	(35)	(4)	-	(212)	-	-	-	-	18	(198)
Cash dividends on common stock	-	-	-	-	-	(3,888)	-	-	(646)	(4,534)
Cash dividends on preferred stock	-	-	-	-	-	(519)	-	-	-	(519)
<b>Balances, December 31, 2021</b>	<u>19,441</u>	<u>2,033</u>	<u>980</u>	<u>24,910</u>	<u>8,803</u>	<u>153,740</u>	<u>(16,721)</u>	<u>(290)</u>	<u>7,294</u>	<u>180,749</u>
Comprehensive (loss) income:										-
Net income	-	-	-	-	-	18,889	-	-	790	19,679
Change in accumulated other comprehensive income:										-
Unrealized loss on available-for-sale securities	-	-	-	-	-	-	(53,687)	-	-	(53,687)
Common stock issued under Employee Stock Purchase Plan & Service Awards	14	1	-	79	-	-	-	-	-	80
Purchase of treasury stock	(1,229)	-	-	-	-	-	-	(9,068)	-	(9,068)
Return of capital from stocks owned by subsidiary	-	-	-	-	-	-	-	-	(19)	(19)
Cash dividends on common stock	-	-	-	-	-	(3,836)	-	-	(845)	(4,681)
Cash dividends on preferred stock	-	-	-	-	-	(600)	-	-	-	(600)
<b>Balances, December 31, 2022</b>	<u>18,226</u>	<u>\$ 2,034</u>	<u>\$ 980</u>	<u>\$ 24,989</u>	<u>\$ 8,803</u>	<u>\$ 168,193</u>	<u>\$ (70,408)</u>	<u>\$ (9,358)</u>	<u>\$ 7,220</u>	<u>\$ 132,453</u>

(1) Common stock issued at December 31, 2021 were adjusted to reflect the 1 for 500 reverse stock split that was effective on October 31, 2022.

The accompanying notes are an integral part of the consolidated financial statements.



**BankGuam Holding Company**  
**Consolidated Statements of Cash Flows**  
(Dollar Amounts in Thousands)

	Years Ended December 31,	
	2022	2021
<b>Cash flows from operating activities:</b>		
Net income	\$ 19,679	\$ 20,999
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	5,700	2,150
Depreciation	4,546	4,270
Amortization of intangibles	740	370
Amortization of debt issuance costs	69	47
Amortization of fees, discounts and premiums	45	322
Proceeds from sales of loans held for sale	7,841	26,329
Origination of loans held for sale	(7,841)	(26,329)
Decrease in mortgage servicing rights	439	102
Gross realized gains on sale of available-for-sale securities	-	(323)
Realized gain on sale of premises and equipment	237	10
Noncash lease expense	(1,165)	2,735
Increase in deferred tax tassets	(16,448)	(5,461)
Gain on remeasurement of preexisting interest	-	(3,391)
Net change in operating assets and liabilities:		
Accrued interest receivable	(898)	1,353
Other assets	(14,935)	(5,589)
Accrued interest payable	(16)	(31)
Lease liability	1,132	(2,478)
Other liabilities	3,148	3,449
Net cash provided by operating activities	2,273	18,534
<b>Cash flows from investing activities:</b>		
Acquisition of subsidiary, ASC Trust LLC	-	(4,624)
Purchases of available-for-sale securities	(143,052)	(388,872)
Purchases of held-to-maturity securities	(11,595)	(28,027)
Proceeds from sales of available-for-sale securities	-	46,993
Maturities, prepayments and calls of available-for-sale securities	85,928	58,605
Maturities, prepayments and calls of held-to-maturity securities	6,021	36,506
Loan originations and principal collections, net	(101,591)	106,696
Income from equity investment in unconsolidated subsidiary	-	(1,183)
Dividends received from unconsolidated subsidiary	-	1,154
Purchase of FHLB stock	(504)	(479)
Proceeds from sales of premises and equipment	-	11
Purchases of premises and equipment	(3,139)	(4,802)
Net cash used in investing activities	(167,932)	(178,022)
<b>Cash flows from financing activities:</b>		
Net (decrease) increase in deposits	(185,534)	414,387
Proceeds from issuance of subordinated debt, net	-	19,576
Proceeds from issuance of common stock	80	353
Purchase of treasury stock	(9,068)	-
Dividends paid	(5,281)	(5,053)
Net cash (used in) provided by financing activities	(199,803)	429,263
Net change in cash, cash equivalents and restricted cash	(365,462)	269,775
Cash, cash equivalents and restricted cash at beginning of period	557,553	287,778
Cash, cash equivalents and restricted cash at end of period	\$ 192,091	\$ 557,553
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ 135	\$ 421
Income taxes	\$ 3,990	\$ 6,514
<b>Supplemental disclosure of noncash investing and financing activities:</b>		
Net change in unrealized loss on held-to-maturity securities, net of tax	\$ (54,547)	\$ 3,892
Net change in unrealized gain on available-for-sale securities, net of tax	\$ 860	\$ (23,723)
Transfer of securities from available-for-sale securities	\$ -	\$ 270,389
Transfer of securities to held-to-maturity securities	\$ -	\$ (270,389)
Acquisition of subsidiary, ASC Trust LLC	\$ -	\$ (769)

The accompanying notes are an integral part of the consolidated financial statements.

**BankGuam Holding Company**  
**Notes to Consolidated Financial Statements**  
(in Thousands)

**Note 1 – Nature of Business**

Organization

The accompanying consolidated financial statements include the accounts of BankGuam Holding Company (“Company”) and its wholly-owned subsidiaries, Bank of Guam (“Bank”) and BankGuam Investment Services (“BGIS”) (formerly BankGuam Investment and Insurance Services). The Company is a Guam corporation organized on October 29, 2010, to act as the holding company of the Bank, a Guam banking corporation, a 16-branch bank serving the communities in Guam, the Commonwealth of the Northern Mariana Islands (CNMI), the Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI), the Republic of Palau (ROP), and San Francisco, California. BankGuam Investment Services was incorporated in Guam in 2015 and initially capitalized during the first quarter of 2016. During July 2016, the Company executed an agreement to purchase up to 70% of ASC Trust LLC, formerly ASC Trust Corporation. On July 6, 2021, the Company completed its final purchase of 25% of voting common stock of ASC Trust LLC under the agreement, as amended to date, bringing the Company’s ownership of ASC Trust LLC to 70%. See Note 5 under “Investment in Majority-Owned Subsidiary” for additional details.

Other than holding the shares of the Bank, BGIS and ASC Trust LLC, the Company conducts no significant activities, although it is authorized, with the prior approval of its principal regulator, the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”), to engage in a variety of activities related to the business of banking. Currently, substantially all of the Company’s operations are conducted and substantially all of the assets are owned by the Bank, which accounts for substantially all of our consolidated revenues, expenses and operating income. The Bank provides a variety of financial services to individuals, businesses and governments through its branches. The Bank’s headquarters is located in Hagåtña, Guam. The Bank currently has six branches in Guam, three in the CNMI, four in the FSM, one in the RMI, one in the ROP, and one in San Francisco, California. The Bank’s primary deposit products are demand deposits, savings and time certificate accounts, and its primary lending products are consumer, commercial and real estate loans. In 2021, the Bank permanently closed the Dededo (Guam), Harmon (Guam) and Chalan Piao (CNMI) branches, and in 2022, the Bank permanently closed the Naval Station Branch (Guam).

For ease of reference we will sometimes refer to the Company hereinafter as “we”, “us” or “our.”

**Note 2 – Summary of Significant Accounting Policies**

Principles of Consolidation and Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in effect in the United States (“GAAP”), on a basis consistent with prior periods. Certain prior period amounts have been reclassified to conform to current year presentation.

The consolidated financial statements include the accounts of BankGuam Holding Company, the Bank, BGIS, and the Bank’s wholly owned subsidiaries, BankGuam Properties, Inc. BankGuam Insurance Underwriters, Ltd., and IFIT Properties, LLC. It also includes ASC Trust LLC in which the Company has a controlling financial interest. See Note 22 – Acquisitions for more details. All significant intercompany and inter-branch balances and transactions have been eliminated in consolidation.

Assets held by the Bank’s Trust Department and its sister corporation, BankGuam Investment Services, and ASC Trust LLC, a subsidiary, in a fiduciary capacity are not assets of the Bank, and, accordingly, are not included in the accompanying consolidated financial statements.

The Company evaluated its ownership in ASC Trust LLC after the third and final closing in 2021, which brought the Company’s interest in ASC Trust LLC to 70%. The Company determined it has control of ASC Trust LLC in accordance to ASC 810 – Consolidation and accounted for the consolidation in accordance to ASC 805 – Business Combinations at December 31, 2022. The Company’s investment in ASC Trust LLC was accounted for under the equity method of accounting at December 31, 2021.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the periods presented. Actual results could differ from those estimates.

### Cash Flows

Net cash flows are reported for customer loan and deposit transactions, notes payable and other short-term borrowings.

### Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand and balances due from banks, Federal Funds sold, cash items in transit and interest bearing deposits with other banks. The Bank is required by the Federal Reserve System to maintain cash reserves against certain of its deposit accounts. At December 31, 2022 and 2021, the required combined reserves totaled zero for both comparative periods. On March 15, 2020, the Federal Reserve Board reduced the reserve requirement ratios to zero percent effective March 26, 2020.

### Restricted Cash

Interest-bearing deposits in banks that mature within one year are carried at cost. \$150 thousand of these deposits are held by the Bank jointly under the names of Bank of Guam and the Guam Insurance Commissioner, and serve as a bond for the Bank of Guam Trust Department.

### Investment Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held-to-maturity,” and are recorded at amortized cost. Securities not classified as held-to-maturity, including equity securities with readily determinable fair value, are classified as “available-for-sale” and are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. The Bank does not hold securities for trading purposes.

Declines in the fair value of securities below their cost that are other than temporary are reflected in earnings as realized losses. In determining other-than-temporary losses, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment, and is based on the information available to management at the time such a determination is made.

### Federal Home Loan Bank Stock

The Bank is required to hold non-marketable equity securities, comprised of Federal Home Loan Bank of Des Moines (“FHLB”) stock, as a condition of membership. These securities are accounted for at cost, which equals par or redemption value. Ownership is restricted and there is no market for these securities. These securities are redeemable at par by the issuing government supported institutions. The primary factor supporting the carrying value is the commitment of the FHLB to perform its obligations, which includes providing credit and other services to the Bank.

### Mortgage Servicing Rights (MSR)

Mortgage servicing assets, included in other assets in the consolidated statements of financial condition, are recognized separately when rights are acquired through the sale of mortgage loans. Under the servicing assets and liabilities accounting guidance in ASC Topic 860, “*Transfers and Servicing*”, servicing rights resulting from the sale of loans originated by the Bank are measured at fair value at the date of transfer and the changes in fair value are reported in earnings in the period in which the changes occur. Servicing fee income is recorded as fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, and are recorded as income when earned.

### Loans Held for Investment

Loans held for investment generally are reported at their outstanding unpaid principal balances, adjusted for charge-offs, an allowance for loan losses, and any deferred fees or costs on the originated loans, as well as unamortized premiums or discounts on purchased loans, except for certain purchased loans that fall under the scope of Accounting Standards Codification (ASC) Topic 310-30, “*Accounting for Loans and Debt Securities Acquired with Deteriorated Credit Quality*”.

Interest income is accrued on the unpaid principal balance of loans. Loan origination fees, net of certain direct origination costs, are deferred and recognized as income using the effective interest method over the contractual life of the loans. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Credit card loans and other unsecured consumer loans are typically charged off no later than when they are 180 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged-off are reversed against current period interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

#### Loan Origination Fees and Costs

All loan origination fees and related direct costs are deferred and amortized to interest income as an adjustment to yield over the respective lives of the loans using the effective interest method, except for loans that are revolving or short-term in nature for which the straight line method is used, which approximates the interest method.

#### Allowance for Loan Losses, Impaired Loans and Troubled Debt Restructurings

The allowance for loan losses is established as losses are estimated to be likely, and is funded through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is first determined by analyzing all classified loans (Substandard and Doubtful) in non-accrual for loss exposure and establishing specific reserves, as needed. ASC 310-10 defines loan impairment as the existence of uncertainty concerning collection of all principal and interest per the contractual terms of a loan. For collateral-dependent loans, impairment is typically measured by comparing the loan amount to the fair value of collateral, less costs to sell, with a specific reserve established for the "shortfall" amount. Other methods can be used in estimating impairment (market price or present value of expected future cash flows discounted at the loan's original interest rate).

The allowance for loan losses is management's estimate of credit losses inherent in the loan portfolio at the balance sheet date. The Company has established a process to determine the appropriateness of the allowance for credit losses that assesses the losses inherent in the loan portfolio. The Company develops and documents its allowance methodology at the portfolio segment level – commercial loan, residential mortgage and consumer loan portfolios. While portions of the allowance are attributable to the respective commercial, residential mortgage and consumer portfolio segments, the entire allowance is available to absorb credit losses inherent in the total loan portfolio.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

In situations where, for economic or legal reasons related to a borrower's financial difficulties, the Bank will grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring (TDR). These modified terms may include rate reductions, principal forgiveness, term extensions, payment forbearance and other actions intended to minimize economic loss and to avoid foreclosure or repossession of the collateral, if applicable. For modifications where principal is forgiven, the entire amount of such principal forgiveness is immediately charged off.

Loans classified as TDRs, including loans in trial payment periods (trial modifications), are considered impaired loans. Other than resolutions such as foreclosures, the Bank may remove loans held for investment from TDR classification, but only if they have been refinanced or restructured at market terms and qualify as a new loan.

#### Loans Held for Sale

In its normal course of business, the Bank originates mortgage loans held for sale to the Federal Home Loan Mortgage Corporation (“FHLMC” or “Freddie Mac”). The Bank has elected to measure its residential mortgage loans held for sale at the lower of cost or market. Origination fees and costs are recognized in earnings at the time of origination for newly originated loans held for sale, and the loans are sold to Freddie Mac at par. The Bank recognizes gains on the sale of loans sold to Freddie Mac only to the extent of MSRs retained in such sales.

During the years ended December 31, 2022 and 2021, the Bank originated and sold approximately \$7.8 million and \$26.3 million, respectively, of the above-mentioned loans.

#### Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit and standby letters of credit. Such financial instruments are recorded as off-balance sheet items when the commitment is made, then recorded as balance sheet items if and when funded (See Note 15).

#### Premises and Equipment

Premises and equipment are reported at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the related assets. Depreciation expense has been computed principally using estimated lives of 15 to 40 years for premises and 3 to 10 years for furniture and equipment. Leasehold improvements are depreciated over the estimated lives of the assets or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

Construction-in-progress consists of accumulated direct and indirect costs associated with the Bank’s construction of premises and the purchase of equipment that has not yet been placed in service and, accordingly, has not yet been subjected to depreciation. Such assets begin depreciation over their estimated useful lives when completed and placed in service.

Premises and equipment are periodically evaluated for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment exists when the expected undiscounted future cash flows of premises and equipment are less than their carrying amount. In that event, the Bank records a loss for the difference between the carrying amount and the estimated fair value of the asset based on appraised values or quoted prices.

#### Leases

The Company adopted ASU 2016-02, “Leases (Topic 842)” on January 1, 2019, electing to not restate prior periods, presenting the cumulative effect of applying the new standard within the opening balance of retained earnings on January 1, 2019. Upon adoption, the Company elected the practical expedients of Topic 842, which permitted the Company to forgo reassessing lease identification, lease classification, and initial direct costs. The Company applied the hindsight practical expedient when evaluating the lease term and assessing impairment of Right of Usage (“ROU”) assets. The Company also elected to combine the lease and non-lease components, such as maintenance fees, as a single lease component and elected to use the remaining lease term instead of total lease term in determining the incremental borrowing rate. The Company has made an accounting policy election to not recognize lease liabilities and ROU assets for short-term leases, which are leases with initial terms of 12 months or less and for which there is not a purchase option that is reasonably certain to be exercised. All leases within the Company’s portfolio are classified as operating leases.

#### Other Real Estate Owned

Properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at their fair value.. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less the estimated cost to sell. Other real estate owned is estimated using the appraised value of the underlying collateral, discounted as necessary due to management’s estimates of changes in economic conditions, less estimated costs to sell. A valuation allowance is increased by provisions charged to earnings. Subsequent write-downs, income and expenses incurred in connection with holding such assets, and gains and losses realized from the sale of such assets, are charged to the valuation allowance.

### Business Combinations

The Company accounts for acquisitions of businesses using the acquisition method of accounting. Under the acquisition method, assets acquired and liabilities assumed are recorded at their estimated fair values at the date of acquisition. Management utilizes various valuation techniques including discounted cash flow analyses to determine the fair value of the intangible assets acquired. Any excess of the purchase price over amounts allocated to the acquired assets, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. The fair value of assets acquired and liabilities assumed in certain cases may be subject to revision based on the final determination of fair value during a period of time not to exceed 12 months from the acquisition date. Legal costs, due diligence costs, business valuation costs and all other acquisition-related costs are expenses when incurred.

### Goodwill

Goodwill is recorded in business combinations under the purchase method of accounting when the purchase price is greater than the fair value of net assets, including identifiable intangible assets. The Bank will assess goodwill for impairment at a reporting unit level on an annual basis or more frequently in certain circumstances. The Bank has the option of performing a qualitative assessment of goodwill, or to bypass the qualitative test and proceed directly to a quantitative test. If the Bank performs a qualitative assessment of goodwill to test for impairment and concludes it is more likely than not that a reporting unit's fair value is greater than its carrying amount, quantitative tests are not required. However, if it is determined it is more likely than not that a reporting unit's fair value is less than its carrying amount, then the Bank completes a quantitative assessment to determine if there is goodwill impairment. The Bank can apply various quantitative valuation methodologies, including discounted cash flow and earnings multiple approaches, to determine the estimated fair value, which is compared to the carrying value of each reporting unit. If the fair value is less than the carrying amount, an additional test is required to measure the amount of impairment. Based on the Bank's year-end evaluation, no goodwill impairment was recorded.

### Asset-Based Fees

Fees to manage retirement plans are paid for by Plan Sponsors (the customers) by a combination of asset-based fees and fixed-dollar contracts. Services include plan design, document management, plan set-up, trustee services, recordkeeping and administration of employee communication and individual participant services, plan and participant level reporting, and compliance and regulatory services, among others. The Company recognizes revenue from rendering these services as the related services are performed.

### Income Taxes

Income taxes represent taxes recognized under laws of the Government of Guam, which generally conform to U.S. income tax laws. Foreign income taxes result from payments of taxes with effective rates ranging from 2% to 5% of gross income in the FSM, the RMI and the ROP to their respective government jurisdictions. U.S. Federal, California and the Commonwealth of the Northern Mariana Islands income taxes are reflected as foreign taxes for financial reporting purposes.

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid for the period by applying the provisions of the enacted tax law to the taxable income. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term, "more likely than not," means a likelihood of more than 50 percent; the terms, "examined," and, "upon examination," also include resolution of related appeals or litigation processes, if any. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Uncertain tax positions that meet the more likely than not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the largest amount of benefit that management believes has a greater than 50% likelihood of realization upon settlement. The Company recognizes interest and penalties on income taxes as a component of income tax expense.

#### Earnings Per Common Share

Basic earnings per share represent income available to common stockholders (after deducting dividends on preferred stock) divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may have been issued by the Company relate solely to outstanding stock options, and are determined using the treasury stock method.

#### Fair Value of Financial Instruments/Fair Value Option

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 18. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect these estimates. In addition, the fair value option provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments and written loan commitments not previously carried at fair value. The Company and the Bank have elected the fair value option for its mortgage servicing rights. The election was made to better reflect the underlying economics and to mitigate operational complexities in risk management activities.

#### Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when, (i) the assets have been isolated from the Bank – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

#### Contingencies

From time to time, the Company may become involved in disputes, litigation and other legal actions. In such event, the Company estimates the range of liability related to pending litigation where the amount and range of loss can be estimated and information available prior to the issuance of financial statements indicates such loss is considered probable. Where a liability is probable and there is a range of estimated loss with no best estimate in the range, the Company records a charge equal to at least the minimum amount in the range.

#### COVID-19

The outbreak of a novel coronavirus (“COVID-19”) in 2020 and subsequent impact on public commerce and related business activities continues to impact the Company as well as a broad range of industries in which the Company’s customers operate and, in some instances, impaired their ability to fulfill their financial obligations to the Company.

In the United States, the government enacted the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) on March 27, 2020. The CARES Act, among other things, created a \$670 billion loan program (the “Paycheck Protection Program” or the “PPP”) for fully guaranteed loans (which may be forgiven) to small businesses for certain qualifying expenses. The PPP was modified on May 31, 2021.

The Company has not materially changed its accounting policies or procedures due to COVID-19.

### Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued (See Note 24). The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

The Company has evaluated subsequent events through April 3, 2023, the date that these consolidated financial statements are being filed.

### **Note 3 – Recent Accounting Pronouncements**

#### Recently Adopted Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04, “*Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting*,” which provides temporary optional expedients to ease the financial reporting burdens of the expected market transition from London Interbank Offered Rate (LIBOR) to an alternative reference rate such as Secured Overnight Financing Rate (SOFR). The guidance was effective upon issuance and generally can be applied through December 31, 2022. In December 2021, the Company adopted SOFR as a replacement to LIBOR. As of January 1, 2022, the Bank did not originate nor enter into loans indexed to LIBOR nor enter into modifications which create new LIBOR exposure. The Company believes the adoption of this guidance will not have a material impact on the consolidated financial statements.

#### Recently Issued but Not Yet Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, “*Financial Instruments – Credit Losses (Topic 326)*”, to amend the standards for the measurement of credit losses on financial instruments by replacing the historical incurred loss impairment methodology of determining the level of the allowance for loan and lease losses (“ALLL”), including losses associated with available-for-sale securities, with a more decision-useful methodology that reflects expected credit losses (“ECL”) over the life of a financial instrument based upon historical experience, current conditions, and reasonable and supportable forecasts in determining the ALLL level, as well as the reserve for off-balance-sheet credit exposures. The Company adopted ASU 2016-13 on January 1, 2023. The Company has evaluated the impact of the new guidance on its financial position, results of operations and regulatory risk-based capital upon adoption, and has determined that it will be immaterial. In first quarter of 2023, the Company will recognize a one-time cumulative effect adjustment to the allowance for loan losses. The Company's approach for estimating lifetime credit losses for its loan portfolio includes the following key components:

- An economic forecast period of one year based on the relation of losses with key economic variables for each portfolio segment;
- Segmentation of loans into pools that share common risk characteristics; and
- Used the discounted cash flow (DCF) method to measure credit impairment on most of our loan portfolios and estimate lifetime credit losses using the conceptual components described above.

The Company classifies its investment securities as available-for-sale or held-to-maturity. The Company's investment security portfolio consists of U.S. government-sponsored agencies securities, which has an explicit or implicit guarantee from the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. Accordingly, the Company does not anticipate to apply an ECL loss assumption for its investment securities.

### **Note 4 – Interest-Bearing Deposits and Restricted Cash**

The Company had \$160.8 million and \$520.9 million in interest bearing deposits, including restricted cash, at other financial institutions at December 31, 2022 and 2021, respectively. The weighted average percentage yields on these deposits were 1.24% and 0.13% at December 31, 2022 and 2021, respectively. Interest bearing deposits with financial institutions can be withdrawn by the Bank on demand, and are considered cash equivalents for purposes of the consolidated statements of financial condition and cash flows.

At December 31, 2022 and 2021, we had \$150 thousand each, in restricted cash held in time deposits that were scheduled to mature within one year, of which \$150 thousand are held by the Bank jointly under the names of Bank of Guam and the Guam Insurance Commissioner, and serve as a bond for the Bank of Guam Trust Department. The weighted average percentage yields on these restricted cash deposits were 0.01% and 0.02% at December 31, 2022 and 2021, respectively.



## Note 5 – Investment Securities

The amortized cost and estimated fair value of investment securities, with gross unrealized gains and losses, were as follows:

	<b>December 31, 2022</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
<b>Securities Available-for-Sale</b>				
U.S. government agency and government sponsored enterprise (GSE) debt securities	\$ 114,973	\$ -	\$ (21,844)	\$ 93,129
U.S. government agency pool securities	66,345	16	(764)	65,597
U.S. government agency or GSE residential mortgage-backed securities	397,108	23	(53,958)	343,173
<b>Total</b>	<b>\$ 578,426</b>	<b>\$ 39</b>	<b>\$ (76,566)</b>	<b>\$ 501,899</b>
<b>Securities Held-to-Maturity</b>				
U.S. government agency and government sponsored enterprise (GSE) debt securities	\$ 277,308	\$ -	\$ (73,741)	\$ 203,567
U.S. government agency pool securities	2,004	-	(43)	1,961
U.S. government agency or GSE residential mortgage-backed securities	39,362	-	(5,680)	33,682
<b>Total</b>	<b>\$ 318,674</b>	<b>\$ -</b>	<b>\$ (79,464)</b>	<b>\$ 239,210</b>
<b>December 31, 2021</b>				
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
<b>Securities Available-for-Sale</b>				
U.S. government agency and government sponsored enterprise (GSE) debt securities	\$ 114,969	\$ -	\$ (4,007)	\$ 110,962
U.S. government agency pool securities	21,106	2	(247)	20,861
U.S. government agency or GSE residential mortgage-backed securities	369,419	1,957	(3,833)	367,543
<b>Total</b>	<b>\$ 505,494</b>	<b>\$ 1,959</b>	<b>\$ (8,087)</b>	<b>\$ 499,366</b>
<b>Securities Held-to-Maturity</b>				
U.S. government agency and government sponsored enterprise (GSE) debt securities	\$ 276,188	\$ -	\$ (1,621)	\$ 274,567
U.S. government agency pool securities	3,028	8	(45)	2,991
U.S. government agency or GSE residential mortgage-backed securities	33,078	105	(369)	32,814
<b>Total</b>	<b>\$ 312,294</b>	<b>\$ 113</b>	<b>\$ (2,035)</b>	<b>\$ 310,372</b>

At December 31, 2022 and 2021, investment securities with a carrying value of \$673.3 million and \$558.8 million, respectively, were pledged to secure various government deposits and other government requirements.

Proceeds and gross realized gains (losses) from the sales or calls of investment securities for the years ended December 31, 2022 and 2021, are shown below:

	<b>Years Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Proceeds from sales	\$ -	\$ 46,993
Gross realized gains from sales	\$ -	\$ 272
Gross realized losses from sales	\$ -	\$ -

For the year ended December 31, 2022 and 2021, proceeds from sales of available-for-sale securities amounted to zero and \$47.0 million, respectively; gross realized gains were zero and \$272 thousand, respectively; gross realized losses were zero; gross unrealized gains were \$39 thousand and \$2.0 million, respectively, and gross unrealized losses were \$76.6 million and \$8.1 million, respectively.

The amortized cost and estimated fair value of investment securities by contractual maturity at December 31, 2022 and 2021, are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or borrowers the right to prepay obligations with or without call or prepayment penalties. At December 31, 2022, obligations of U.S. government corporations and agencies with amortized costs totaling \$897.1 million consist predominantly of residential mortgage-backed securities totaling \$436.5 million and Small Business Administration agency pool securities totaling \$68.3 million whose contractual maturity, or principal repayment, will follow the repayment of the underlying mortgage or small business loans. For purposes of the following table, the entire outstanding balance of these mortgage-backed securities and SBA Pools issued by U.S. government corporations and agencies is categorized based on final maturity date. At December 31, 2022, the Bank estimates the average remaining life of these mortgage-backed and SBA Pools securities to be approximately 5.5 years and 5.7 years, respectively.

	<b>December 31, 2022</b>			
	<b>Available-for-Sale</b>		<b>Held-to-Maturity</b>	
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
Due within one year	\$ -	\$ -	\$ -	\$ -
Due after one but within five years	15,435	14,993	2,315	2,178
Due after five but within ten years	152,991	128,674	74,752	59,798
Due after ten years	410,000	358,232	241,607	177,234
Total	<u>\$ 578,426</u>	<u>\$ 501,899</u>	<u>\$ 318,674</u>	<u>\$ 239,210</u>

	<b>December 31, 2021</b>			
	<b>Available-for-Sale</b>		<b>Held-to-Maturity</b>	
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
Due within one year	\$ 105	\$ 105	\$ -	\$ -
Due after one but within five years	8,331	8,377	1,228	1,246
Due after five but within ten years	151,682	148,389	62,925	62,257
Due after ten years	345,376	342,495	248,141	246,869
Total	<u>\$ 505,494</u>	<u>\$ 499,366</u>	<u>\$ 312,294</u>	<u>\$ 310,372</u>

### Temporarily Impaired Securities

The following table indicates the gross unrealized losses and fair value of the Bank's investments, with unrealized losses that are not deemed to be OTTI, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2022 and 2021.

	<b>December 31, 2022</b>					
	<b>Less Than Twelve Months</b>		<b>More Than Twelve Months</b>		<b>Total</b>	
	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>
<b>Securities Available for Sale</b>						
U.S. government agency and government sponsored enterprise (GSE) debt securities	\$ -	\$ -	\$ (21,844)	\$ 93,129	\$ (21,844)	\$ 93,129
U.S. government agency pool securities	(594)	56,565	(170)	4,016	(764)	60,581
U.S. government agency or GSE residential mortgage-backed securities	(7,863)	79,536	(46,095)	258,834	(53,958)	338,370
<b>Total</b>	<b>\$ (8,457)</b>	<b>\$ 136,101</b>	<b>\$ (68,109)</b>	<b>\$ 355,979</b>	<b>\$ (76,566)</b>	<b>\$ 492,080</b>

<b>Securities Held to Maturity</b>						
US government agency and sponsored Agencies (GSE) debt securities	\$ -	\$ -	\$ (73,741)	\$ 203,568	\$ (73,741)	\$ 203,568
U.S. government agency pool securities	(5)	1,280	(38)	681	(43)	1,961
U.S. government agency or GSE residential mortgage-backed securities	(734)	11,921	(4,946)	21,761	(5,680)	33,682
<b>Total</b>	<b>\$ (739)</b>	<b>\$ 13,201</b>	<b>\$ (78,725)</b>	<b>\$ 226,010</b>	<b>\$ (79,464)</b>	<b>\$ 239,211</b>

	<b>December 31, 2021</b>					
	<b>Less Than Twelve Months</b>		<b>More Than Twelve Months</b>		<b>Total</b>	
	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>
<b>Securities Available for Sale</b>						
U.S. government agency and government sponsored enterprise (GSE) debt securities	\$ (2,824)	\$ 82,145	\$ (1,183)	\$ 28,817	\$ (4,007)	\$ 110,962
U.S. government agency pool securities	(71)	5,127	(176)	14,743	(247)	19,870
U.S. government agency or GSE residential mortgage-backed securities	(3,833)	290,573	-	-	(3,833)	290,573
<b>Total</b>	<b>\$ (6,728)</b>	<b>\$ 377,845</b>	<b>\$ (1,359)</b>	<b>\$ 43,560</b>	<b>\$ (8,087)</b>	<b>\$ 421,405</b>

<b>Securities Held to Maturity</b>						
U.S. government agency and government sponsored enterprise (GSE) debt securities	\$ (1,395)	\$ 159,840	\$ (226)	\$ 114,726	\$ (1,621)	\$ 274,566
U.S. government agency pool securities	(37)	1,507	(8)	403	(45)	1,910
U.S. government agency or GSE residential mortgage-backed securities	(362)	28,498	(7)	529	(369)	29,027
<b>Total</b>	<b>\$ (1,794)</b>	<b>\$ 189,845</b>	<b>\$ (241)</b>	<b>\$ 115,658</b>	<b>\$ (2,035)</b>	<b>\$ 305,503</b>

The investment securities that were in an unrealized loss position as of December 31, 2022, which comprised a total of 240 securities, were not other-than-temporarily impaired. Specifically, the 240 securities are comprised of the following: 46 Small Business Administration Pool securities, 26 agency securities issued by Federal Home Loan Bank ("FHLB"), 34 mortgaged-backed securities and 19 agency securities issued by Federal Home Loan Mortgage Corporation ("FHLMC"), 75 mortgaged-backed securities and 1 agency security issued by Federal National Mortgage Association ("FNMA"), 21 mortgaged-backed securities issued by Government National Mortgage Association ("GNMA") and 18 agency securities issued by Federal Farm Credit Banks ("FFCB").

Total gross unrealized losses were primarily attributable to changes in market interest rates, relative to when the investment securities were purchased, and not due to any change in the credit quality or rating of the investment securities which remains at AAA by Moodys. All of the Company's investment securities are either backed by the full faith and credit of the U.S. government or carry an implied guarantee. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not likely that the Company will be required to sell the investment securities before recovery of their amortized cost, which may be at maturity. However, the Company may elect to sell certain investment securities with an unrealized loss position in its "available for sale" portfolio as needed to replenish its liquidity.

#### *Investment in Majority-Owned Subsidiary*

On July 6, 2021, with the approval of the Federal Reserve Bank of San Francisco, the Company used \$6.2 million of the proceeds from the subordinated notes totaling \$20 million that were issued on June 29, 2021, to acquire an additional 25% of the voting common stock of ASC Trust LLC at the third and final closing, pursuant to the Stock Purchase Agreement (the "Agreement") dated May 27, 2016, between the Company and David J. John, as amended to date. This transaction brought the Company's interest in ASC Trust LLC to 70%. The Company evaluated its ownership in ASC Trust LLC after the last transaction in accordance to ASC 810 – Consolidation, and determined that the Company has control over ASC Trust LLC requiring consolidation. See Note 22 – Acquisitions for the details of the accounting treatment of the consolidation in accordance to ASC 805 – Business Combinations. The Company's Chief Executive Officer serves on the Board of Directors of ASC Trust LLC. Another member of the Company's Board of Directors also serves as a non-minority voting member of an entity that owns 5% of the common stock of ASC Trust LLC. The Agreement contains customary warranties, representations and indemnification provisions.

#### **Note 6 – Loans**

The Bank provides commercial and industrial, commercial mortgage, commercial construction, automobile and other consumer loans in each of the markets it serves. It also offers residential mortgage, home equity and certain U.S. government guaranteed loans in Guam, the Commonwealth of the Northern Mariana Islands and California. The Bank has two commercial agricultural loans outstanding in Guam.

Outstanding loan balances are presented net of unearned income, net deferred loan fees, and unamortized discount and premium totaling \$8.0 million at December 31, 2022 and \$3.2 million at December 31, 2021. As of December 31, 2022, our 10 largest borrowing relationships totaled \$365.1 million in commitments, or approximately 25.7% of our total gross loans compared to \$342.6 million, or approximately 25.9% in 2021.

The loan portfolio consisted of the following at:

	December 31, 2022		December 31, 2021	
	Amount	Percent	Amount	Percent
<b>Commercial</b>				
Commercial & industrial	\$ 279,951	19.7%	\$ 295,835	22.4%
Commercial mortgage	797,655	56.2%	699,269	52.9%
Commercial construction	10,198	0.7%	23,588	1.8%
Commercial agriculture	551	0.0%	592	0.0%
Total commercial	1,088,355	76.7%	1,019,284	77.1%
<b>Consumer</b>				
Residential mortgage	156,711	11.0%	135,377	10.2%
Home equity	2,586	0.2%	2,232	0.2%
Automobile	18,870	1.3%	18,220	1.4%
Other consumer loans <sup>1</sup>	152,810	10.8%	146,208	11.1%
Total consumer	330,977	23.3%	302,037	22.9%
Gross loans	1,419,332	100.0%	1,321,321	100.0%
Deferred loan (fees) costs, net	(2,922)		(3,223)	
Allowance for loan losses	(36,797)		(34,408)	
Loans, net	<u>\$ 1,379,613</u>		<u>\$ 1,283,690</u>	

<sup>1</sup> Comprised of other revolving credit, installment, and overdrafts.

### Paycheck Protection Program

With the passage of the Paycheck Protection Program, or PPP, administered by the Small Business Administration, the Bank is actively participating in assisting its customers with applications for resources through the program. PPP loans have either a two-year or a five-year term and earn interest at 1%. The Bank believes that the majority of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. The Bank approved and funded over \$149 million in gross PPP loans. At December 31, 2022, the outstanding gross principal balance of PPP loans was \$3.2 million with \$45 thousand in unearned fees remaining. At loan origination, the Company was paid a fee from the SBA ranging from 1% to 5% based on the loan size. The unearned fees are being accreted to interest income based on the contractual maturity. It is the Bank's understanding that loans funded through the PPP program are fully guaranteed by the U.S. government. Should those circumstances change, the Bank could be required to establish an additional allowance for loan loss through additional credit loss expense charged to earnings.

### Allowance for Loan Losses

The allowance for loan losses is developed using an incurred loss methodology, determined on a quarterly basis, and evaluated based upon management's periodic review of the collectability of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available or conditions change.

The portion of the allowance that covers unimpaired loans is based on historical charge-off experience and expected loss, given the default probability derived from the Bank's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

Our loss migration analysis tracks a certain number of quarters of loan loss history and industry loss factors to determine historical losses by classification category for each loan type, except certain consumer loans. These calculated loss factors are then applied to outstanding loan balances for all loans on accrual designated as "Pass," "Special Mention," "Substandard" or "Doubtful" ("classification categories"). Additionally, a qualitative factor that is determined utilizing external economic factors and internal assessments is applied to each homogeneous loan pool. We also conduct individual loan review analyses as part of the allowance for loan loss allocation process, applying specific monitoring policies and procedures in analyzing the existing loan portfolios.

In December 31, 2022, management adjusted the economic risk factors to incorporate the current economic implications, which includes improving tourism and decreasing unemployment due to the COVID-19 pandemic.

### Credit Quality Indicators

The Bank uses several credit quality indicators to manage credit risk, including an internal credit risk rating system that categorizes loans into pass, special mention, substandard, doubtful or loss categories. Credit risk ratings are applied individually to those classes of loans that have significant or unique credit characteristics and that benefit from a case-by-case evaluation. These are typically loans to businesses or individuals in the classes which comprise the commercial portfolio segment. Groups of loans that are underwritten and structured using standardized criteria and characteristics, such as statistical models (e.g., credit scoring or payment performance), are typically risk-rated and monitored collectively. These are typically loans to individuals in the classes which comprise the consumer portfolio segment.

The following are the definitions of the Bank's credit quality indicators:

**Pass (A): Exceptional:** Essentially risk-free credit. These are loans of the highest quality that pose virtually no risk of loss to the Bank. This includes loans fully collateralized by means of a savings account(s) and time certificate(s) of deposit, and by at least 110% of the loan amount. Borrowers should have strong financial statements, good liquidity and excellent credit.

**Pass (B): Standard:** Multiple "strong sources of repayment." Loans to strong borrowers with a demonstrated history of financial and managerial performance. Risk of loss is considered to be low. Loans are well structured, with clearly identified primary and readily available secondary sources of repayment. Loans may be secured by an equal amount of funds in a savings account or time certificate of deposit. Loans may be secured by marketable collateral whose value can be reasonably determined through outside appraisals. Very strong cash flow and relatively low leverage.

**Pass (C): *Acceptable:*** “Good” primary and secondary sources of repayment. Loans to borrowers of average financial strength, stability and management expertise. Borrower should be a well-established individual or company with adequate financial resources to weather short-term fluctuations in the marketplace. Financial ratios and trends are favorable. The loans may be unsecured or supported by non-real estate collateral for which the value is more difficult to determine, reasonable credit risk and requiring an average amount of account officer attention. Unsecured credit is to be of unquestionable strength.

**Pass (D): *Monitor:*** “Sufficient” primary source of repayment and acceptable secondary source of repayment. Acceptable business or individual credit, but the borrower’s operations, cash flow or financial conditions evidence moderate to average levels of risk. Loans are considered to be collectable in full, but may require a greater-than-average amount of loan officer attention. Borrowers are capable of absorbing normal setbacks without failure.

**Special Mention:** A special mention asset has potential weaknesses that deserve close monitoring. These potential weaknesses may result in a deterioration of the repayment prospects for the asset or in the institution’s credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Special Mention should neither be a compromise between a pass grade and substandard, nor should it be a “catch all” grade to identify any loan that has a policy exception.

**Substandard:** A substandard asset is inadequately protected by the current sound worth and payment capacity of the obligor or the collateral pledged. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Assets are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Formula Classified:** Formula classified loans are all loans and credit cards delinquent 90 days and over which have yet to be formally classified Special Mention, Substandard or Doubtful by the Bank’s Loan Committee. In most instances, the monthly formula total is comprised primarily of residential real estate and consumer loans and credit cards under \$250 thousand. Commercial loans are typically formally classified by the Loan Committee no later than their 90-day delinquency, and thus usually do not become part of the formula classification. Real estate loans 90 days delinquent are in the foreclosure process and are typically completed within another 60 days, and thus are not formally classified during this period.

**Doubtful:** A loan with weaknesses well enough defined that eventual repayment in full, on the basis of currently existing facts, conditions and values, is highly questionable, even though certain factors may be present which could improve the status of the loan. The probability of some loss is extremely high, but because of certain known factors, which may work to the advantage of strengthening of the assets (i.e. capital injection, perfecting liens on additional collateral, refinancing plans, etc.), its classification as an estimated loss is deferred until its more exact status can be determined.

**Loss:** Loans classified as “Loss” are considered uncollectible, and are either unsecured or are supported by collateral that is of little to no value. As such, their continuance as recorded assets is not warranted. While this classification does not mandate that a loan has no ultimate recovery value, losses should be taken in the period these loans are deemed to be uncollectible. Loans identified as loss are immediately approved for charge off. The Bank may refer loans to outside collection agencies, attorneys, or its internal collection division to continue collection efforts. Any subsequent recoveries are credited to the Allowance for Loan Losses.

Set forth below is information regarding gross loan balances and the related allowance for loan losses, by portfolio type, for the years ended December 31, 2022 and 2021.

	Commercial	Residential Mortgages	Consumer	Total
	(Dollars in thousands)			
<b>Year Ended December 31, 2022</b>				
<b>Allowance for loan losses:</b>				
Balance at beginning of period	\$ 22,860	\$ 2,304	\$ 9,244	\$ 34,408
Charge-offs	(982)	-	(4,567)	(5,549)
Recoveries	181	3	2,054	2,238
Provision	4,712	371	617	5,700
Balance at end of period	<u>\$ 26,771</u>	<u>\$ 2,678</u>	<u>\$ 7,348</u>	<u>\$ 36,797</u>
<b>Allowance balance at end of period related to:</b>				
Loans individually evaluated for impairment	\$ 6,139	\$ 45	\$ 839	\$ 7,023
Loans collectively evaluated for impairment	20,632	2,633	6,509	29,774
Ending balance	<u>\$ 26,771</u>	<u>\$ 2,678</u>	<u>\$ 7,348</u>	<u>\$ 36,797</u>
<b>Loan balances at end of period:</b>				
Loans individually evaluated for impairment	\$ 22,765	\$ 38,996	\$ 971	\$ 62,732
Loans collectively evaluated for impairment	1,065,590	120,301	170,709	1,356,600
Ending balance	<u>\$ 1,088,355</u>	<u>\$ 159,297</u>	<u>\$ 171,680</u>	<u>\$ 1,419,332</u>
<b>Year Ended December 31, 2021</b>				
<b>Allowance for loan losses:</b>				
Balance at beginning of year	\$ 21,213	\$ 1,990	\$ 11,602	\$ 34,805
Charge-offs	(115)	(99)	(4,736)	(4,950)
Recoveries	578	1	1,824	2,403
Provision	1,184	412	554	2,150
Ending balance	<u>\$ 22,860</u>	<u>\$ 2,304</u>	<u>\$ 9,244</u>	<u>\$ 34,408</u>
<b>Allowance balance at end of year related to:</b>				
Loans individually evaluated for impairment	\$ 3,510	\$ 50	\$ 941	\$ 4,501
Loans collectively evaluated for impairment	19,350	2,254	8,303	29,907
Ending balance	<u>\$ 22,860</u>	<u>\$ 2,304</u>	<u>\$ 9,244</u>	<u>\$ 34,408</u>
<b>Loan balances at end of year:</b>				
Loans individually evaluated for impairment	\$ 48,459	\$ 2,265	\$ 1,059	\$ 51,783
Loans collectively evaluated for impairment	970,825	135,343	163,370	1,269,538
Ending balance	<u>\$ 1,019,284</u>	<u>\$ 137,608</u>	<u>\$ 164,429</u>	<u>\$ 1,321,321</u>

The \$2.4 million increase in the allowance for loan losses is primarily due to the specific reserve established for a large commercial loan relationship, coupled with the growth in the loan portfolio, and management's reassessment of economic conditions and prospects. The allowance will change in the future in response to changes in the size, composition and quality of the loan portfolio, as well as periodic reassessments of prospective economic conditions.

Impairment is measured on a loan-by-loan basis for commercial and real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral (if the loan is collateral dependent). Large groups of smaller-balance homogeneous loans are collectively evaluated for impairment and are not immediately written-off, but a portion of the allowance is allocated to these loans based on the evaluation. The Bank performs direct write-downs of impaired loans with a charge to the allocated component of the allowance, therefore reducing the allocated component of the reserve to zero at the end of each reporting period.

The following table provides a summary of the delinquency status of the Bank's gross loans by portfolio type:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Non- Accrual	90 Days and Greater Still Accruing	Total Past Due	Current	Total Loans Outstanding
<b>December 31, 2022</b>							
<b>Commercial</b>							
Commercial & industrial	\$ 479	\$ 2,955	\$ 16,955	\$ -	\$ 20,389	\$ 259,562	\$ 279,951
Commercial mortgage	245	4,776	4,282	-	9,303	788,352	797,655
Commercial construction	-	-	-	-	-	10,198	10,198
Commercial agriculture	-	-	-	-	-	551	551
Total commercial	724	7,731	21,237	-	29,692	1,058,663	1,088,355
<b>Consumer</b>							
Residential mortgage	5,189	1,448	474	461	7,572	149,139	156,711
Home equity	-	-	-	-	-	2,586	2,586
Automobile	343	74	-	66	483	18,387	18,870
Other consumer <sup>1</sup>	1,517	1,158	47	758	3,480	149,330	152,810
Total consumer	7,049	2,680	521	1,285	11,535	319,442	330,977
Total	<u>\$ 7,773</u>	<u>\$ 10,411</u>	<u>\$ 21,758</u>	<u>\$ 1,285</u>	<u>\$ 41,227</u>	<u>\$ 1,378,105</u>	<u>\$ 1,419,332</u>
<b>December 31, 2021</b>							
<b>Commercial</b>							
Commercial & industrial	\$ 56	\$ 202	\$ 7,338	\$ 106	\$ 7,702	\$ 288,133	\$ 295,835
Commercial mortgage	2,540	217	4,622	-	7,379	691,890	699,269
Commercial construction	-	-	-	-	-	23,588	23,588
Commercial agriculture	-	-	-	-	-	592	592
Total commercial	2,596	419	11,960	106	15,081	1,004,203	1,019,284
<b>Consumer</b>							
Residential mortgage	2,194	1,236	267	77	3,774	131,603	135,377
Home equity	-	-	-	-	-	2,232	2,232
Automobile	407	162	-	41	610	17,610	18,220
Other consumer <sup>1</sup>	2,037	1,024	69	866	3,996	142,212	146,208
Total consumer	4,638	2,422	336	984	8,380	293,657	302,037
Total	<u>\$ 7,234</u>	<u>\$ 2,841</u>	<u>\$ 12,296</u>	<u>\$ 1,090</u>	<u>\$ 23,461</u>	<u>\$ 1,297,860</u>	<u>\$ 1,321,321</u>

<sup>1</sup> Comprised of other revolving credit, installment loans, and overdrafts.



Generally, the accrual of interest on a loan is discontinued when principal or interest payments become more than 90 days past due, unless management believes the loan is adequately collateralized and it is in the process of collection. When a loan is placed on non-accrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income. Non-accrual loans may be restored to accrual status when principal and interest become current and full repayment is expected. The following table provides information as of December 31, 2022 and 2021, with respect to loans on non-accrual status, by portfolio type:

	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>(Dollars in thousands)</b>	
<b>Non-accrual loans:</b>		
<b>Commercial</b>		
Commercial & industrial	\$ 18,210	\$ 7,610
Commercial mortgage	5,879	8,148
Total commercial	24,089	15,758
<b>Consumer</b>		
Residential mortgage	\$ 2,785	\$ 1,660
Other consumer <sup>1</sup>	85	152
Total consumer	2,870	1,812
Total non-accrual loans	<u>\$ 26,959</u>	<u>\$ 17,570</u>

<sup>1</sup> Comprised of other revolving credit, installment loans, and overdrafts.

The Company classifies its loan portfolios using internal credit quality ratings, as discussed above under *Allowance for Loan Losses*. The following table provides a summary of loans by portfolio type and the Company's internal credit quality ratings as of December 31, 2022 and 2021.

	December 31,	
	2022	2021
	(Dollars in thousands)	
<b>Pass:</b>		
Commercial & industrial	\$ 227,995	\$ 266,300
Commercial mortgage	701,724	642,835
Commercial construction	10,198	23,588
Commercial agriculture	551	592
Residential mortgage	151,218	133,176
Home equity	2,586	2,232
Automobile	18,804	18,179
Other consumer	151,966	145,190
Total pass loans	1,265,042	1,232,092
<b>Special Mention:</b>		
Commercial & industrial	17,336	9,760
Commercial mortgage	81,566	11,051
Residential mortgage	1,550	-
Total special mention loans	100,452	20,811
<b>Substandard:</b>		
Commercial & industrial	28,594	12,645
Commercial mortgage	13,723	44,661
Residential mortgage	2,485	613
Other consumer	-	2
Total substandard loans	44,802	57,921
<b>Formula Classified:</b>		
Residential mortgage	1,458	1,588
Automobile	66	41
Other consumer	844	1,016
Total formula classified loans	2,368	2,645
<b>Doubtful:</b>		
Commercial & industrial	6,026	7,130
Commercial mortgage	642	722
Total doubtful loans	6,668	7,852
<b>Total outstanding loans, gross</b>	\$ 1,419,332	\$ 1,321,321

### Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impaired loans include loans that are in non-accrual status and other loans that have been modified in Troubled Debt Restructurings (TDRs), where economic concessions have been granted to borrowers experiencing financial difficulties. These concessions typically result from the Company's loss mitigation actions, and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions taken with the intention to maximize collections.

The following table sets forth information regarding non-accrual loans and restructured loans, at December 31, 2022 and 2021:

	December 31,	
	2022	2021
(Dollars in thousands)		
<b>Impaired loans:</b>		
Restructured loans:		
Non-accruing restructured loans	\$ 4,279	\$ 6,083
Accruing restructured loans	33,516	32,595
Total restructured loans	37,795	38,678
Other impaired loans	24,938	13,105
Total impaired loans	<u>\$ 62,733</u>	<u>\$ 51,783</u>
Impaired loans less than 90 days delinquent and included in total impaired loans	<u>\$ 39,451</u>	<u>\$ 38,398</u>

The table below contains additional information with respect to impaired loans, by portfolio type, for the years ended December 31, 2022 and 2021:

	Recorded Investment	Unpaid Principal Balance	Average Recorded Investment	Interest Income Recognized
(Dollars in thousands)				
<b>December 31, 2022, With no related allowance recorded:</b>				
Commercial & industrial	\$ 22,726	\$ 22,849	\$ 14,328	\$ 42
Commercial mortgage	34,836	35,403	35,451	152
Residential mortgage	3,019	3,019	1,955	(183)
Other consumer	-	-	-	-
Total impaired loans with no related allowance	<u>\$ 60,581</u>	<u>\$ 61,271</u>	<u>\$ 51,734</u>	<u>\$ 11</u>
<b>December 31, 2022, With a related allowance recorded:</b>				
Commercial & industrial	\$ 100	\$ 100	\$ 198	\$ -
Commercial mortgage	161	176	154	-
Residential mortgage	981	991	969	(44)
Automobile	66	66	71	1
Other consumer	844	843	1,001	7
Total impaired loans with a related allowance	<u>\$ 2,152</u>	<u>\$ 2,176</u>	<u>\$ 2,393</u>	<u>\$ (36)</u>
<b>December 31, 2021, With no related allowance recorded:</b>				
Commercial & industrial	\$ 11,150	\$ 11,150	\$ 75,812	\$ 56
Commercial mortgage	36,935	37,182	38,456	149
Residential mortgage	612	612	221	-
Other consumer	2	2	4	-
Total impaired loans with no related allowance	<u>\$ 48,699</u>	<u>\$ 48,946</u>	<u>\$ 114,493</u>	<u>\$ 205</u>
<b>December 31, 2021, With a related allowance recorded:</b>				
Commercial & industrial	\$ 262	\$ 262	\$ 116	\$ 2
Commercial mortgage	112	127	75	-
Residential mortgage	1,653	1,663	1,921	1
Automobile	41	41	29	1
Other consumer	1,016	1,016	1,253	8
Total impaired loans with a related allowance	<u>\$ 3,084</u>	<u>\$ 3,109</u>	<u>\$ 3,394</u>	<u>\$ 12</u>

Impairment is measured on a loan-by-loan basis for commercial and real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. The Bank performs direct write-downs of impaired loans with a charge to the allocated component of the allowance, thereby reducing the allocated component of the reserve to zero at the end of each reporting period.

### Troubled Debt Restructurings

The Bank had \$37.8 million and \$38.7 million of troubled debt restructurings (TDRs) as of December 31, 2022 and 2021, respectively. The restructured loans recorded by the Bank represent financing receivables, modified for the purpose of alleviating temporary impairments to the borrower's financial condition. The modifications that the Bank has extended to borrowers have come in the form of a change in the amortization terms, a reduction in the interest rate, interest only payments and, in limited cases, a concession to the outstanding loan balance. The restructuring plans between the borrower and Bank are designed to provide a bridge for the cash flow shortfalls in the near term. As the borrower works through the near-term issues, in most cases, the original contractual terms will be reinstated.

Details of the Bank's TDRs as of December 31, 2022 and 2021 are as follows:

	Number of Loans	Pre- Modification Outstanding Recorded Investment	Principal Modifications	Post- Modification Outstanding Recorded Investment	Outstanding Balance	
					December 31, 2022	December 31, 2021
<u>Performing</u>						
Residential mortgage	-	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial & industrial	8	5,734	-	5,734	4,617	3,696
Commercial mortgage	1	28,899	-	28,899	28,899	28,899
Consumer	-	-	-	-	-	-
Total performing	9	34,633	-	34,633	33,516	32,595
<u>Nonperforming</u>						
Commercial & industrial	1	176	-	176	59	142
Commercial mortgage	6	5,954	-	5,954	4,220	5,941
Consumer	-	-	-	-	-	-
Total nonperforming	7	6,130	-	6,130	4,279	6,083
Total Troubled Debt Restructurings (TDRs)	16	\$ 40,763	\$ -	\$ 40,763	\$ 37,795	\$ 38,678

**Note 7 – Premises and Equipment**

A summary of premises and equipment at December 31, 2022 and 2021 follows:

	December 31, 2022		
	Cost	Accumulated Depreciation	Net Book Value
Buildings	\$ 30,298	\$ (24,646)	\$ 5,652
Furniture and equipment	29,222	(21,528)	7,694
Automobiles and mobile facilities	2,083	(1,370)	713
Leasehold improvements	6,304	(4,572)	1,732
	67,907	(52,116)	15,791
Construction in progress	3,605	-	3,605
	<u>\$ 71,512</u>	<u>\$ (52,116)</u>	<u>\$ 19,396</u>

	December 31, 2021		
	Cost	Accumulated Depreciation	Net Book Value
Buildings	\$ 29,281	\$ (22,797)	\$ 6,484
Furniture and equipment	28,494	(20,135)	8,359
Automobiles and mobile facilities	2,071	(1,223)	848
Leasehold improvements	6,520	(4,241)	2,279
	66,366	(48,396)	17,970
Construction in progress	2,832	-	2,832
	<u>\$ 69,198</u>	<u>\$ (48,396)</u>	<u>\$ 20,802</u>

For the years ended December 31, 2022 and 2021, depreciation expense was \$4.5 million each year. No fixed assets impairments were recorded during the year ended December 31, 2022 and 2021.

**Note 8 – Other Assets**

A summary of other assets at December 31, 2022 and 2021, follows:

	December 31,	
	2022	2021
Bank Owned Life Insurance	\$ 40,834	\$ 29,890
Prepaid income tax	290	482
Prepaid expenses	11,667	9,130
Deferred tax asset, net (Note 12)	30,451	14,003
Mortgage servicing rights (Note 18)	1,142	1,581
Right-of-use asset (Note 19)	24,577	23,379
Accounts receivable	6,428	5,069
Other	1,137	1,086
Total other assets	<u>\$ 116,526</u>	<u>\$ 84,620</u>

## **Note 9 – Deposits**

A summary of deposits at December 31, 2022 and 2021, follows:

	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
	(Dollars in Thousands)	
Non-interest bearing deposits	\$ 850,480	\$ 981,537
Interest bearing deposits:		
Demand deposits	416,227	401,753
Regular savings	718,395	801,101
Time deposits:		
\$250,000 or more	8,672	14,201
Less than \$250,000	15,969	15,696
Other interest bearing deposits	337,954	318,943
Total interest bearing deposits	1,497,217	1,551,694
Total Deposits	<u>\$ 2,347,697</u>	<u>\$ 2,533,231</u>

At December 31, 2022, the scheduled maturities of time deposits were as follows:

### **Years ending December 31,**

2023	\$	20,437
2024		2,434
2025		334
2026		384
2027 and thereafter		1,052
Total	<u>\$</u>	<u>24,641</u>

## **Note 10 – Borrowings**

### **Federal Reserve Discount Window**

At December 31, 2022 and 2021 the Bank had investment securities with a market value of \$13.2 million and \$18.5 million, respectively, pledged to the FRB Discount Window supporting a borrowing capacity of \$12.7 million and \$17.8 million, respectively, based on an average Federal Reserve margin of 96%. The Bank had no outstanding borrowings through the discount window at December 31, 2022 or 2021.

### **Federal Home Loan Bank (FHLB) Advances**

The Bank has a credit line with the FHLB of Des Moines equal to 35% of total Bank assets. At December 31, 2022 and 2021, the Bank did not have outstanding advances against this credit line under Blanket Agreements for Advances and Security Agreements (“the Agreements”). The Agreements enable the Bank to borrow funds from the FHLB to fund mortgage loan programs and to satisfy certain other funding needs.

### **Overnight Fed Funds Lines**

At December 31, 2022 and 2021, the Bank had \$35.0 million in Federal Funds lines of credit available with its correspondent banks. No borrowings were outstanding as of December 31, 2022 or 2021.

**Note 11 – Transactions with Directors of the Company**

The Directors of the Company and the Bank, and certain of the businesses with which they are associated, conduct banking transactions with the Company in the ordinary course of business. The following is a summary of loan transactions with members of the Board of Directors of the Company and certain of their associated businesses:

	<b>Years Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>(Dollars in thousands)</b>		
Beginning balance	\$ 17,188	\$ 16,898
Undisbursed commitments	231	823
New loans granted	72	465
Principal repayments	(1,017)	(998)
Ending balance of term loans	16,474	17,188
Year-end balance of revolving accounts	1,093	1,687
Total term loans and revolving accounts	<u>\$ 17,567</u>	<u>\$ 18,875</u>

In addition, the Bank leases certain facilities from two separate entities in which two of its directors have separate ownership interests. Lease payments made to these entities during the years ended December 31, 2022 and 2021, approximated \$388 thousand and \$431 thousand, respectively.

**Note 12 – Income Taxes**

The Bank pays income taxes in Guam and the Commonwealth of the Northern Mariana Islands under a territorial “mirror” of the U.S. Internal Revenue Code, with payments made to the respective territorial governments instead of the U.S. Treasury; there is no equivalent of a state income tax in either of these jurisdictions. The Bank also pays taxes to the governments of the Republic of Palau, the Federated States of Micronesia, the Republic of the Marshall Islands and the State of California.

The income tax provision includes the following components:

	<b>Years Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Government of Guam tax expense (benefit):		
Current	\$ 4,302	\$ 3,062
Deferred	(823)	233
Foreign income taxes (including U.S. income taxes)	-	1,800
Total income tax expense	<u>\$ 3,479</u>	<u>\$ 5,095</u>

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows:

	<b>2022</b>	<b>2021</b>
Statutory Guam income tax rate	21.00%	21.00%
Permanent differences	-4.83%	-2.90%
Other	-1.15%	1.86%
Total income tax expense	<u>15.02%</u>	<u>19.96%</u>

The difference between effective income tax expense and income tax expense computed at the Guam statutory rate was due to nontaxable interest income earned on loans to the Government of Guam for each of the years ended December 31, 2022 and 2021.

The components of deferred income taxes are as follows:

	<b>Years Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Deferred loan origination fees	\$ 69	\$ 167
Loan loss provision	(548)	(284)
Fixed assets	(97)	38
SERP	(33)	(269)
Unfunded commitment reserve	(1)	(12)
Mortgage servicing rights	(101)	(1)
Right-of-use asset	206	(425)
Lease liability	(260)	369
Accrued bonus	(2)	(54)
Unearned income	42	(131)
Other	(97)	835
Deferred tax (benefit) provision	<u>\$ (822)</u>	<u>\$ 233</u>

The components of the net deferred tax asset are as follows:

	<b>Years Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Deferred tax asset:</b>		
Allowance for loan losses	\$ 8,445	\$ 7,885
Lease liability	5,794	5,526
Loan origination fees	671	739
Net unrealized loss on securities available-for-sale	20,484	4,859
Unearned income	89	131
Accruals not currently deductible	2,188	2,157
Total deferred tax asset	37,671	21,297
<b>Deferred tax liability:</b>		
Right-of-use asset	\$ (5,572)	\$ (5,358)
Fixed assets	(616)	(713)
Mortgage servicing rights	(262)	(362)
Investment in ASC	(688)	(790)
Others	(82)	(71)
Total deferred tax liability	<u>(7,220)</u>	<u>(7,294)</u>
Net deferred tax asset	<u>\$ 30,451</u>	<u>\$ 14,003</u>



We record as a “deferred tax asset” on our balance sheet an amount equal to the tax credit and tax loss carry-forwards and tax deductions (“tax benefits”) that we believe will be available to us to offset or reduce the amounts of our income taxes in future periods. Under applicable federal and state income tax laws and regulations, such tax benefits will expire if not used within specified periods of time. Accordingly, the ability to fully use our deferred tax asset depends on the amount of taxable income that we generate during those time periods. At least once each year, or more frequently, if warranted, we make estimates of future taxable income that we believe we are likely to generate during those future periods. If we conclude, on the basis of those estimates and the amount of the tax benefits available to us, that it is more likely than not that we will be able to fully utilize those tax benefits prior to their expiration, we recognize the deferred tax asset in full on our balance sheet. On the other hand, if we conclude on the basis of those estimates and the amount of the tax benefits available to us that it has become more likely than not that we will be unable to utilize those tax benefits in full prior to their expiration, then we would establish (or increase any existing) valuation allowance to reduce the deferred tax asset on our balance sheet to the amount which we believe we are more likely than not to be able to utilize. Such a reduction is implemented by recognizing a non-cash charge that would have the effect of increasing the provision, or reducing any credit, for income taxes that we would otherwise have recorded in our statements of operations. The determination of whether and the extent to which we will be able to utilize our deferred tax asset involves significant management judgments and assumptions that are subject to period-to-period changes as a result of changes in tax laws, changes in the market, or economic conditions that could affect our operating results or variances between our actual operating results and our projected operating results, as well as other factors.

The Bank is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2019.

### **Note 13 – Employee Benefit Plans**

#### **Stock Purchase Plan**

The Company’s 2011 Employee Stock Purchase Plan (the “2011 Plan”) was adopted by the Company’s Board of Directors and approved by the Company’s Stockholders on May 2, 2011. The 2011 Plan is open to all employees of the Company and the Bank who have met certain eligibility requirements.

Under the 2011 Plan, as amended and restated as of July 1, 2012, eligible employees can purchase, through payroll deductions, shares of common stock at a discount. The right to purchase stocks is granted to eligible employees during a period of time that is established from time to time by the Board of Directors of the Company. Eligible employees cannot accrue the right to purchase more than \$25 thousand worth of stock at the fair market value at the beginning of each offer period. Eligible employees also may not purchase more than one thousand five hundred (1,500) shares of stock in any one offer period. The shares are purchased at 85% of the fair market price of the stock on the enrollment date.

In April 2022, the Company suspended the Employee Stock Purchase Plan in connection with the Company’s 1-for-500 reverse stock split, which was effective on October 31, 2022.

#### **Employee Retirement Savings Plan**

The Company has a 401(k) Plan whereby substantially all employees, with at least one year of continuous service, are eligible to participate in the Plan. The Company makes matching contributions equal to 100% of an employee’s deferrals, up to 1% of the employee’s compensation, plus 50% of the employee’s deferrals that exceed 1% but are less than 6% of the employee’s compensation. Matching contributions become 100% vested to the employee after two years of service. For the years ended December 31, 2022 and 2021, the expense attributable to the Plan was \$733 thousand and \$730 thousand, respectively.

#### **Supplemental Executive Retirement Plan (“SERP”)**

In April 2011, the Bank established an unfunded Supplemental Executive Retirement Plan (the “SERP”) for its Executive Officers and Senior Vice Presidents. The SERP provides that, subject to meeting certain vesting requirements, they will become entitled to receive 12 equal successive monthly retirement payments totaling \$50,000 per annum for Senior Vice Presidents and \$150,000 for the Executive Vice President and COO and the President and CEO for the 15 years immediately following the date of their retirement or other termination of their employment.

The Company follows FASB ASC 715-30-35, which requires us to recognize in our balance sheet the funded status of any post-retirement plans that we maintain, and to recognize, in other comprehensive income, changes in the funded status of any such plans in any year in which changes occur.

The changes in the projected benefit obligation of other benefits under the Plan during 2022 and 2021, its funded status at December 31, 2022 and 2021, and the amounts recognized in the balance sheet at December 31, 2022 and 2021, were as follows:

	<b>Years Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Change in benefit obligation:</b>		
Benefit obligation at beginning of period	\$ 9,187	\$ 8,243
Service cost	633	588
Interest cost	384	356
Benefit obligation at end of period	<u>\$ 10,204</u>	<u>\$ 9,187</u>
<b>Funded status:</b>		
Amounts recognized in the Statement of Financial Condition		
Unfunded accrued SERP liability—current	\$ 10,204	\$ 9,187
Total unfunded accrued SERP liability	<u>\$ 10,204</u>	<u>\$ 9,187</u>
<b>Net amount recognized in accumulated other comprehensive income</b>		
Prior service cost/(benefit)	\$ -	\$ -
Net actuarial loss/(gain)	-	-
Total net amount recognized in accumulated other comprehensive income	-	-
Accumulated benefit obligation	<u>\$ 10,204</u>	<u>\$ 9,187</u>
<b>Components of net periodic SERP cost:</b>		
Service cost	\$ 8,178	\$ 7,545
Interest cost	2,026	1,642
Net periodic SERP cost	<u>\$ 10,204</u>	<u>\$ 9,187</u>
<b>Assumptions as of December 31:</b>		
Assumed discount rate	4.33%	4.33%
Rate of compensation increase	0.00%	0.00%

As of December 31, 2022, \$3.9 million in benefits are expected to be paid in the next five years. During 2023, \$1.1 million is expected to be recognized in net periodic benefit cost.

#### **Note 14 – Earnings Per Common Share**

Basic earnings per common share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Potential common shares that may be issued by the Company relate to shares subscribed but not yet issued in 2022 and 2021 under the Employee Stock Purchase Plan and are reported as dilutive options. No shares were subscribed but not issued at December 31, 2022 and 2021. In April 2022, the Company suspended the Employee Stock Purchase Plan indefinitely in connection with the Company's plans to implement a 1-for-500 reverse stock split. The Company effected the reverse stock split on October 31, 2022.

Earnings per common share have been computed based on reported net income and the following share data:

	<b>Years Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Net income available to BankGuam Holding Company	\$ 18,889	\$ 20,501
Less preferred stock dividends	(600)	(520)
Net income attributable to common stockholders	<u>\$ 18,289</u>	<u>\$ 19,981</u>
Weighted average number of common shares outstanding - used to calculate basic and diluted earnings per common share <sup>(1)</sup>	<u>19.2</u>	<u>19.4</u>
<b>Earnings per common share (EPS):</b>		
Basic and diluted EPS <sup>(1)</sup>	<u>\$ 950.41</u>	<u>\$ 1,027.97</u>

(1) For the year ended December 31, 2021, the weighted average common shares and earnings per share were adjusted for the 1 for 500 reverse stock split that was effective October 31, 2022.

## **Note 15 – Commitments and Contingencies**

The Bank is a party to credit-related financial instruments with off-balance-sheet risk, in the normal course of business, to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount reflected in the consolidated financial statements.

The Bank's exposure to credit loss, in the event of nonperformance by the other parties to financial instruments for loan commitments and letters of credit, is represented by the contractual amount of these instruments. The Bank follows the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of financial instruments with off-balance-sheet risk at December 31, 2022 and 2021, is as follows:

	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
Commitments to extend credit	\$ 184,448	\$ 162,569
Letters of credit:		
Standby letters of credit	\$ 48,368	\$ 43,239
Commercial letters of credit	2,001	2,366
Total	\$ 50,369	\$ 45,605

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. The commitments for certain lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party or the shipment of merchandise from a third party. Those letters of credit are primarily issued to support government and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting these commitments.

The Bank considers its standby letters of credit to be guarantees. At December 31, 2022, the maximum undiscounted future payments that the Bank could be required to make was \$50.4 million. All of these arrangements mature within one year. The Bank generally has recourse to recover from the customer any amounts paid under these guarantees. Most of the guarantees are fully collateralized; however, some are unsecured. The Bank recorded \$52.5 thousand in reserve liabilities associated with these guarantees at December 31, 2022.

Mortgage loans serviced for others are not included in the accompanying consolidated statements of condition. The unpaid principal balances of mortgage loans serviced for others were \$169.8 million and \$181.1 million at December 31, 2022 and 2021, respectively. At December 31, 2022 and 2021, the Bank recorded mortgage servicing rights at their fair value of \$1.1 million and \$1.6 million, respectively.

### **Legal Contingencies**

The Bank is involved in certain legal actions and claims that arise in the ordinary course of business. Management believes that, as a result of its legal defenses and insurance arrangements, none of these matters are expected to have a material adverse effect on the Bank's financial position, results of operations or cash flows.

## **Note 16 – Minimum Regulatory Capital Requirements**

The Bank is subject to various regulatory capital requirements administered by the United States federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items, as calculated under regulatory accounting practices.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1 capital and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). As of December 31, 2022 and 2021, the Bank met all capital adequacy requirements to which it is subject.

In July 2013, the U.S. banking regulatory agencies approved the U.S. version of Basel III. The agencies-adopted version of Basel III revises the risk-based and leverage capital requirements and the method for calculating risk-weighted assets to make them consistent with Basel III and to meet the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Although many of the rules contained in these final regulations are applicable only to large, internationally active banks, some of them apply on a phased-in basis to all banking organizations, including the Company and the Bank. The rules, including alternative requirements for smaller community financial institutions like the Company and the Bank, were fully phased in on January 1, 2019. Among other things, the rules established a new minimum common equity Tier 1 ratio (4.5% of risk-weighted assets), a higher minimum Tier 1 risk-based capital requirement (6.0% of risk-weighted assets) and a minimum non-risk-based leverage ratio (4.0%, eliminating a 3.0% exception for higher rated banks). An additional capital conservation buffer of 2.5% of risk weighted assets must be met to avoid limitations on the ability of the Company and the Bank to pay dividends, repurchase shares or pay discretionary bonuses. An additional "countercyclical capital buffer" is required for larger and more complex institutions. The new rules assign higher risk weighting to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development, or construction of real property. The rules also changed the permitted composition of Tier 1 capital to exclude trust preferred securities, mortgage servicing rights and certain deferred tax assets, and include unrealized gains and losses on available-for-sale debt and equity securities (through a one-time opt out option for Standardized Banks (banks with less than \$250 billion of total consolidated assets and less than \$10 billion of foreign exposures) which the Company and the Bank elected at March 31, 2015).

As of December 31, 2022, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category.

The Company's actual capital amounts and ratios as of December 31, 2022 and 2021, are presented in the table below.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>At December 31, 2022:</b>						
Total capital (to Risk Weighted Assets)	\$ 229,497	14.377%	\$ 127,700	8.000%	\$ 159,625	10.000%
Tier 1 capital (to Risk Weighted Assets)	\$ 175,626	11.002%	\$ 95,775	6.000%	\$ 127,700	8.000%
Tier 1 capital (to Average Assets)	\$ 175,626	6.685%	\$ 105,080	4.000%	\$ 131,350	5.000%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	\$ 165,843	10.390%	\$ 71,831	4.500%	\$ 103,756	6.500%
<b>At December 31, 2021:</b>						
Total capital (to Risk Weighted Assets)	\$ 222,493	15.161%	\$ 117,403	8.000%	\$ 146,753	10.000%
Tier 1 capital (to Risk Weighted Assets)	\$ 168,623	11.490%	\$ 88,052	6.000%	\$ 117,403	8.000%
Tier 1 capital (to Average Assets)	\$ 168,623	5.792%	\$ 116,461	4.000%	\$ 145,577	5.000%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	\$ 158,840	10.824%	\$ 66,039	4.500%	\$ 95,390	6.500%

The Bank exceeds the adequately capitalized and the well capitalized standards under these measures. Management believes the Company and the Bank will remain adequately capitalized and well-capitalized under the standards.

#### Reverse Stock Split

On October 31, 2022, the Company's effected a 1-for-500 reverse stock split of the Company's common stock. Shareholders of the Company who owned fewer than 500 shares of the Company's common stock received a cash payment in lieu of a fraction of a share. Shareholders holding 500 or more shares of the Company's common stock remained as shareholders after the reverse stock split, and also received a cash payment in lieu of receiving a fraction of a share. The Company determined that \$14.75 per share outstanding prior to the reverse stock split would be a fair price to pay for shares that will be bought back by the Company in lieu of issuing a fraction of a share. The Company paid its shareholders \$9.1 million in lieu of fractional shares as a result of the reverse stock split.

As a result of the reverse stock split, every 500 shares of common stock issued and outstanding or held as treasury shares were automatically combined into one share of common stock. The total number of shares of the Company's common stock issued and outstanding was approximately 18,226, and the number of holders of record of the Company's common stock was approximately 1,104. On December 9, 2022, the Company filed the Final Amendment of Schedule 13E-3 stating it expects to file a Form 15 for the certification and notice of termination of registration under Section 12(g) of the Securities Exchange Act of 1934, as amended.

#### Non-Cumulative Perpetual Preferred Stock

Commencing September 15, 2016, the Company offered a private placement of securities for the issuance and sale of an aggregate of 10,000 shares of its new Series A Non-Cumulative Perpetual Preferred Stock. This offer carried a subscription price of \$1,000.00 per share and a yield of 5.5% (the "Series A Preferred Stock") to various accredited and a limited number of non-accredited investors for total proceeds of up to \$10 million (the "Offering"). The Offering agreement contains customary warranties, representations and indemnification provisions. At December 31, 2022, 9,800 of these shares were issued and outstanding.

## **Note 17 – Fair Value Measurements**

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with ASC Topic 820, “*Fair Value Measurements and Disclosures*”, the fair value of a financial instrument is the price that would be received in selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

### **Fair Value Hierarchy**

In accordance with this guidance, the Bank groups its financial assets and financial liabilities, generally measured at fair value, in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

- Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market, as well as certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2: Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active.
- Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Financial assets measured at fair value on a recurring basis as of December 31, 2022 and 2021, are as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>At December 31, 2022</b>				
Available-for-sale Securities:				
U.S. treasury notes and bonds	\$ -	\$ -	\$ -	\$ -
U.S. government agency and government sponsored enterprise (GSE) debt securities	-	93,129	-	93,129
U.S. government agency pool securities	-	65,597	-	65,597
U.S. government agency or GSE	-	343,173	-	343,173
Total fair value of available-for-sale securities	-	501,899	-	501,899
Other assets:				
MSRs	-	-	1,142	1,142
Total fair value	\$ -	\$ 501,899	\$ 1,142	\$ 503,041
<b>At December 31, 2021</b>				
Available-for-sale Securities:				
U.S. treasury notes and bonds	\$ -	\$ -	\$ -	\$ -
U.S. government agency and government sponsored enterprise (GSE) debt securities	-	110,962	-	110,962
U.S. government agency pool securities	-	20,861	-	20,861
U.S. government agency or GSE	-	367,543	-	367,543
Total fair value of available-for-sale securities	-	499,366	-	499,366
Other assets:				
MSRs	-	-	1,581	1,581
Total fair value	\$ -	\$ 499,366	\$ 1,581	\$ 500,947

There were no liabilities measured at fair value on a recurring basis as of December 31, 2022 and 2021.

During the periods ended December 31, 2022 and 2021, the changes in Level 3 assets (consisting solely of MSRs) measured at fair value on a recurring basis are as follows:

	Years Ended December 31,	
	2022	2022
Beginning balance	\$ 1,581	\$ 1,683
Realized and unrealized net losses:		
Included in net income	(439)	(102)
Ending balance	\$ 1,142	\$ 1,581

The valuation technique used for Level 3 MSRs is their discounted cash flow. Inputs considered in determining Level 3 pricing include the anticipated prepayment rates, discount rates, and cost to service. Significant increases or decreases in any of those inputs in isolation would result in a significantly lower or higher fair value measurement.

The following table presents quantitative information about the valuation technique and unobservable inputs applied to Level 3 fair value measurements for financial instruments measured at fair value on a recurring basis:

	<b>Estimated Fair Value</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range of Inputs</b>	<b>Weighted Average Rate</b>
<b><u>December 31, 2022</u></b>					
Financial instrument:					
MSRs	<u>\$ 1,142</u>	Discounted Cash Flow	Discount Rate	9.84% - 10.30%	10.10%
			Weighted Average Prepayment Rate (Public Securities Association)	150%	
<b><u>December 31, 2021</u></b>					
Financial instrument:					
MSRs	<u>\$ 1,581</u>	Discounted Cash Flow	Discount Rate	6.02% - 7.93%	7.20%
			Weighted Average Prepayment Rate (Public Securities Association)	125%	

There were no transfers into or out of the Bank's Level 3 financial instruments for the periods ended December 31, 2022 and 2021.

The valuation techniques for assets measured at fair value on a recurring basis are as follows:

#### Investment Securities

When quoted prices are available in an active market, the Bank classifies the securities within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid U.S. Government debt, equity securities, Treasury notes and bonds.

If quoted market prices are not available, the Bank estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include GSE obligations, corporate bonds, and other securities. Mortgage-backed securities are included in Level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, the Bank would classify those securities in Level 3. At December 31, 2022 and 2021, the Bank did not have any Level 3 investment securities.

#### Mortgage Servicing Rights

The fair value measurement of mortgage servicing rights is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques that incorporate assumptions that market participants would use in estimating the fair value of servicing rights. The most important of these assumptions is the interest rate used in discounting the future cash flows into their present value. Other assumptions might include estimates of prepayment speeds, costs to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations. The Bank's mortgage servicing rights are considered a Level 3 measurement at December 31, 2022 and 2021.



### Assets Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances the Bank makes adjustments to fair value for assets and liabilities even though they are not measured at fair value on an ongoing basis. At December 31, 2022 and 2021, there are no financial instruments carried on the consolidated statements of financial condition by caption and by level in the fair value hierarchy for which a nonrecurring change in fair value has been recorded.

### Fair Value of Other Financial Instruments

The estimated fair values of the Bank's other financial instruments, excluding those assets recorded at fair value on a recurring basis on the Bank's consolidated statements of condition, are as follows:

	Carrying Amount	Estimated Fair Value		
		Level 1	Level 2	Level 3
(Dollars in thousands)				
<b><u>December 31, 2022</u></b>				
Financial assets:				
Cash and cash equivalents	\$ 191,941	\$ 191,941	\$ -	\$ -
Restricted cash	150	150	-	-
Federal Home Loan Bank stock	3,318	-	3,318	-
Investment securities held-to-maturity	318,674	-	239,210	-
Loans, net	1,379,613	-	-	1,397,023
Total	<u>\$ 1,893,696</u>	<u>\$ 192,091</u>	<u>\$ 242,528</u>	<u>\$ 1,397,023</u>
Financial liabilities:				
Deposits	2,347,697	-	-	2,347,643
Total	<u>\$ 2,347,697</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,347,643</u>
<b><u>December 31, 2021</u></b>				
Financial assets:				
Cash and cash equivalents	\$ 557,403	\$ 557,403	\$ -	\$ -
Restricted cash	150	150	-	-
Federal Home Loan Bank stock	2,814	-	2,814	-
Investment securities held-to-maturity	312,294	-	310,372	-
Loans, net	1,283,690	-	-	1,295,935
Total	<u>\$ 2,156,351</u>	<u>\$ 557,553</u>	<u>\$ 313,186</u>	<u>\$ 1,295,935</u>
Financial liabilities:				
Deposits	\$ 2,533,231	\$ -	\$ -	\$ 2,527,453
Total	<u>\$ 2,533,231</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,527,453</u>

The following methods were used by the Company in estimating fair value for its financial instruments not previously disclosed:

### Cash, Cash Equivalents and Restricted Cash, including Interest Bearing Deposits in Banks

The carrying amount of cash and short-term instruments approximates fair value based on the short-term nature of the assets. Fair values for interest-bearing deposits that reprice frequently are based upon carrying value. Fair values of other interest bearing deposits with longer terms are estimated using discounted cash flow analyses based on current rates for similar types of deposits.

### Loans

For variable-rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

### Deposit Liabilities

The fair values disclosed for demand deposits (for example, interest and non-interest checking, passbook savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits.

### Short-Term Borrowings

The carrying amounts of Federal Funds purchased and FHLB advances maturing within ninety days approximate their fair values. We had no outstanding short-term borrowings at December 31, 2021 or 2022.

### Long-Term Borrowings

Fair value of FHLB advances maturing after ninety days is determined based on expected present value techniques based on current market rates for advances with similar terms and remaining maturities. We had no outstanding long-term borrowings at December 31, 2021 or 2022.

### Accrued Interest

The carrying amount of accrued interest approximates fair value due to its short-term nature.

### **Note 18 – Leases**

The Bank leases certain land, office spaces, and storage spaces. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Instead, the Bank recognizes lease expense for these leases on a straight-line basis over the lease term.

Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to 50 years or more. The exercise of lease renewal options is at our sole discretion. The depreciable life of assets and leasehold improvements are limited by the expected lease terms, unless there is a transfer of title or purchase option reasonably certain of exercise.

Certain of our lease agreements include rental payments based on a percentage of the prevailing market value of the lease and the average of the Treasury Bill Rate and the Guam Consumer Price Index figure, and others include rental payments adjusted periodically for inflation. The Bank's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Bank leases certain facilities from two separate entities in which two of its directors have separate ownership interests. Lease payments made to these entities during the year ended December 31, 2022 and 2021, were \$388 thousand, and \$431 thousand respectively.

Additionally, the Bank leases office space to third parties, with original lease terms ranging from 1 to 3 years with option periods ranging up to 12 years. At December 31, 2022, minimum future rents to be received under non-cancelable operating sublease agreements were \$29 thousand for the period ending December 31, 2023.

The cash flow from operating leases included in the measurement of lease liabilities during December 31, 2022 and 2021 was \$2.8 million and \$3.4 million, respectively.

The following table summarizes the lease-related assets and liabilities recorded as part of other assets and other liabilities in our consolidated statements of financial condition at December 31, 2022:

	December 31, 2022	December 31, 2021
<b>Assets</b>		
Operating lease right-of-use assets	\$ 24,276	\$ 23,379
Total lease assets	<u>\$ 24,276</u>	<u>\$ 23,379</u>
<b>Liabilities</b>		
Current		
Operating	\$ 2,014	\$ 1,926
Noncurrent		
Operating	23,231	22,186
Total lease liabilities	<u>\$ 25,245</u>	<u>\$ 24,112</u>

The operating lease cost, and variable lease costs, at December 31, 2022 and 2021 was \$3.0 million and \$3.7 million, respectively.

The following table provides the maturities of lease liabilities at December 31, 2022:

	Operating Leases (a)	Total
2023	\$ 2,874	\$ 2,874
2024	2,777	2,777
2025	2,722	2,722
2026	2,512	2,512
2027	2,172	2,172
After 2027	33,100	33,100
Total lease payments	46,157	46,157
Less: Interest (b)	20,912	20,912
Present value of lease liabilities (c)	<u>\$ 25,245</u>	<u>\$ 25,245</u>

Note: For leases commencing prior to 2019, minimum lease payments exclude payments to landlords for real estate taxes and common area maintenance.

- (a) Operating lease payments include \$18.9 million related to options to extend lease terms that are reasonably certain of being exercised.
- (b) Calculated using the incremental borrowing rate based on the lease term for each lease.
- (c) Includes the current portion of \$2.0 million for operating leases.

The following table provides the weighted-average lease term and discount rate at December 31, 2022:

	Years Ended December 31,	
	2022	2021
Weighted-average remaining lease term (years)		
Operating leases	24.0	25.6
Weighted-average discount rate		
Operating leases	4.05%	4.15%

### **Note 19 – Subordinated Debt**

At December 31, 2022, the Company had outstanding subordinated debt of \$34.5 million and \$34.4 million, respectively. Subordinated debt is presented net of deferred fees totaling \$531 thousand at December 31, 2022 and \$600 thousand at December 31, 2021.

On June 29, 2021, the Company issued \$20.0 million in aggregate principal amount of its 4.75% Fixed-to-Floating Rate Subordinated Notes due July 1, 2031 (the “2031 Notes”).

The 2031 Notes have a ten-year term and initially bear interest at a fixed annual rate of 4.75%. Beginning July 1, 2026, the interest rate will reset quarterly to the then-current three-month Secured Overnight Financing Rate (“SOFR”) plus 413 basis points. The

Company is required to pay interest semi-annually during the fixed period, and quarterly during the floating rate period. The principal sum of the 2031 Notes plus any unpaid interest are due on the maturity date.

On June 27, 2019, the Company issued \$15.0 million in aggregate principal amount of its 6.35% Fixed-to-Floating Rate Subordinated Notes due June 30, 2029 (the “2029 Notes” and together with the 2031 Notes, the “Notes”).

The 2029 Notes have a ten-year term and initially bear interest at a fixed annual rate of 6.35%. Beginning June 30, 2024, the interest rate will reset quarterly to the then-current three-month LIBOR plus 466 basis points. The Company is required to pay interest only semi-annually during the fixed period, and quarterly during the floating rate period. The principal sum of the 2029 Notes plus any unpaid interest are due on the maturity date.

Both notes are unsecured, subordinated obligations of the Company only and are not obligations of, and are not guaranteed by, any subsidiary of the Company. The Notes rank junior in right to payment to the Company’s current and future senior indebtedness.

## **Note 20 – Acquisitions**

On July 6, 2021 ( the “acquisition date”), the Company closed the acquisition of an additional 25% ownership interest of ASC Trust LLC for \$6.2 million, which brought the Company’s ownership interest in ASC Trust LLC to 70%. ASC Trust LLC primarily manages institutional retirement plans and trust accounts in the Micronesian region. The results of ASC Trust LLC operations have been included in the consolidated financial statements since the acquisition date. Prior to acquisition date, the Company accounted for its 45% interest in ASC Trust LLC as an equity-method investment. The aggregate purchase price of the Company’s 70% ownership interest totaled \$13.4 million. The Company used both an income-based valuation model and a market approach to determine the fair value of the previously held 45% equity method investment in ASC Trust LLC and the noncontrolling interest. The Company recognized a gain of \$3.4 million for the difference between the carrying value of \$7.7 million and fair value of \$11.1 million of the previously held equity interest. The gain is included in other income in the 2021 consolidated statement of income. The fair value of the noncontrolling interest at the acquisition date was \$7.4 million.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date.

Of the \$11.1 million of acquired intangible assets, \$460 thousand was provisionally assigned to trade name and \$10.6 million was assigned to customer relationships. The Company identified the estimated useful life of the identifiable intangible assets to be 15 years.

Cash	\$	546
Other current assets		1,287
Property and equipment, net		359
Intangible assets		11,090
Total identifiable assets		13,282
Current liabilities		(472)
Interest bearing debt		(297)
Total liabilities assumed		(769)
Net identifiable assets acquired		12,513
Goodwill		12,231
Net assets acquired	\$	<u>24,744</u>

The Company applied the acquisition method of accounting to the ASC Trust LLC transactions, whereby the excess of the fair value of the business over the fair value of identifiable net assets was allocated to goodwill. The goodwill reflects the workforce and synergies expected from the broader financial services offered in Guam. The goodwill is not expected to be deductible for tax purposes.

## **Note 21 – Goodwill**

A summary of the changes in goodwill is as follows:

	<b>2022</b>	<b>2021</b>	<b>Variance</b>
Balance at beginning of year	\$ 13,014	\$ 783	\$ 12,231
Additions	-	12,231	(12,231)
Balance	\$ 13,014	\$ 13,014	\$ -

The Company used discounted cash flow analyses, which represent Level 3 fair value measurements, to assess certain components of its purchase price allocation. The fair value of trade name was determined using the relief from royalty method; the customer contracts were determined using the multi-period excess earnings method.

## **Note 22 – Subsequent Events**

In March 2023, two significant bank failures occurred, which primarily resulted from the failed banks' lack of liquidity as depositors sought to withdraw their deposits. Due to rising interest rates, the failed banks were unable to sell their investment securities in order to meet liquidity needs without realizing substantial losses. As a result of the March 2023 bank closures and in an effort to strengthen public confidence in the banking system and protect depositors, regulators announced that any losses to the Deposit Insurance Fund to support uninsured depositors will be recovered by a special assessment on banks. Additionally, the Federal Reserve announced the creation of a new Bank Term Funding Program in an effort to minimize the need for banks to sell securities at a loss in times of stress. The future impact of these failures on the economy, financial institutions and their depositors, as well as any governmental regulatory responses or actions is difficult to predict at this time.