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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Form 10-Q**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2019

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 000-54483

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**BankGuam Holding Company**

(Exact name of registrant as specified in its charter)

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**Guam**  
(State or other jurisdiction of  
incorporation or organization)

**66-0770448**  
(IRS Employer  
Identification No.)

**P.O. Box BW  
Hagåtña, Guam 96932  
(671) 472-5300**

(Address, including Zip Code, and telephone number, including area code, of the registrant's principal executive offices)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.2083 par value per share As of May 10, 2019, there were 9,654,325 shares outstanding	"BKGMF"	Not listed

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**BANKGUAM HOLDING COMPANY**  
**FORM 10-Q**  
**QUARTERLY REPORT**  
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## Cautionary Note Regarding Forward-Looking Statements

For purposes of this Quarterly Report, the terms the “Company,” “we,” “us” and “our” refer to BankGuam Holding Company and its subsidiaries. This Quarterly Report on Form 10-Q contains statements that are not historical in nature, are predictive in nature, or that depend upon or refer to future events or conditions or contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These include, among other things, statements regarding:

- Competition for loans and deposits and failure to attract or retain deposits and loans;
- Local, regional, national and global economic conditions and events, and the impact they may have on us and our customers, and our assessment of that impact on our estimates, including the allowance for loan losses and fair value measurements;
- Risks associated with concentrations in real estate related loans;
- Changes in the level of nonperforming assets and charge-offs and other credit quality measures, and their impact on the adequacy of our allowance for loan losses and our provision for loan losses;
- The effects of and changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Federal Open Market Committee of the Federal Reserve Board;
- Stability of funding sources and continued availability of borrowings;
- The effect of changes in laws and regulations with which the Company and Bank of Guam must comply, including any change in Federal Deposit Insurance Corporation insurance premiums;
- Our ability to raise capital or incur debt on reasonable terms;
- Regulatory limits on Bank of Guam’s ability to pay dividends to the Company;
- The impact of the Dodd Frank Wall Street Reform and Consumer Protection Act and the implementation of its associated rules and regulations;
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;
- Changes in the deferred tax asset valuation allowance in future quarters;
- The costs and effects of legal and regulatory developments, including resolution of legal proceedings or regulatory or other governmental inquiries, and the results of regulatory examinations or reviews;
- The ability to increase market share and control expenses; and,
- Our success in managing the risks involved in the foregoing items, as well as other statements regarding our future operations, financial condition and prospects, and business strategies.

We are not able to predict all of the factors that may affect future results. Forward-looking statements may be preceded by, followed by or include the words “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “will,” “is designed to” and similar expressions. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about our business that could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in “Risk Factors” included in filings we make from time to time with the U.S. Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K for our fiscal year ended December 31, 2018, and our Quarterly Reports on Form 10-Q filed by us in fiscal 2019. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or risks, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. New information, future events or risks could cause the forward-looking statements we discuss in this Quarterly Report not to occur. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Quarterly Report.

**PART I. FINANCIAL INFORMATION**

**Item 1. Condensed Consolidated Financial Statements (Unaudited)**

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
<b><u>ASSETS</u></b>		
Cash and due from banks	\$ 27,798	\$ 33,279
Interest bearing deposits in banks	96,581	121,816
Total cash and cash equivalents	124,379	155,095
Restricted cash	400	400
Investment in unconsolidated subsidiary	3,277	3,291
Investment securities available-for-sale, at fair value	381,397	381,042
Investment securities held-to-maturity, at amortized cost (Fair Value \$64,213 at 3/31/19 and \$67,477 at 12/31/18)	64,439	68,088
Federal Home Loan Bank stock, at cost	2,267	2,356
Loans, net of allowance for loan losses (\$26,102 at 3/31/19 and \$23,774 at 12/31/18)	1,247,488	1,212,141
Accrued interest receivable	6,793	6,221
Premises and equipment, net	19,004	18,471
Other assets	75,427	44,597
Total assets	<u>\$ 1,924,871</u>	<u>\$ 1,891,702</u>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 539,536	\$ 538,168
Interest bearing	1,185,769	1,190,655
Total deposits	1,725,305	1,728,823
Accrued interest payable	129	137
Other liabilities	47,190	14,447
Total liabilities	1,772,624	1,743,407
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock \$0.2083 par value; 48,000 shares authorized; 9,685 and 9,679 shares issued and 9,653 and 9,646 shares outstanding at 3/31/19 and 12/31/18, respectively	2,019	2,017
Preferred stock \$100 par value; 300 shares authorized; 9.8 shares issued and outstanding	980	980
Additional paid-in capital, Common stock	24,285	24,214
Additional paid-in capital, Preferred stock	8,803	8,803
Retained earnings	119,638	117,339
Accumulated other comprehensive loss	(3,188)	(4,768)
Common stock in treasury, at cost (32 shares)	(290)	(290)
Total stockholders' equity	152,247	148,295
Total liabilities and stockholders' equity	<u>\$ 1,924,871</u>	<u>\$ 1,891,702</u>

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

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

	Three Months Ended March 31,	
	2019	2018
<b>Interest income:</b>		
Loans	\$ 20,333	\$ 19,191
Investment securities	2,513	2,434
Deposits with banks	571	248
Total interest income	23,417	21,873
<b>Interest expense:</b>		
Savings deposits	472	510
Time deposits	28	30
Other borrowed funds	-	1
Total interest expense	500	541
Net interest income	22,917	21,332
Provision for loan losses	3,852	2,740
Net interest income, after provision for loan losses	19,065	18,592
<b>Non-interest income:</b>		
Service charges and fees	1,470	1,683
Loss on sale of investment securities	-	(50)
Income from merchant services, net	577	692
Cardholders income, net	98	8
Trustee fees	628	200
Other income	853	883
Total non-interest income	3,626	3,416
<b>Non-interest expense:</b>		
Salaries and employee benefits	9,076	8,805
Occupancy	2,027	1,795
Equipment and depreciation	2,760	2,315
Insurance	472	430
Telecommunications	345	493
FDIC assessment	361	370
Professional services	604	582
Contract services	360	411
Other real estate owned	513	22
Stationery and supplies	228	194
Training and education	200	192
General, administrative and other	2,026	1,927
Total non-interest expense	18,972	17,536
Income before income taxes	3,719	4,472
Income tax expense	817	844
Net income	2,902	3,628
Preferred stock dividend	(134)	(135)
Net income attributable to common stockholders	\$ 2,768	\$ 3,493
<b>Earnings per common share:</b>		
Basic	\$ 0.29	\$ 0.37
Diluted	\$ 0.29	\$ 0.37
Dividends declared per common share	\$ 0.10	\$ 0.10
Basic weighted average common shares	9,647	9,544
Diluted weighted average common shares	9,647	9,544

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

**BankGuam Holding Company**  
 Unaudited Condensed Consolidated Statements of Comprehensive Income  
 (in Thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Net income	\$ 2,902	\$ 3,628
Other comprehensive income (loss):		
Unrealized holding gain (loss) on available-for-sale securities arising during the period, net of tax	1,493	(2,080)
Reclassification for loss realized on available-for-sale securities	-	50
Amortization of post-transfer unrealized holding loss on held-to-maturity securities during the period, net of tax	87	120
Total other comprehensive income (loss)	1,580	(1,910)
Total comprehensive income	\$ 4,482	\$ 1,718

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

**BankGuam Holding Company**  
Unaudited Condensed Consolidated Statements of Stockholders' Equity  
(Dollar Amounts in Thousands, Except Number of Shares)

	Number of Common Shares	Common Stock	Preferred Stock	Paid-in Capital - Common	Paid-in Capital - Preferred	Retained Earnings	Accumulated Other Comprehensive Income/(loss)	Treasury Stock	Total
<b>Balances, January 1, 2019</b>	9,646,344	\$ 2,017	\$ 980	\$ 24,214	\$ 8,803	\$ 117,339	\$ (4,768)	\$ (290)	\$ 148,295
Comprehensive income:									
Net income	-	-	-	-	-	2,902	-	-	2,902
Reclassification related to adoption of new accounting standard						496			496
Change in accumulated other comprehensive income:									-
Unrealized gain on available-for-sale securities, net	-	-	-	-	-	-	1,580	-	1,580
Common stock issued under Employee Stock Purchase Plan & Service Awards	6,881	2	-	71	-	-	-	-	73
Cash dividends on common stock	-	-	-	-	-	(965)	-	-	(965)
Cash dividends on preferred stock	-	-	-	-	-	(134)	-	-	(134)
<b>Balances, March 31, 2019</b>	<u>9,653,225</u>	<u>\$ 2,019</u>	<u>\$ 980</u>	<u>\$ 24,285</u>	<u>\$ 8,803</u>	<u>\$ 119,638</u>	<u>\$ (3,188)</u>	<u>\$ (290)</u>	<u>\$ 152,247</u>
<b>Balances, January 1, 2018</b>	9,413,958	\$ 1,969	\$ 980	\$ 21,472	\$ 8,803	\$ 108,900	\$ (3,687)	\$ (290)	\$ 138,147
Comprehensive income:									-
Net income	-	-	-	-	-	3,628	-	-	3,628
Change in accumulated other comprehensive income:									-
Unrealized gain on available-for-sale securities, net	-	-	-	-	-	-	(1,910)	-	(1,910)
Common stock issued under Employee Stock Purchase Plan & Service Awards	3,274	1	-	34	-	-	-	-	35
Common stock issued	217,823	45	-	2,598	-	-	-	-	2,643
Cash dividends on common stock	-	-	-	-	-	(962)	-	-	(962)
Cash dividends on preferred stock	-	-	-	-	-	(135)	-	-	(135)
<b>Balances, March 31, 2018</b>	<u>9,635,055</u>	<u>\$ 2,015</u>	<u>\$ 980</u>	<u>\$ 24,104</u>	<u>\$ 8,803</u>	<u>\$ 111,431</u>	<u>\$ (5,597)</u>	<u>\$ (290)</u>	<u>\$ 141,446</u>

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

**BankGuam Holding Company**  
Unaudited Condensed Consolidated Statements of Cash Flows  
(in Thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,902	\$ 3,628
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,852	2,740
Depreciation	940	874
Amortization of fees, discounts and premiums	217	377
Gain (loss) on sales of other real estate owned, net	17	(17)
Proceeds from sales of loans held for sale	9,215	3,149
Origination of loans held for sale	(9,215)	(3,149)
Increase in mortgage servicing rights	73	-
Realized loss on sale of available-for-sale securities	-	50
Realized gain on sale of premises and equipment	10	-
Income from equity investment in unconsolidated subsidiary	(96)	(113)
Dividends received from unconsolidated subsidiary	110	81
Net change in operating assets and liabilities:		
Accrued interest receivable	(572)	(611)
Other assets	(30,476)	1,516
Accrued interest payable	(8)	(2)
Other liabilities	32,743	1,862
Net cash provided by operating activities	<u>9,712</u>	<u>10,385</u>
<b>Cash flows from investing activities:</b>		
Purchases of available-for-sale securities	(12,335)	(47,530)
Proceeds from sales of available-for-sale securities	-	18,315
Maturities, prepayments and calls of available-for-sale securities	13,321	14,824
Maturities, prepayments and calls of held-to-maturity securities	3,672	1,564
Loan originations and principal collections, net	(39,199)	(25,803)
Costs of FHLB stock purchase	89	(53)
Proceeds from sales of other real estate owned	40	162
Proceeds from sales of premises and equipment	10	-
Purchases of premises and equipment	(1,482)	(793)
Net cash provided by (used in) investing activities	<u>(35,884)</u>	<u>(39,314)</u>
<b>Cash flows from financing activities:</b>		
Net (decrease) increase in deposits	(3,518)	(19,003)
Proceeds from issuance of common stock	73	2,678
Dividends paid	(1,099)	(1,098)
Net cash (used in) provided by financing activities	<u>(4,544)</u>	<u>(17,423)</u>
Net change in cash, cash equivalents and restricted cash	<u>(30,716)</u>	<u>(46,352)</u>
Cash, cash equivalents and restricted cash at beginning of period	155,495	126,527
Cash, cash equivalents and restricted cash at end of period	<u>\$ 124,779</u>	<u>\$ 80,175</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ 507	\$ 542
Income taxes	\$ 101	\$ 137
<b>Supplemental disclosure of noncash investing and financing activities:</b>		
Net change in unrealized loss on held-to-maturity securities, net of tax	\$ 87	\$ 120
Net change in unrealized (gain) loss on available-for-sale securities, net of tax	\$ 1,493	\$ (2,030)

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

**BankGuam Holding Company**  
Notes to Condensed Consolidated Financial Statements  
(In thousands, except per share data)  
(Unaudited)

Note 1 – Nature of Business

Organization

The accompanying condensed 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 22-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 25% of ASC Trust Corporation.

Other than holding the shares of the Bank, BGIS and ASC Trust Corporation, 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, 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 its assets are owned by the Bank, which accounts for substantially all of our consolidated revenues, expenses and operating income. The Bank’s headquarters is located in Hagåtña, Guam, and the Bank provides a variety of financial services to individuals, businesses and government entities through its branch network. The Bank’s primary deposit products are demand deposits, savings and time certificates of deposit, and its primary lending products are consumer, commercial and real estate loans. The Bank also provides many other financial services to its customers.

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

Note 2 – Summary of Significant Accounting Policies and Recent Accounting Pronouncements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all footnotes that would be required for a full presentation of financial condition, results of operations, changes in cash flows and comprehensive income in accordance with generally accepted accounting principles in the United States (“GAAP”). However, these interim financial statements reflect all adjustments (consisting of normal recurring adjustments and accruals) which, in the opinion of our management, are necessary for a fair presentation of our financial condition, results of operations and cash flows for the interim periods presented.

These unaudited condensed consolidated financial statements have been prepared on a basis consistent with prior periods, and should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2018, and the notes thereto, included in our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the U.S. Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934 on June 29, 2019.

Our condensed consolidated financial condition at March 31, 2019, and the condensed consolidated results of operations for the three months ended March 31, 2019, are not necessarily indicative of what our financial condition will be at December 31, 2019, or of the results of our operations that may be expected for the full year ending December 31, 2019.

Use of Estimates

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

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, and \$250 thousand of these deposits are held by Bank of Guam and are pledged to the Pacific Coast Banker’s Bank for the Borrower’s Loan Protection (“BLP”) program.

### Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, “*Leases (Topic 842)*”, a new Topic which, as modified by ASU 2018-10 and ASU 2018-12, is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements on the basis that it is important that users of financial statements have a complete and understandable picture of an entity’s leasing activities. The ASUs were effective January 1, 2019, with early adoption permitted. The Company adopted ASC 842 on its effective date and has elected 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. The new standard allows for several transition practical expedients. The Company elected the transition method to not restate the comparative periods. The Company has chosen to elect the package of practical expedients, which permits the Company to forgo reassessing lease identification, lease classification, and initial direct costs. The Company will apply 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. On adoption, the Company recognized ROU assets and lease liabilities for operating leases of \$32.8 million and \$32.7 million, respectively, with no cumulative effect in retained earnings, which are included in other assets and other liabilities on the accompanying condensed consolidated statements of financial condition.

In November 2016, the FASB issued ASU 2016-18, “*Statement of Cash Flows (Topic 230)*”, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash. Therefore, amounts generally described as restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period- and end-of-period total amounts shown on the condensed consolidated statement of cash flows. The Company adopted ASU 2016-18 effective January 1, 2018, and it did not have a material impact on the Company’s condensed consolidated financial position, or cash flows.

In February 2018, the FASB issued ASU 2018-02, “*Income Statement – Reporting Comprehensive Income (Topic 220)*”. This update allows a reclassification for stranded tax effects related to the Tax Cuts and Jobs Act of December 22, 2017, and is intended to improve the usefulness of information reported to the users of financial statements. The effective date of this update is for fiscal years beginning after December 15, 2018. Although adoption of this standard is not required of the Company until January 1, 2020, early adoption is permitted. The Company adopted this standard on January 1, 2019, and reclassified \$496 thousand to retained earnings at March 31, 2019.

### 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 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 is currently evaluating the provisions of ASU 2016-13 to determine the potential impact the new standard will have on our condensed consolidated financial statements, and has taken steps for implementation when it becomes effective beginning January 1, 2020, such as gathering pertinent data, consulting with outside professionals and evaluating its current IT systems. Management expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the first reporting period in which the new standard is effective, but cannot yet estimate the magnitude of the one-time adjustment or the overall impact of the new guidance on the Company’s financial position, results of operations or cash flows.

### Note 3 – 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 2019 and 2018 under the Employee Stock Purchase Plan, and are reported as dilutive options. No shares were subscribed but not issued at the end of the three months ended March 31, 2019 and 2018.

Earnings per common share are computed based on reported net income, preferred stock dividends and the following common share data:

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Net income	\$ 2,902	\$ 3,628
Less preferred stock dividends	(134)	(135)
Net income attributable to common stockholders	2,768	3,493
Weighted average number of common shares outstanding - used to calculate basic and diluted earnings per common share	9,647	9,544
Earnings per common share:		
Basic	\$ 0.29	\$ 0.37
Diluted	\$ 0.29	\$ 0.37

#### Note 4 – Investment Securities

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

	<b>March 31, 2019</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	\$ 100,518	\$ -	\$ (1,037)	\$ 99,481
U.S. government agency pool securities	214,612	26	(1,633)	213,005
U.S. government agency or GSE residential mortgage-backed securities	69,622	111	(822)	68,911
Total	<u>\$ 384,752</u>	<u>\$ 137</u>	<u>\$ (3,492)</u>	<u>\$ 381,397</u>
<b>Securities Held-to-Maturity</b>				
U.S. government agency and government sponsored enterprise (GSE) debt securities	\$ 36,513	\$ 140	\$ (42)	\$ 36,611
U.S. government agency pool securities	8,116	4	(89)	8,031
U.S. government agency or GSE residential mortgage-backed securities	19,810	50	(289)	19,571
Total	<u>\$ 64,439</u>	<u>\$ 194</u>	<u>\$ (420)</u>	<u>\$ 64,213</u>
	<b>December 31, 2018</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	\$ 100,497	\$ -	\$ (1,587)	\$ 98,910
U.S. government agency pool securities	213,055	24	(1,707)	211,372
U.S. government agency or GSE residential mortgage-backed securities	72,735	-	(1,975)	70,760
Total	<u>\$ 386,287</u>	<u>\$ 24</u>	<u>\$ (5,269)</u>	<u>\$ 381,042</u>
<b>Securities Held-to-Maturity</b>				
U.S. government agency and government sponsored enterprise (GSE) debt securities	\$ 38,445	\$ 46	\$ (88)	\$ 38,403
U.S. government agency pool securities	9,089	3	(80)	9,012
U.S. government agency or GSE residential mortgage-backed securities	20,554	29	(521)	20,062
Total	<u>\$ 68,088</u>	<u>\$ 78</u>	<u>\$ (689)</u>	<u>\$ 67,477</u>

At March 31, 2019, and December 31, 2018, investment securities with a carrying value of \$307.0 million and \$285.9 million, respectively, were pledged to secure various government deposits and to meet other public requirements.

Proceeds and gross realized gains (losses) from the sales or calls of investment securities for the three months ended March 31, 2019 and 2018, are shown below:

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Proceeds from sales	\$ -	\$ 18,315
Gross realized gains from sales	\$ -	\$ -
Gross realized losses from sales	\$ -	\$ (50)

The amortized cost and estimated fair value of investment securities by contractual maturity at March 31, 2019, and December 31, 2018, 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 March 31, 2019, obligations of U.S. government corporations and agencies with amortized costs totaling \$449.2 million consist predominantly of Small Business Administration (“SBA”) agency pool securities totaling \$222.7 million and residential mortgage-backed securities totaling \$89.4 million whose contractual maturity, or principal repayment, will follow the repayment of the underlying small business loans or mortgages. For purposes of the following table, the entire outstanding balance of these SBA Pools and mortgage-backed securities issued by U.S. government corporations and agencies is categorized based on final maturity date. At March 31, 2019, the Bank estimates the average remaining life of these SBA Pools and mortgage-backed securities to be approximately 3.5 years and 3.0 years, respectively.

	<b>March 31, 2019</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	\$ 29,984	\$ 29,730	\$ 9,982	\$ 9,957
Due after one but within five years	73,063	72,263	32,394	32,521
Due after five but within ten years	93,997	93,345	12,762	12,667
Due after ten years	187,708	186,059	9,301	9,068
Total	<u>\$ 384,752</u>	<u>\$ 381,397</u>	<u>\$ 64,439</u>	<u>\$ 64,213</u>

	<b>December 31, 2018</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	\$ 19,996	\$ 19,739	\$ 11,975	\$ 11,911
Due after one but within five years	83,671	82,323	32,511	32,512
Due after five but within ten years	98,465	97,339	13,995	13,769
Due after ten years	184,155	181,641	9,607	9,285
Total	<u>\$ 386,287</u>	<u>\$ 381,042</u>	<u>\$ 68,088</u>	<u>\$ 67,477</u>

## Temporarily Impaired Securities

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2019, and December 31, 2018.

	March 31, 2019					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value
<b>Securities Available for Sale</b>						
U.S. government agency and government sponsored enterprise (GSE) debt securities	\$ -	\$ -	\$ (1,037)	\$ 99,481	\$ (1,037)	\$ 99,481
U.S. government agency pool securities	(38)	5,404	(1,595)	181,746	(1,633)	187,150
U.S. government agency or GSE residential mortgage-backed securities	-	-	(822)	48,474	(822)	48,474
<b>Total</b>	<b>\$ (38)</b>	<b>\$ 5,404</b>	<b>\$ (3,454)</b>	<b>\$ 329,701</b>	<b>\$ (3,492)</b>	<b>\$ 335,105</b>

<b>Securities Held to Maturity</b>						
U.S. government agency and government sponsored enterprise (GSE) debt securities	\$ -	\$ -	\$ (42)	\$ 6,982	\$ (42)	\$ 6,982
U.S. government agency pool securities	(62)	4,690	(27)	3,174	(89)	7,864
U.S. government agency or GSE residential mortgage-backed securities	-	-	(289)	17,050	(289)	17,050
<b>Total</b>	<b>\$ (62)</b>	<b>\$ 4,690</b>	<b>\$ (358)</b>	<b>\$ 27,206</b>	<b>\$ (420)</b>	<b>\$ 31,896</b>

	December 31, 2018					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value
<b>Securities Available for Sale</b>						
U.S. government agency and government sponsored enterprise (GSE) debt securities	\$ -	\$ -	\$ (1,587)	\$ 98,910	\$ (1,587)	\$ 98,910
U.S. government agency pool securities	(217)	32,633	(1,490)	157,403	(1,707)	190,036
U.S. government agency or GSE residential mortgage-backed securities	(116)	12,679	(1,859)	58,081	(1,975)	70,760
<b>Total</b>	<b>\$ (333)</b>	<b>\$ 45,312</b>	<b>\$ (4,936)</b>	<b>\$ 314,394</b>	<b>\$ (5,269)</b>	<b>\$ 359,706</b>

<b>Securities Held to Maturity</b>						
U.S. government agency and government sponsored enterprise (GSE) debt securities	\$ (12)	\$ 4,918	\$ (76)	\$ 8,954	\$ (88)	\$ 13,872
U.S. government agency pool securities	(62)	6,609	(18)	2,232	(80)	8,841
U.S. government agency or GSE residential mortgage-backed securities	(25)	5,219	(496)	12,330	(521)	17,549
<b>Total</b>	<b>\$ (99)</b>	<b>\$ 16,746</b>	<b>\$ (590)</b>	<b>\$ 23,516</b>	<b>\$ (689)</b>	<b>\$ 40,262</b>

The investment securities that were in an unrealized loss position as of March 31, 2019, which comprised a total of 147 securities, were not other-than-temporarily impaired. Specifically, the 147 securities are comprised of the following: 91 Small Business Administration ("SBA") Pool securities, 18 mortgage-backed securities issued by the Government National Mortgage Association ("GNMA"), 14 U.S. Treasuries, 10 mortgage-backed securities and 1 agency security issued by the Federal National Mortgage Association ("FNMA"), 7 agency securities issued by the Federal Home Loan Bank ("FHLB"), 4 mortgage-backed securities and 1 step up bond issued by the Federal Home Loan Mortgage Corporation ("FHLMC"), and 1 agency security issued by the 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 of the investment securities. 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 cash liquidity.

#### Note 5 – Loans Held for Sale, Loans and Allowance for Loan Losses

##### 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 cost. Origination fees and costs are recognized in earnings at the time of origination. Loans are sold to Freddie Mac at par.

During the three months ended March 31, 2019, the Bank originated approximately \$3.6 million and sold approximately \$8.4 million in FHLMC mortgage loans. During the three months ended March 31, 2018, the Bank originated and sold approximately \$3.1 million in FHLMC loans

Mortgage loans serviced for others are not included in the accompanying condensed consolidated statements of financial condition. The unpaid principal balances of mortgage loans serviced for others were \$193.0 million and \$189.6 million at March 31, 2019, and December 31, 2018, respectively. The increase of \$3.4 million (1.8%) during the three months ended March 31, 2019, was due to loans made during 2018 that were sold to FHLMC in January 2019.

We retain mortgage servicing rights on mortgage loans that we sell. Such rights represent the net positive cash flows generated from the servicing of such mortgage loans and we recognize such rights as assets on our statements of financial condition based on their estimated fair values. We receive servicing fees, less any subservicing costs, on the unpaid principal balances of such mortgage loans. Those fees are collected from the monthly payments made by the mortgagors or from the proceeds of the sale or foreclosure and liquidation of the underlying real property collateralizing the loans. At March 31, 2019, and December 31, 2018, mortgage servicing rights totaled \$1.7 million and \$1.8 million, respectively, and are included in other assets in the accompanying condensed consolidated statements of financial condition. The Bank accounts for mortgage servicing rights at fair value with changes in fair value recorded as a part of service fees and charges in the condensed consolidated statements of income.

##### Loans

Outstanding loan balances are presented net of unearned income, deferred loan fees, and unamortized discount and premium, which totaled \$2.6 million at both March 31, 2019, and December 31, 2018. Loans subject to ASC Topic 310-30, “*Loans and Debt Securities Acquired with Deteriorated Credit Quality*,” are presented net of the related accretable yield.

The loan portfolio consisted of the following at:

	March 31, 2019		December 31, 2018	
	Amount	Percent	Amount	Percent
<b>Commercial</b>				
Commercial & industrial	\$ 263,025	20.6%	\$ 243,465	19.7%
Commercial mortgage	585,506	45.9%	560,827	45.3%
Commercial construction	46,040	3.6%	39,408	3.2%
Commercial agriculture	683	0.1%	688	0.1%
Total commercial	895,254	70.1%	844,388	68.2%
<b>Consumer</b>				
Residential mortgage	130,989	10.3%	138,923	11.2%
Home equity	2,172	0.2%	1,325	0.1%
Automobile	25,653	2.0%	26,686	2.2%
Other consumer loans <sup>1</sup>	222,134	17.4%	227,242	18.3%
Total consumer	380,948	29.9%	394,176	31.8%
Gross loans	1,276,202	100.0%	1,238,564	100.0%
Deferred loan (fees) costs, net	(2,612)		(2,649)	
Allowance for loan losses	(26,102)		(23,774)	
Loans, net	\$ 1,247,488		\$ 1,212,141	

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

### Allowance for Loan Losses

The allowance for loan losses is evaluated on a quarterly basis by Bank 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 or conditions change.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. ASC 310-10 defines an impaired loan as one for which there is uncertainty concerning collection of all principal and interest per the original contractual terms of the loan. For those loans that are classified as impaired, an allowance is established when the discounted cash flow (or the collateral value or the observable market price) of the impaired loan is lower than the carrying value of the loan. The general component covers unimpaired loans, and is estimated using a loss migration analysis based on historical charge-off experience and expected loss, given the default probability derived from the Bank's internal risk rating process. The loss migration analysis tracks twelve rolling 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 non-impaired loans. 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 portfolio.

Set forth below is a summary of the Bank's activity in the allowance for loan losses during the three months ended March 31, 2019 and 2018, and the year ended December 31, 2018:

	<b>Three Months Ended March 31, 2019</b>	<b>Three Months Ended March 31, 2018</b>	<b>Year Ended December 31, 2018</b>
Balance, beginning of period	\$ 23,774	\$ 17,279	\$ 17,279
Provision for loan losses	3,852	2,740	12,862
Recoveries on loans previously charged off	477	458	1,834
Charged off loans	(2,001)	(2,420)	(8,201)
Balance, end of period	<u>\$ 26,102</u>	<u>\$ 18,057</u>	<u>\$ 23,774</u>

Set forth below is information regarding loan balances and the related allowance for loan losses, by portfolio type, for the three months ended March 31, 2019 and 2018, and the year ended December 31, 2018, respectively.

	<u>Commercial</u>	<u>Residential Mortgages</u>	<u>Consumer</u>	<u>Total</u>
	(Dollars in thousands)			
<b>Three Months Ended March 31, 2019</b>				
<b>Allowance for loan losses:</b>				
Balance at beginning of period	14,887	1,648	7,239	23,774
Charge-offs	(210)	-	(1,791)	(2,001)
Recoveries	4	2	471	477
Provision	2,664	(196)	1,384	3,852
Ending balance	<u>\$ 17,345</u>	<u>\$ 1,454</u>	<u>\$ 7,303</u>	<u>\$ 26,102</u>
<b>Allowance balance at end of period related to:</b>				
Loans individually evaluated for impairment	\$ 7,107	\$ 59	\$ 1,495	\$ 8,661
Loans collectively evaluated for impairment	10,238	1,395	5,808	17,441
Ending balance	<u>\$ 17,345</u>	<u>\$ 1,454</u>	<u>\$ 7,303</u>	<u>\$ 26,102</u>
<b>Loan balances at end of period:</b>				
Loans individually evaluated for impairment	\$ 24,812	\$ 4,891	\$ 1,668	\$ 31,371
Loans collectively evaluated for impairment	870,442	128,270	246,119	1,244,831
Ending balance	<u>\$ 895,254</u>	<u>\$ 133,161</u>	<u>\$ 247,787</u>	<u>\$ 1,276,202</u>
<b>Three Months Ended March 31, 2018</b>				
<b>Allowance for loan losses:</b>				
Balance at beginning of period	\$ 7,623	\$ 1,409	\$ 8,247	\$ 17,279
Charge-offs	(314)	-	(2,106)	(2,420)
Recoveries	20	2	436	458
Provision	3,273	(133)	(400)	2,740
Ending balance	<u>\$ 10,602</u>	<u>\$ 1,278</u>	<u>\$ 6,177</u>	<u>\$ 18,057</u>
<b>Allowance balance at end of period related to:</b>				
Loans individually evaluated for impairment	\$ 49	\$ 101	\$ 1,576	\$ 1,726
Loans collectively evaluated for impairment	10,553	1,177	4,601	16,331
Ending balance	<u>\$ 10,602</u>	<u>\$ 1,278</u>	<u>\$ 6,177</u>	<u>\$ 18,057</u>
<b>Loan balances at end of period:</b>				
Loans individually evaluated for impairment	\$ 7,254	\$ 5,242	\$ 1,958	\$ 14,454
Loans collectively evaluated for impairment	840,217	132,511	266,553	1,239,281
Ending balance	<u>\$ 847,471</u>	<u>\$ 137,753</u>	<u>\$ 268,511</u>	<u>\$ 1,253,735</u>
<b>Year Ended December 31, 2018</b>				
<b>Allowance for loan losses:</b>				
Balance at beginning of year	\$ 7,623	\$ 1,409	\$ 8,247	\$ 17,279
Charge-offs	(356)	(9)	(7,836)	(8,201)
Recoveries	39	7	1,788	1,834
Provision	7,581	241	5,040	12,862
Ending balance	<u>\$ 14,887</u>	<u>\$ 1,648</u>	<u>\$ 7,239</u>	<u>\$ 23,774</u>
<b>Allowance balance at end of year related to:</b>				
Loans individually evaluated for impairment	\$ 5,204	\$ 104	\$ 1,518	\$ 6,826
Loans collectively evaluated for impairment	9,683	1,544	5,721	16,948
Ending balance	<u>\$ 14,887</u>	<u>\$ 1,648</u>	<u>\$ 7,239</u>	<u>\$ 23,774</u>
<b>Loan balances at end of year:</b>				
Loans individually evaluated for impairment	\$ 18,328	\$ 4,925	\$ 1,746	\$ 24,999
Loans collectively evaluated for impairment	826,060	135,323	252,182	1,213,565
Ending balance	<u>\$ 844,388</u>	<u>\$ 140,248</u>	<u>\$ 253,928</u>	<u>\$ 1,238,564</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, such as consumer loans, are collectively evaluated for impairment. Impairment reserves for these groups of consumer loans are determined using historical loss given default rates for similar loans.

### Credit Quality

The following table provides a summary of the delinquency status of the Bank's 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>March 31, 2019</b>							
<b>Commercial</b>							
Commercial & industrial	\$ 1,585	\$ 52	\$ 2,010	\$ -	\$ 3,647	\$ 259,378	\$ 263,025
Commercial mortgage	14,624	1,237	4,249	15	20,125	565,381	585,506
Commercial construction	-	-	-	-	-	46,040	46,040
Commercial agriculture	-	-	-	-	-	683	683
Total commercial	16,209	1,289	6,259	15	23,772	871,482	895,254
<b>Consumer</b>							
Residential mortgage	7,153	2,786	1,003	5	10,947	120,042	130,989
Home equity	5	-	-	-	5	2,167	2,172
Automobile	1,662	292	-	58	2,012	23,641	25,653
Other consumer <sup>1</sup>	3,113	1,494	148	1,290	6,045	216,089	222,134
Total consumer	11,933	4,572	1,151	1,353	19,009	361,939	380,948
Total	<u>\$ 28,142</u>	<u>\$ 5,861</u>	<u>\$ 7,410</u>	<u>\$ 1,368</u>	<u>\$ 42,781</u>	<u>\$1,233,421</u>	<u>\$ 1,276,202</u>
<b>December 31, 2018</b>							
<b>Commercial</b>							
Commercial & industrial	\$ 310	\$ -	\$ 14	\$ 530	\$ 854	\$ 242,611	\$ 243,465
Commercial mortgage	419	-	1,287	184	1,890	558,937	560,827
Commercial construction	300	-	-	-	300	39,108	39,408
Commercial agriculture	-	-	-	-	-	688	688
Total commercial	1,029	-	1,301	714	3,044	841,344	844,388
<b>Consumer</b>							
Residential mortgage	4,565	3,847	1,805	12	10,229	128,694	138,923
Home equity	-	91	-	-	91	1,234	1,325
Automobile	1,095	290	-	135	1,520	25,166	26,686
Other consumer <sup>1</sup>	3,505	1,583	335	1,123	6,546	220,696	227,242
Total consumer	9,165	5,811	2,140	1,270	18,386	375,790	394,176
Total	<u>\$ 10,194</u>	<u>\$ 5,811</u>	<u>\$ 3,441</u>	<u>\$ 1,984</u>	<u>\$ 21,430</u>	<u>\$1,217,134</u>	<u>\$ 1,238,564</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 is in the process of collection, with the exception of automobile and other consumer loans which, rather than being placed on non-accrual status, are charged off once they become 120 days delinquent. 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 March 31, 2019, and December 31, 2018, with respect to loans on non-accrual status, by portfolio type:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
	(Dollars in thousands)	
<b>Non-accrual loans:</b>		
<b>Commercial</b>		
Commercial & industrial	\$ 2,287	\$ 310
Commercial mortgage	6,906	6,909
Commercial construction	-	-
Commercial agriculture	-	-
Total commercial	<u>9,193</u>	<u>7,219</u>
<b>Consumer</b>		
Residential mortgage	\$ 4,773	\$ 4,795
Home equity	85	91
Automobile	-	-
Other consumer <sup>1</sup>	320	278
Total consumer	<u>5,178</u>	<u>5,164</u>
Total non-accrual loans	<u>\$ 14,371</u>	<u>\$ 12,383</u>

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

#### 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, formula classified, 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. These are loans to borrowers with a demonstrated history of financial and managerial performance. The risk of loss is considered to be low. Loans are well-structured, with clearly identified primary and readily available secondary sources of repayment. These loans may be secured by an equal amount of funds in a savings account or time certificate of deposit. These loans may also be secured by marketable collateral whose value can be reasonably determined through outside appraisals. The borrower characteristically has well supported cash flows and low leverage.

**Pass (C): Acceptable:** Good primary and secondary sources of repayment. These are loans to borrowers of average financial condition, stability and management expertise. The borrower should be a well-established individual or company with adequate financial resources to withstand short-term fluctuations in the marketplace. The borrower's 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, represent a reasonable credit risk and require an average amount of account officer attention. The borrower's ability to repay unsecured credit is to be of unquestionable strength.

**Pass (D): Monitor:** Sufficient primary sources of repayment and an acceptable secondary source of repayment. Acceptable business or individual credit, but the borrower's operations, cash flows or financial conditions carry average levels of risk. These loans are considered to be collectable in full, but may require a greater-than-average amount of loan officer monitoring. Borrowers are capable of absorbing normal setbacks without failing to meet the terms of the loan agreement.

**Special Mention:** A Special Mention asset has potential weaknesses that deserve a heightened degree of 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. The Special Mention classification 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 classified as substandard 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 loans, consumer loans, credit cards and commercial loans under \$250 thousand. However, commercial loans are typically formally classified by the Loan Committee no later than their 90-day delinquency, and those do not become part of the formula classification. Real estate loans 90-days delinquent that are in the foreclosure process, which is typically completed within another 60 days, 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 that 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 during which 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.

The Bank 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 Bank's internal credit quality ratings as of March 31, 2019, and December 31, 2018:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>Increase (Decrease)</u>
	(Dollars in thousands)		
<b>Pass:</b>			
Commercial & industrial	\$ 211,810	\$ 204,805	\$ 7,005
Commercial mortgage	538,130	515,764	22,366
Commercial construction	46,040	39,408	6,632
Commercial agriculture	683	688	(5)
Residential mortgage	125,865	133,766	(7,901)
Home equity	2,087	1,235	852
Automobile	25,594	26,550	(956)
Other consumer	220,524	225,632	(5,108)
Total pass loans	<u>\$ 1,170,733</u>	<u>\$ 1,147,848</u>	<u>\$ 22,885</u>
<b>Special Mention:</b>			
Commercial & industrial	\$ 17,919	\$ 8,732	\$ 9,187
Commercial mortgage	8,625	8,990	(365)
Commercial construction	-	-	-
Commercial agriculture	-	-	-
Residential mortgage	-	-	-
Home equity	-	-	-
Automobile	-	-	-
Other consumer	-	-	-
Total special mention loans	<u>\$ 26,544</u>	<u>\$ 17,722</u>	<u>\$ 8,822</u>
<b>Substandard:</b>			
Commercial & industrial	\$ 23,290	\$ 29,924	\$ (6,634)
Commercial mortgage	38,751	36,073	2,678
Commercial construction	-	-	-
Commercial agriculture	-	-	-
Residential mortgage	688	705	(17)
Home equity	-	-	-
Automobile	-	-	-
Other consumer	-	-	-
Total substandard loans	<u>\$ 62,729</u>	<u>\$ 66,702</u>	<u>\$ (3,973)</u>
<b>Formula Classified:</b>			
Commercial & industrial	\$ 1	\$ 4	\$ (3)
Commercial mortgage	-	-	-
Commercial construction	-	-	-
Commercial agriculture	-	-	-
Residential mortgage	4,436	4,452	(16)
Home equity	85	91	(6)
Automobile	59	135	(76)
Other consumer	1,610	1,610	-
Total formula classified loans	<u>\$ 6,191</u>	<u>\$ 6,292</u>	<u>\$ (101)</u>
<b>Doubtful:</b>			
Commercial & industrial	\$ 10,005	\$ -	\$ 10,005
Commercial mortgage	-	-	-
Commercial construction	-	-	-
Commercial agriculture	-	-	-
Residential mortgage	-	-	-
Home equity	-	-	-
Automobile	-	-	-
Other consumer	-	-	-
Total doubtful loans	<u>\$ 10,005</u>	<u>\$ -</u>	<u>\$ 10,005</u>
<b>Total outstanding loans, gross</b>	<u><u>\$ 1,276,202</u></u>	<u><u>\$ 1,238,564</u></u>	<u><u>\$ 37,638</u></u>

As the above table indicates, the Bank's total gross loans approximated \$1.28 billion at March 31, 2019, up from \$1.24 billion at December 31, 2018. The disaggregation of the portfolio by risk rating in the table reflects the following changes between December 31, 2018, and March 31, 2019:

- Loans rated "pass" increased by \$ 22.9 million, to \$1.17 billion at March 31, 2019, up from \$1.15 billion at December 31, 2018. The increase is primarily attributed to increases in commercial mortgage loans by \$22.4 million, commercial & industrial loans by \$7.0 million, commercial construction loans by \$6.6 million and home equity by \$852 thousand. These increases were partially offset by decreases in residential mortgage loans by \$7.9 million, other consumer loans by \$5.1 million and automobile loans by \$956 thousand. The increases in commercial mortgage loans and commercial & industrial were due to new loans. The increase in commercial construction loans of \$6.6 million was due to additional disbursements. The increase in home equity loans was also due to new loans. The offsetting decreases in residential mortgage by \$7.9 million was due to \$8.4 million in Freddie Mac loans sold in three months ended March 31, 2019 and principal reductions. The automobile loans decreased by \$956 thousand due to paydowns, payoffs and charge-offs.
- The "special mention" category increased by \$8.8 million, from \$17.7 million to \$26.5 million between December 31, 2018, and March 31, 2019. This is attributed to an increase in commercial & industrial loans by \$9.2 million, primarily as a result of line draws from one relationship totaling \$10.9 million. This was offset by a decrease in commercial mortgage loans by \$365 thousand, principally due to one loan relationship of \$324 thousand being upgraded from "special mention" to "pass" and \$39 thousand in pay downs.
- Loans classified "substandard" decreased by \$4.0 million, to \$62.7 million at March 31, 2019, from \$66.7 million at December 31, 2018. The decrease was the result of one commercial & industrial loan relationship of \$10.0 million that was reclassified from "substandard" to "doubtful," offset by one loan relationship totaling \$4.2 million reclassified from "pass" to "substandard." The increase in commercial mortgage loans by \$2.7 million is due to one loan relationship totaling \$2.8 million that was reclassified from "pass" to "substandard."
- The "formula classified" category decreased by \$101 thousand, to \$6.2 million at March 31, 2019, from \$6.3 million at December 31, 2018.
- The "doubtful" category increase in commercial & industrial loans was due to one loan relationship totaling \$10.0 million that was reclassified from "substandard" at March 31, 2019.

#### 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 original 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 Bank's loss mitigation actions, and could include reductions in the interest rate, payment extensions, forbearance, or other actions taken with the intention of maximizing collections.

The following table sets forth information regarding non-accrual loans and restructured loans, at March 31, 2019, and December 31, 2018:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
	(Dollars in thousands)	
<b>Impaired loans:</b>		
Restructured loans:		
Non-accruing restructured loans	\$ 5,524	\$ 5,653
Accruing restructured loans	234	254
Total restructured loans	<u>5,758</u>	<u>5,907</u>
Other impaired loans	25,613	19,092
Total impaired loans	<u>\$ 31,371</u>	<u>\$ 24,999</u>
Impaired loans less than 90 days delinquent and included in total impaired loans	<u>\$ 22,606</u>	<u>\$ 19,287</u>

The table below contains additional information with respect to impaired loans, by portfolio type, at March 31, 2019, and December 31, 2018:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
	(Dollars in thousands)			
<b>March 31, 2019, With no related allowance recorded:</b>				
Commercial & industrial	\$ 9,648	\$ 9,705	\$ 3,752	\$ 9
Commercial mortgage	15,008	15,170	2,412	49
Commercial construction	-	-	-	-
Commercial agriculture	-	-	-	-
Residential mortgage	27	27	7	-
Home equity	-	-	-	-
Automobile	-	-	-	-
Other consumer	-	-	-	-
Total impaired loans with no related allowance	<u>\$ 24,683</u>	<u>\$ 24,902</u>	<u>\$ 6,171</u>	<u>\$ 58</u>
<b>March 31, 2019, With a related allowance recorded:</b>				
Commercial & industrial	\$ 97	\$ 440	\$ 316	\$ -
Commercial mortgage	60	75	15	-
Commercial construction	-	-	-	-
Commercial agriculture	-	-	-	-
Residential mortgage	4,863	4,914	1,216	(8)
Home equity	-	-	-	-
Automobile	58	58	15	1
Other consumer	1,610	1,610	402	17
Total impaired loans with a related allowance	<u>\$ 6,688</u>	<u>\$ 7,097</u>	<u>\$ 1,964</u>	<u>\$ 10</u>
<b>December 31, 2018, With no related allowance recorded:</b>				
Commercial & industrial	\$ 11,110	\$ 11,110	\$ 3,206	\$ 51
Commercial mortgage	7,016	7,026	6,759	4
Commercial construction	-	-	-	-
Commercial agriculture	-	-	-	-
Residential mortgage	27	27	27	-
Home equity	-	-	-	-
Automobile	-	-	-	-
Other consumer	-	-	-	-
Total impaired loans with no related allowance	<u>\$ 18,153</u>	<u>\$ 18,163</u>	<u>\$ 9,992</u>	<u>\$ 55</u>
<b>December 31, 2018, With a related allowance recorded:</b>				
Commercial & industrial	\$ 126	\$ 300	\$ 181	\$ -
Commercial mortgage	77	93	272	1
Commercial construction	-	-	-	-
Commercial agriculture	-	-	-	-
Residential mortgage	4,807	4,857	4,933	2
Home equity	91	91	24	-
Automobile	135	135	97	2
Other consumer	1,610	1,401	1,903	19
Total impaired loans with a related allowance	<u>\$ 6,846</u>	<u>\$ 6,877</u>	<u>\$ 7,410</u>	<u>\$ 24</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 for loan losses, thereby reducing the allocated component of the allowance to zero at the end of each reporting period.

### Troubled Debt Restructurings

In accordance with FASB's Accounting Standards Update No. 2011-02, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring" (ASU No. 2011-02), the Bank had \$5.8 million of troubled debt restructurings ("TDRs") as of March 31, 2019, down by \$149 thousand from \$5.9 million at December 31, 2018, primarily in commercial mortgage loans. The restructured loans recorded with the Bank have been 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 repayment terms. The workout plan between the borrower and the Bank is designed to provide a bridge for 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.

Additional information regarding performing and nonperforming TDRs at March 31, 2019, and December 31, 2018, is set forth in the following table:

	Number of Loans	Pre- Modification Outstanding Recorded Investment	Principal Modifications	Post- Modification Outstanding Recorded Investment	Outstanding Balance	
					March 31, 2019	December 31, 2018
<u>Performing</u>						
Residential mortgage	1	\$ 27	\$ -	\$ 27	\$ 27	\$ 27
Commercial mortgage	2	369	-	369	207	226
Automobile	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total performing	3	\$ 396	\$ -	\$ 396	\$ 234	\$ 253
<u>Nonperforming</u>						
Residential mortgage	-	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial mortgage	12	8,776	-	8,776	5,524	5,654
Automobile	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total nonperforming	12	\$ 8,776	\$ -	\$ 8,776	\$ 5,524	\$ 5,654
Total Troubled Debt Restructurings (TDRs)	15	\$ 9,172	\$ -	\$ 9,172	\$ 5,758	\$ 5,907

Principal modification includes principal forgiveness at the time of modification, contingent principal forgiveness granted over the life of the loan based on borrower performance, and principal that has been legally separated and deferred to the end of the loan, with zero percent contractual interest rate.

During the three months ended March 31, 2019 and 2018, no loans were modified as troubled debt restructurings.

There were no defaults on troubled debt restructurings within twelve months following the modification during the three months ended March 31, 2019 and 2018.

At January 16, 2019, one large commercial loan customer with an outstanding relationship of \$10.0 million in unsecured loans sought bankruptcy protection in order to reorganize under Chapter 11 of Title 11 of the United States Code. The borrower filing for bankruptcy was evaluated under ASC 450 – "Contingencies," and the Bank holds \$5.1 million in deposits for which the Court has approved a right of offset. The Bank also has assigned a specific allowance of \$5.2 million to the outstanding debt. The outstanding loans under bankruptcy have been classified as substandard, but are still accruing interest and the scheduled payments on the loans remain current.

During the process of the Bank's quarterly assessment of the adequacy of its allowance for loan losses at March 31, 2019, it was determined that an elevated risk in one loan relationship totaling \$7.1 million warranted a substantial increase in the allowance for loan losses by \$1.8 million. On April 30, 2019, this borrower filed for bankruptcy. Bank's management believes at March 31, 2019 there is sufficient coverage to protect the Bank's exposure due to having \$3.7 million in collateral, a state loan guarantee of \$1.4 million, and a specific reserve of \$1.9 million.

### Note 6 – Commitments and 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 is expected to have a material adverse effect on the Bank's, BGIS's or the Company's financial condition, results of operations or cash flows.

## Note 7 – 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, BGIS's and the Company's condensed 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 and 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 March 31, 2019, and December 31, 2018, the Bank met all capital adequacy requirements to which it is subject.

In December 2010, the Basel Committee on Bank Supervision ("Basel Committee") released its final framework for strengthening international capital and liquidity regulation, now officially identified as "Basel III," which, when fully phased-in, would require bank holding companies and their bank subsidiaries to maintain substantially more capital than had previously been required, with a greater emphasis on common equity.

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 Act. 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. Among other things, the rules establish 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). The new additional capital conservation buffer of 2.5% of risk weighted assets over each of the required capital ratios was phased in from 2016 to 2019 (2.500% in 2019 and 1.875% in 2018) and 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 change 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). The rules, including alternative requirements for smaller community financial institutions like the Company and the Bank, were fully phased in on January 1, 2019.

As of March 31, 2019, the Bank's capital ratios each exceeded the Federal Deposit Insurance Corporation's well capitalized standards 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 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 March 31, 2019, and December 31, 2018, are also presented in the table below.

	<i>Actual</i>		<b>For Capital Adequacy Purposes</b>		<b>To Be Well Capitalized Under Prompt Corrective Action Provisions</b>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b><u>At March 31, 2019:</u></b>						
Total capital (to Risk Weighted Assets)	\$ 170,961	13.203%	\$ 103,593	8.000%	\$ 129,491	10.000%
Tier 1 capital (to Risk Weighted Assets)	\$ 154,652	11.943%	\$ 77,695	6.000%	\$ 103,593	8.000%
Tier 1 capital (to Average Assets)	\$ 154,652	8.046%	\$ 76,888	4.000%	\$ 96,110	5.000%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	\$ 144,869	11.188%	\$ 58,271	4.500%	\$ 84,169	6.500%
<b><u>At December 31, 2018:</u></b>						
Total capital (to Risk Weighted Assets)	\$ 167,732	13.662%	\$ 98,219	8.000%	\$ 122,774	10.000%
Tier 1 capital (to Risk Weighted Assets)	\$ 152,281	12.403%	\$ 73,664	6.000%	\$ 98,219	8.000%
Tier 1 capital (to Average Assets)	\$ 152,281	7.991%	\$ 76,229	4.000%	\$ 95,287	5.000%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	\$ 142,498	11.607%	\$ 55,248	4.500%	\$ 79,803	6.500%

#### Stock Purchase Plan

Under the Bank's 2011 Employee Stock Purchase Plan, 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 quarterly offer period 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. The Plan was suspended on April 4, 2018, due to the delayed filing of our 2017 report on Form 10-K, and was resumed when our filings with the Securities and Exchange Commission were completed within the specified filing period.

#### Non-Cumulative Perpetual Preferred Stock

At March 31, 2019, the Company had outstanding 9,800 shares of its non-voting Series A Non-Cumulative Perpetual Preferred Stock (the "Series A Preferred Stock"). The shares of Series A Preferred Stock have an initial fixed yield of 5.5% per annum, but the yield becomes floating at June 30, 2021, after which the annual yield will be the three-month LIBOR rate plus 4.825%. The Series A Preferred Stock carries a liquidation preference of \$1 thousand per share.

#### Note 8 – Off-Balance-Sheet Activities

The Bank is a party to credit-related financial instruments with off-balance-sheet risk to meet the financing needs of its customers in the normal course of business. 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 addition to the amount reflected in the condensed 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 March 31, 2019, and December 31, 2018, is as follows:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Commitments to extend credit	\$ 151,648	\$ 163,802
<b>Letters of credit:</b>		
Standby letters of credit	\$ 55,185	\$ 55,418
Commercial letters of credit	2,883	3,070
Total	\$ 58,068	\$ 58,488

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 payment of a fee. The commitments for some 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 creditworthiness 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. These letters of credit are primarily issued to support public and private borrowing arrangements. The majority of 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, and similar credit underwriting standards are applied. The Bank generally holds collateral supporting those commitments.

The Bank considers its standby and other letters of credit to be payment guarantees. At March 31, 2019, the maximum undiscounted future payments that the Bank could be required to make for all outstanding letters of credit were \$58.1 million. All of these arrangements mature within one year. The Bank has recourse to recover from the customer any amounts paid under these guarantees. Most of the guarantees are fully collateralized; however, several are unsecured. The Bank had recorded \$32 thousand in reserve liabilities associated with these guarantees at March 31, 2019.

#### Note 9 – Income Taxes

We record an amount equal to the tax credits, 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 as a deferred tax asset on our condensed consolidated statements of financial condition. Under applicable federal and state income tax laws and regulations in the United States, 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 a (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 condensed consolidated statements of income. 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.

A valuation allowance of \$2.2 million has been provided at March 31, 2019, and December 31, 2018, to reduce the deferred tax asset because, in management's opinion, it is more likely than not that less than the entire amount will be realized. The portion of the deferred tax asset with valuation allowance is attributable to a cumulative net operating loss carry forward from the Bank's CNMI operations, which losses management anticipates will continue. The charge from the net operating loss has already been realized in the accompanying condensed consolidated statements of income as a result of the Guam income tax code.

The difference between the effective income tax expense and the income tax expense computed at the Guam statutory rate was due to nontaxable interest income earned on loans to the Government of Guam.

In addition to filing a federal income tax return in Guam, the Bank files income tax returns in the CNMI and the State of California. 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 2012.

## Note 10 – 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 to sell 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 of ASC Topic 820 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 then-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 then-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 then-current market conditions.

### Fair Value Hierarchy

In accordance with the guidance of ASC Topic 820, 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.

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 March 31, 2019, and December 31, 2018, 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 March 31, 2019</b>				
U.S. treasury notes and bonds	\$ 54,427	\$ -	\$ -	\$ 54,427
U.S. government agency and government sponsored enterprise (GSE) debt securities	-	45,054	-	45,054
U.S. government agency pool securities	-	213,005	-	213,005
U.S. government agency or GSE	-	68,911	-	68,911
Other assets:				
MSRs	-	-	1,705	1,705
Total fair value	<u>\$ 54,427</u>	<u>\$ 326,970</u>	<u>\$ 1,705</u>	<u>\$ 383,102</u>
<b>At December 31, 2018</b>				
U.S. treasury notes and bonds	\$ 54,160	\$ -	\$ -	\$ 54,160
U.S. government agency and government sponsored enterprise (GSE) debt securities	-	44,750	-	44,750
U.S. government agency pool securities	-	211,372	-	211,372
U.S. government agency or GSE	-	70,760	-	70,760
Other assets:				
MSRs	-	-	1,778	1,778
Total fair value	<u>\$ 54,160</u>	<u>\$ 326,882</u>	<u>\$ 1,778</u>	<u>\$ 382,820</u>

There were no liabilities measured at fair value on a recurring basis as of March 31, 2019, and December 31, 2018.

During the three months ended March 31, 2019 and 2018, the changes in Level 3 assets measured at fair value on a recurring basis are as follows:

	Three Months Ended March 31,	
	2019	2018
Beginning balance	\$ 1,778	\$ 1,903
Realized and unrealized net gains:		
Included in net income	(73)	-
Included in other comprehensive income	-	-
Purchases, issuance and settlements		
Purchases	-	-
Issuances	-	-
Settlements	-	-
Ending balance	<u>\$ 1,705</u>	<u>\$ 1,903</u>

The valuation technique used for Level 3 mortgage servicing rights ("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>March 31, 2019</b>					
Financial instrument:					
MSRs	\$ <u>1,705</u>	Discounted Cash Flow	Discount Rate	8.39% - 9.12%	8.50%
			Weighted Average Prepayment Rate (Public Securities Association)	125%	
<b>December 31, 2018</b>					
Financial instrument:					
MSRs	\$ <u>1,778</u>	Discounted Cash Flow	Discount Rate	8.39% - 9.12%	8.50%
			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 March 31, 2019 and December 31, 2018.

#### *Nonrecurring Fair Value Measurements*

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. The following table presents the financial instruments carried on the condensed consolidated statements of financial condition by caption and by level in the fair value hierarchy at March 31, 2019, and December 31, 2018, for which a nonrecurring change in fair value has been recorded:

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
<b>March 31, 2019</b>				
Financial assets:				
Loans, net				
Impaired loans	\$ -	\$ -	\$ -	\$ -
Other assets				
Other real estate owned	\$ -	\$ -	\$ 1,010	\$ 1,010
<b>December 31, 2018</b>				
Financial assets:				
Loans, net				
Impaired loans	\$ -	\$ -	\$ -	\$ -
Other assets				
Other real estate owned	\$ -	\$ -	\$ 1,543	\$ 1,543

The fair value of loans subject to write downs is estimated using the appraised value of the underlying collateral, discounted as necessary due to management's estimates of changes in economic conditions.

Additionally, the Bank also makes adjustments to nonfinancial assets and liabilities even though they are not measured at fair value on an ongoing basis. With the exception of other real estate owned, the Bank does not have nonfinancial assets or liabilities for which a nonrecurring change in fair value has been recorded during the periods ended March 31, 2019, and December 31, 2018.

The following methods and assumptions were used by the Bank in estimating fair value disclosures for financial instruments:

#### *Cash and Cash Equivalents*

The carrying amount of cash and short-term instruments approximates fair value based on the short-term nature of the assets.

#### *Interest-Bearing Deposits in Banks*

Fair values for other interest-bearing deposits are estimated using discounted cash flow analyses based on current interest rates or yields for similar types of deposits.

#### *Federal Home Loan Bank Stock*

The Bank is a member of the Federal Home Loan Bank of Des Moines ("FHLB"). As a member, we are required to own stock of the FHLB, the amount of which is based primarily on the level of our borrowings from that institution. We also have the right to acquire additional shares of stock in the FHLB; however, to date, we have not done so. It is not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability.

#### *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 U.S. 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 U.S. GSE obligations, U.S. government agency pool securities, 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 March 31, 2019, and December 31, 2018, the Bank did not have any Level 3 investment securities.

#### *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, based upon 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. Loans are classified in Level 3.

#### *Mortgage Servicing Rights*

The fair value of MSR is determined using models which depend on estimates of prepayment rates, discount rates and costs to service. MSRs are classified in Level 3.

#### *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 current market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits. Deposit liabilities are classified in Level 3.

#### *Short-Term Borrowings*

The carrying amounts of federal funds purchased and Federal Home Loan Bank (FHLB) advances maturing within ninety days approximate their fair values.

#### *Long-Term Borrowings*

The fair value of FHLB advances maturing after ninety days is determined based on expected present value techniques using current market interest rates for advances with similar terms and remaining maturities.

#### *Accrued Interest*

The carrying amount of accrued interest approximates fair value.

#### *Off-Balance Sheet Commitments and Contingent Liabilities*

Management does not believe it is practicable to provide an estimate of fair value for off-balance sheet commitments or contingent liabilities because of the uncertainty involved in attempting to assess the likelihood and timing of a commitment being drawn upon, coupled with a lack of an established market for these instruments and the wide diversity of fee structures.

### Fair Value of Other Financial Instruments

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

	Carrying Amount	Estimated fair value		
		Level 1	Level 2	Level 3
(Dollars in thousands)				
<b>March 31, 2019</b>				
Financial assets:				
Cash and cash equivalents	\$ 124,379	\$ 124,379	\$ -	\$ -
Restricted cash	400	400	-	-
Federal Home Loan Bank stock	2,267	-	2,267	-
Investment securities held-to-maturity	64,439	-	64,213	-
Loans, net	1,247,488	-	-	1,249,797
Total	<u>\$ 1,438,973</u>	<u>\$ 124,779</u>	<u>\$ 66,480</u>	<u>\$ 1,249,797</u>
Financial liabilities:				
Deposits	1,725,305	-	-	1,726,434
Total	<u>\$ 1,725,305</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,726,434</u>
<b>December 31, 2018</b>				
Financial assets:				
Cash and cash equivalents	\$ 155,095	\$ 155,095	\$ -	\$ -
Restricted cash	400	400	-	-
Federal Home Loan Bank stock	2,356	-	2,356	-
Investment securities held-to-maturity	68,088	-	67,477	-
Loans, net	1,212,141	-	-	1,212,289
Total	<u>\$ 1,438,080</u>	<u>\$ 155,495</u>	<u>\$ 69,833</u>	<u>\$ 1,212,289</u>
Financial liabilities:				
Deposits	\$ 1,728,823	\$ -	\$ -	\$ 1,731,830
Total	<u>\$ 1,728,823</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,731,830</u>

### Note 11 – Comprehensive Income

The components of accumulated other comprehensive income, including stockholders' equity, are as follows:

	Three Months Ended March 31,	
	2019	2018
Net unrealized loss on available-for-sale securities	\$ (3,355)	\$ (5,786)
Amounts reclassified from AOCI for loss on sale of investment securities available-for-sale included in net income	-	50
Tax effect	705	1,205
Unrealized holding loss on available-for-sale securities, net of tax	(2,650)	(4,531)
Gross unrealized holding loss on held-to-maturity securities	(625)	(1,186)
Amortization of unrealized holding loss on held-to-maturity during the period	87	120
Unrealized holding loss on held-to-maturity securities	(538)	(1,066)
Accumulated other comprehensive income	<u>\$ (3,188)</u>	<u>\$ (5,597)</u>

### Note 12 – 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 three months ended March 31, 2019, and the year ended December 31, 2018, approximated \$58 thousand and \$350 thousand, respectively. During the three months ended March 31, 2018, lease payments made to these entities approximated \$87 thousand.

Additionally, the Bank leases office space to third parties, with original lease terms ranging from 3 to 5 years with option periods ranging up to 15 years. At March 31, 2019, minimum future rents to be received under non-cancelable operating sublease agreements were \$30 thousand, \$42 thousand, and \$26 thousand for the periods ending December 31, 2019, 2020 and 2021, respectively.

The cash flow from operating leases included in the measurement of lease liabilities during the three months ended March 31, 2019, was \$784 thousand.

The following table summarizes the lease-related assets and liabilities recorded in our unaudited condensed consolidated statements of financial condition at March 31, 2019:

	<b>March 31, 2019</b>
<b>Assets</b>	
Operating lease right-of-use assets	\$ 31,952
Finance lease assets	-
Total lease assets	<u>\$ 31,952</u>
<b>Liabilities</b>	
Current	
Operating	\$ 3,062
Finance	-
Noncurrent	
Operating	28,844
Finance	-
Total lease liabilities	<u>\$ 31,906</u>

The operating lease cost, including short-term lease and variable lease costs, was \$902 thousand during the three months ended March 31, 2019.

The following table provides the maturities of lease liabilities at March 31, 2019:

	<b>Operating Leases (a)</b>	<b>Finance Leases</b>	<b>Total</b>
2020	\$ 3,336	\$ -	\$ 3,336
2021	3,275	-	3,275
2022	3,137	-	3,137
2023	2,649	-	2,649
2024	2,484	-	2,484
After 2024	41,774	-	41,774
Total lease payments	<u>\$ 56,655</u>	<u>\$ -</u>	<u>\$ 56,655</u>
Less: Interest (b)	24,749	-	24,749
Present value of lease liabilities (c)	<u>\$ 31,906</u>	<u>\$ -</u>	<u>\$ 31,906</u>

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

- (a) Operating lease payments include \$23.5 million related to options to extend lease terms that are reasonably certain of being exercised.
- (b) Calculated using the incremental borrowing rate for each lease.
- (c) Includes the current portion of \$3.1 million for operating leases.

The following table provides the weighted-average lease term and discount rate at March 31, 2019:

	<b>March 31, 2019</b>
Weighted-average remaining lease term (years)	
Operating leases	24.4
Finance leases	-
Weighted-average discount rate	
Operating leases	4.07%
Finance leases	-

Note 13 – Revenue Recognition

On January 1, 2018, the Company adopted ASU No. 2014-09, “*Revenue from Contracts with Customers*” (“ASC 606”) and all subsequent ASUs that modified ASC 606. The Company’s revenue is primarily comprised of net interest income on financial assets less interest paid on financial liabilities, which are excluded from the scope of ASU No. 2014-09. The Company evaluated its various revenue streams and determined that “Service charges on deposit accounts” and “Online fees” are included in the scope of ASC 606. The fees charged from “Service charges on deposit accounts” are based on services provided or transactions performed, and the “Online fees” associated with business accounts are billed at the end of each month or upon occurrence. Neither revenue stream results in a difference from historic revenue recognition practices. The revenue earned from these services and its percentage of total revenue for the three months ended March 31, 2019, are \$1.1 million and 4.2%, respectively, for service charges on deposit accounts, and \$214 thousand and 0.8%, respectively, for online fees. The revenue earned from these services and its percentage of total revenue for the three months ended March 31, 2018, are \$1.2 million and 4.9%, respectively, for service charges on deposit accounts, and \$202 thousand and 0.8%, respectively, for online fees. The Company has determined that the result of applying this ASU to the revenue streams affected has not been material to the Company’s consolidated financial statements.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion provides information about the results of operations, financial condition, liquidity, and capital resources of the Company and its wholly-owned subsidiaries, the Bank and BGIS. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of operations. This discussion and analysis should be read in conjunction with our condensed consolidated financial statements and the accompanying notes presented elsewhere in this Quarterly Report.

### Overview

BankGuam Holding Company (the "Company") is a Guam corporation organized on October 29, 2010, to act as a holding company of Bank of Guam (the "Bank"), a 22-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. On August 15, 2011, the Company acquired all of the outstanding common stock of the Bank in a holding company formation transaction.

In August 2015, the Company chartered a second subsidiary, BankGuam Investment Services ("BGIS"), in an effort to enhance the options and opportunities of our customers to build future income and wealth. BGIS was capitalized in the amount of \$300 thousand during the first quarter of 2016, and was in full operation by the end of May 2016.

In May 2016, the Company entered into a Stock Purchase Agreement to acquire 25% of ASC Trust Corporation, a Guam trust company. In July 2016, subsequent to the approval of the Federal Reserve Bank of San Francisco in June 2016, the purchase was executed. The Agreement, as amended to date, provides for the acquisition of an additional 20% of the stock of ASC Trust Corporation in July 2019, and another 25% in April 2021, with both future purchases subject to regulatory approval. The Agreement contains customary warranties, representations and indemnification provisions.

Other than holding the shares of the Bank, BGIS and ASC Trust Corporation, 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, 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 its assets are owned by the Bank, which accounts for substantially all of our consolidated revenues, expenses and operating income. The Bank's headquarters is located in Hagåtña, Guam, and the Bank provides a variety of financial services to individuals, businesses and government entities through its branch network. The Bank's primary deposit products are demand deposits, savings and time certificates of deposit, and its primary lending products are consumer, commercial and real estate loans. The Bank also provides many other financial services to its customers. BGIS is a registered investment company, primarily involved in providing investment advisory services and trading securities for its customers. ASC Trust Corporation is primarily involved in administering 401(k) retirement plans and other employee benefit programs for its customers.

### Summary of Operating Results

The following table provides unaudited comparative information with respect to our results of operations for the three months ended March 31, 2019 and 2018, respectively:

	Three Months Ended March 31,		
	2019 Amount	2018 Amount	% Change
Interest income	\$ 23,417	21,873	7.1%
Interest expense	500	541	-7.6%
Net interest income before provision for loan losses	22,917	21,332	7.4%
Provision for loan losses	3,852	2,740	40.6%
Net interest income after provision for loan losses	19,065	18,592	2.5%
Non-interest income	3,626	3,416	6.1%
Non-interest expense	18,972	17,536	8.2%
Income before income taxes	3,719	4,472	-16.8%
Income tax expense	817	844	-3.2%
Net income	<u>\$ 2,902</u>	<u>\$ 3,628</u>	-20.0%
Earnings per common share			
Basic net income	<u>\$ 0.29</u>	<u>\$ 0.37</u>	
Diluted net income	<u>\$ 0.29</u>	<u>\$ 0.37</u>	

As the above table indicates, our net income decreased in the three months ended March 31, 2019, as compared to the corresponding period in 2018. In the three months ended March 31, 2019, we recorded net income after taxes of \$2.9 million, a decrease of \$726 thousand (or 20.0%) as compared to the same period in 2018. These results were most significantly impacted by an increase of \$1.4 million in non-interest expense and an increase of \$1.1 million in our provision for loan losses, partially offset by higher net interest income, which increased by \$1.5 million, and an increase in non-interest income of \$210 thousand. The increase in net interest income in the three months ended March 31, 2019, as compared to the same period in 2018, was largely attributed to an increase in interest

earnings on loans, which went up by \$1.1 million due to higher interest rates and the increase of \$37.6 million in our gross loan portfolio.

The following table shows the increase in our net interest margin in the three months ended March 31, 2019, but it also indicates the impact that the decrease in our net income had on our annualized returns on average assets. Our return on average equity decreased by 254 basis points during the three months ended March 31, 2019, as compared to the corresponding period in 2018:

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Net interest margin	5.03%	4.55%
Return on average assets	0.60%	0.74%
Return on average equity	7.68%	10.22%

### **Critical Accounting Policies**

The Company's significant accounting policies are set forth in Note 2 in the Notes to the Company's Annual Report on Form 10-K for 2018 filed with the SEC on March 15, 2019, and Note 2 of Item 1 in this report. Our unaudited condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and general practices in the banking industry. Certain of those accounting policies are considered critical accounting policies because they require us to make assumptions and judgments regarding circumstances or trends that could affect the carrying values of our material assets, such as assumptions regarding economic conditions or trends that could impact our ability to fully collect our outstanding loans or ultimately realize the carrying values of certain of our other assets, such as securities that are available for sale. If adverse changes were to occur in the events, trends or other circumstances on which our assumptions or judgments have been based, or other unanticipated events were to happen that might affect our operating results, it could become necessary under GAAP for us to reduce the carrying values of the affected assets in our condensed consolidated statements of financial condition. In addition, because reductions in the carrying values of assets are sometimes effectuated by or require charges to income, such reductions also may have the effect of reducing our income.

### **Results of Operations**

#### ***Net Interest Income***

Net interest income, the primary component of the Bank's income, refers to the difference between the interest earned on loans, investment securities and other interest-earning assets, and the interest paid on deposits and other borrowed funds. Our interest income and interest expense are affected by a number of factors, some of which are outside of our control, including national and local economic conditions, the monetary policies of the Federal Reserve's Open Market Committee which affect interest rates, competition in the marketplace for loans and deposits, the demand for loans and the ability of borrowers to meet their payment obligations. Net interest income, when expressed as a percentage of average earning assets, is a banking organization's "net interest margin."

The following table sets forth our interest income, interest expense and net interest income, and our annualized net interest margin for the three months ended March 31, 2019 and 2018, respectively:

	<b>Three Months Ended March 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>% Change</b>
Interest income	\$ 23,417	\$ 21,873	7.06%
Interest expense	500	541	-7.58%
Net interest income	<u>\$ 22,917</u>	<u>\$ 21,332</u>	7.43%
Net interest margin	5.03%	4.55%	0.48%

Net interest income increased by 7.4% for the three months ended March 31, 2019, as compared to the corresponding period in 2018.

For the three months ended March 31, 2019, net interest income rose by \$1.6 million as compared to the same period in 2018. Total interest income increased by \$1.5 million, principally because of a \$1.1 million increase in our loan interest earnings, supplemented by a \$323 thousand increase in interest earned on our short term investments during the three months ended March 31, 2019, compared to the previous year. The growth in our net interest margin was the result of an increase of 0.47% in the yield on our average earning assets in the three months ended March 31, 2019, as compared to the corresponding period of 2018, the effect of which was partially offset by a decrease in our average earning assets of 2.8% between those same comparative periods.

## Average Balances

### Distribution, Rate and Yield

The following table sets forth information regarding our average balance sheet, annualized yields on interest-earning assets and interest rates on interest-bearing liabilities, the interest rate spread and the interest rate margin for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,					
	2019			2018		
	Average Balance	Interest Earned/Paid	Average Yield/Rate	Average Balance	Interest Earned/Paid	Average Yield/Rate
Interest earning assets:						
Short term investments <sup>1</sup>	\$ 113,417	\$ 571	2.01%	\$ 64,342	\$ 248	1.54%
Investment Securities <sup>2</sup>	446,649	2,513	2.25%	566,429	2,434	1.72%
Loans <sup>3</sup>	1,263,182	20,333	6.44%	1,244,539	19,191	6.17%
Total earning assets	1,823,248	23,417	5.14%	1,875,310	21,873	4.67%
Noninterest earning assets	104,677			86,743		
Total assets	<u>\$ 1,927,925</u>			<u>\$ 1,962,053</u>		
Interest-bearing liabilities:						
Interest-bearing checking accounts	\$ 269,309	\$ 80	0.12%	\$ 293,964	\$ 87	0.12%
Money market and savings accounts	886,631	392	0.18%	960,372	423	0.18%
Certificates of deposit	30,895	28	0.36%	34,566	30	0.35%
Other borrowings	-	-	0.00%	-	1	0.00%
Total interest-bearing liabilities	1,186,835	500	0.17%	1,288,902	541	0.17%
Non-interest bearing liabilities	589,909			531,139		
Total liabilities	1,776,744			1,820,041		
Stockholders' equity	151,181			142,012		
Total liabilities and stockholders' equity	<u>\$ 1,927,925</u>			<u>\$ 1,962,053</u>		
Net interest income		<u>\$ 22,917</u>			<u>\$ 21,332</u>	
Interest rate spread			<u>4.97%</u>			<u>4.50%</u>
Net interest margin			<u>5.03%</u>			<u>4.55%</u>

<sup>1</sup> Short term investments consist of interest-bearing deposits that we maintain with other financial institutions.

<sup>2</sup> Includes all investment securities in the Available-for-Sale and the Held-to-Maturity classifications.

<sup>3</sup> Loans include the average balance of non-accrual loans. Loan interest income includes loan fees of \$749 thousand in the three months ended March 31, 2019, and \$437 thousand during the three months ended March 31, 2018.

For the three months ended March 31, 2019, our total average earning assets decreased by \$52.1 million as compared to the same period in 2018. The decrease during the three months ended March 31, 2019, compared to the same period in 2018, is attributed to the \$49.1 million increase in our average short term investments and the \$18.6 million increase in our average loan portfolio being more than offset by the \$119.8 million decrease in our average investment securities portfolio. Average noninterest earning assets increased by \$17.9 million. In the three months ended March 31, 2019, average total interest-bearing liabilities decreased by \$102.1 million in comparison to the same period in 2018, comprised of the \$73.7 million decrease in average interest-bearing money market and savings accounts, the \$24.7 million decrease in average interest-bearing checking accounts and the \$3.7 million decrease in average certificates of deposit. The overall decrease in average interest-bearing liabilities resulted from drawdowns in our deposit base. The partially offsetting increase of \$58.8 million in average non-interest bearing liabilities during the three months ended March 31, 2019, compared to the same period in 2018, primarily in traditional checking accounts, resulted in an overall decrease of \$43.3 million in average total liabilities. During the three months ended March 31, 2019, average stockholders' equity increased by \$9.2 million (6.7%) in comparison to the year-earlier period.

Our interest rate spread increased by 47 basis points (0.47%) and our net interest margin rose by 48 basis points (0.48%) in the three months ended March 31, 2019, as compared to the same period in 2018. During the three months ended March 31, 2019, the increase in our interest rate spread is attributed to the 47 basis point (0.47%) increase in the average yield on our interest earning assets, from 4.67% to 5.14% while the average rate on our interest-bearing liabilities remained unchanged at 0.17%. The increase in our net interest margin resulted from the 7.4% increase in our net interest income combined with the 2.8% decrease in our average total interest-earning assets, due primarily to rising market interest rates.

The following table provides information regarding the changes in interest income and interest expense, attributable to changes in rates and changes in volumes, that contributed to the total change in net interest income for the three months ended March 31, 2019, in comparison to the three months ended March 31, 2018:

	<b>Three Months Ended March 31, 2019 vs. 2018</b>		
	<b>(In thousands)</b>		
	<b>Net Change in Interest Income/Expense</b>	<b>Attributable to:</b>	
		<b>Change in Rate</b>	<b>Change in Volume</b>
<b>Interest income:</b>			
Short term investments	\$ 323	\$ 304	\$ 19
Investment securities	79	3,012	(2,933)
Loans	1,142	3,368	(2,226)
Total interest income	<u>\$ 1,544</u>	<u>\$ 6,684</u>	<u>\$ (5,140)</u>
<b>Interest expense:</b>			
Interest-bearing checking accounts	\$ (7)	\$ 1	\$ (8)
Money market and savings accounts	(31)	6	(37)
Certificates of deposit	(2)	5	(7)
Other borrowings	(1)	-	(1)
Total interest expense	<u>\$ (41)</u>	<u>\$ 12</u>	<u>\$ (53)</u>
Net interest income	<u>\$ 1,585</u>	<u>\$ 6,672</u>	<u>\$ (5,087)</u>

#### ***Provision for Loan Losses***

We maintain allowances for probable loan losses that are incurred as a normal part of the banking business. As more fully discussed in Note 5 of the notes to the unaudited condensed consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q, an allowance for loan losses has been established by management in order to provide for those loans which, for a variety of reasons, may not be repaid in their entirety. The allowance is maintained at a level considered by management to be adequate to provide for probable losses that are accrued as of the balance sheet date and based on methodologies applied on a consistent basis with the prior year. Management's review of the adequacy of the allowance includes, among other things, loan growth, changes in the composition of the loan portfolio, an analysis of past loan loss experience and management's evaluation of the loan portfolio under current economic conditions.

The allowance for loan losses is based on estimates, and ultimate losses will vary from current estimates. The Bank recognizes that credit losses will be experienced and the risk of loss will vary with, among other things: general economic conditions; the type of loan being made; the credit worthiness of the borrower over the term of the loan; and, in the case of a collateralized loan, the quality and valuation of the collateral for such loan. The allowance for loan losses represents the Bank's best estimate of the allowance necessary to provide for probable losses in the portfolio as of the balance sheet date.

If management determines that it is necessary to increase the allowance for loan losses, a provision for loan losses is recorded. For the three months ended March 31, 2019, the Bank's provision for loan losses was \$3.9 million, which was \$1.1 million higher than during the corresponding period of 2018.

Management believes that the provision recorded was sufficient to offset the incremental risk of loss inherent in the gross loan portfolio of \$1.28 billion at March 31, 2019, an increase of \$37.6 million from December 31, 2018. The increase in the provision for loan losses from December 31, 2018, to March 31, 2019, was primarily due to the reclassification of a loan relationship totaling \$7.05 million that was determined to have a collateral deficiency of \$1.9 million. The allowance for loan losses at March 31, 2019, stood at \$26.1 million or 2.05% of total gross loans outstanding as of the balance sheet date, an increase of \$2.3 million from December 31, 2018. We recorded net loan charge-offs of \$1.5 million for the three months ended March 31, 2019. See "Analysis of Allowance for Loan Losses" in the Financial Condition Section of Management's Discussion and Analysis of Financial Condition and Results of Operations for more detailed information.

### ***Non-Interest Income***

The table below represents the major components of non-interest income and the changes therein for the three months ended March 31, 2019 and 2018:

	<b>Three Months Ended March 31,</b>			
	<b>2019 Amount</b>	<b>2018 Amount</b>	<b>Amount Change</b>	<b>Percent Change</b>
Non-interest income				
Service charges and fees	\$ 1,470	\$ 1,683	\$ (213)	-12.7%
Loss on sale of investment securities	-	(50)	50	-100.0%
Income from merchant services	577	692	(115)	-16.6%
Income from cardholders, net	98	8	90	1125.0%
Trustee fees	628	200	428	214.0%
Other income	853	883	(30)	-3.4%
Total non-interest income	<u>\$ 3,626</u>	<u>\$ 3,416</u>	<u>\$ 210</u>	6.1%

For the three months ended March 31, 2019, non-interest income totaled \$3.6 million, which represented an increase of \$210 thousand (6.1%) as compared to the three months ended March 31, 2018. The growth during the three months ended March 31, 2019, is primarily attributed to the \$428 thousand increase in trustee fees, partially offset by reductions of \$213 thousand in service charges and fees and \$115 thousand in income from merchant services.

### ***Non-interest Expense***

The table below represents the major components of non-interest expense and the changes for the three months ended March 31, 2019 and 2018:

	<b>Three Months Ended March 31,</b>			
	<b>2019 Amount</b>	<b>2018 Amount</b>	<b>Amount Change</b>	<b>Percent Change</b>
Non-interest expense:				
Salaries and employee benefits	\$ 9,076	\$ 8,805	\$ 271	3.1%
Occupancy	2,027	1,795	232	12.9%
Equipment and depreciation	2,760	2,315	445	19.2%
Insurance	472	430	42	9.8%
Telecommunications	345	493	(148)	-30.0%
FDIC insurance assessment	361	370	(9)	-2.4%
Professional services	604	582	22	3.8%
Contract services	360	411	(51)	-12.4%
Other real estate owned	513	22	491	2231.8%
Stationery and supplies	228	194	34	17.5%
Training and education	200	192	8	4.2%
General, administrative and other	2,026	1,927	99	5.1%
Total non-interest expense	<u>\$ 18,972</u>	<u>\$ 17,536</u>	<u>\$ 1,436</u>	8.2%

For the three months ended March 31, 2019, non-interest expense totaled \$19.0 million, which represented an increase of \$1.4 million (8.2%) as compared to the same period in 2018. The increase is primarily attributed to the \$491 thousand increase in our expense related to other real estate owned, the \$445 thousand increase in equipment and depreciation expense, the \$271 thousand increase in salaries and employee benefits and the \$232 thousand increase in occupancy expense. The increase in other real estate owned expense is primarily due to charge downs of two previously foreclosed properties in California in order to meet regulatory requirements, the increase in equipment and depreciation expense resulted primarily from increases in computer equipment and software expenses of \$453 thousand, and the increase in salaries and employee benefits was due to normal, recurring merit increases in salaries and an increase in the number of full-time equivalent employees. The increase in occupancy expense was primarily due to the reclassification of the lease component of certain telecommunications cables upon our adoption of ASU 2016-02, "Leases (Topic 842)", at January 1, 2019.

### ***Income Tax Expense***

For the three months ended March 31, 2019, the Bank recorded income tax expense of \$817 thousand. This expense was \$27 thousand lower than the income tax expense recorded for the corresponding period in 2018 due primarily to a decrease in income before income tax of \$753 thousand.

## Financial Condition

### *Assets*

As of March 31, 2019, total assets were \$1.92 billion, an increase of 1.8% from the \$1.89 billion at December 31, 2018. This \$33.2 million increase was comprised of the \$35.3 million growth in our net loan portfolio and the \$30.8 million increase in other assets, supplemented by the \$572 thousand increase in accrued interest receivable and \$533 thousand in net premises and equipment, partially offset by the \$30.7 million decrease in our total cash and cash equivalents and the reduction of \$3.3 million in our net investment securities portfolio. As our net loans increased more rapidly than our total assets, the proportion of net loans to total assets increased from 64.1% at December 31, 2018 to 64.8% at March 31, 2019. Despite a reduction of \$3.5 million in total deposits, the remainder of the growth in assets was offset by the \$32.7 million increase in other liabilities, the \$2.3 million increase in retained earnings and the \$1.6 million reduction in accumulated other comprehensive loss.

### *Interest-Earning Assets*

The following table sets forth the composition of our interest-earning assets at March 31, 2019, as compared to December 31, 2018:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>Variance</b>
Interest-earning deposits with financial institutions (including restricted cash)	\$ 96,981	\$ 122,216	\$ (25,235)
Federal Home Loan Bank stock, at cost	2,267	2,356	(89)
Investment securities available-for-sale	381,397	381,042	355
Investment securities held-to-maturity	64,439	68,088	(3,649)
Loans, gross	<u>1,276,202</u>	<u>1,238,564</u>	<u>37,638</u>
Total interest-earning assets	<u>\$ 1,821,286</u>	<u>\$ 1,812,266</u>	<u>\$ 9,020</u>

### *Loans*

Commercial & industrial loans are loans to businesses to finance capital purchases and improvements, or to provide cash flow for operations. Commercial mortgage loans include loans secured by real property for purposes such as the purchase or improvement of that property, wherein repayment is derived from the income generated by the real property or from business operations. Residential mortgage loans are loans to consumers to finance the purchase, improvement, or refinance of real property secured by 1-4 family housing units. Consumer loans include loans to individuals to finance personal needs and are either closed- or open-ended loans. Automobile loans fall under the consumer loan category, but the bulk of consumer loans is typically unsecured extensions of credit such as credit card debt and personal signature loans.

A summary of the balances of loans at March 31, 2019, and December 31, 2018, follows:

	<b>March 31, 2019</b>		<b>December 31, 2018</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
<b>Commercial</b>				
Commercial & industrial	\$ 263,025	20.6%	\$ 243,465	19.7%
Commercial mortgage	585,506	45.9%	560,827	45.3%
Commercial construction	46,040	3.6%	39,408	3.2%
Commercial agriculture	683	0.1%	688	0.1%
Total commercial	<u>895,254</u>	<u>70.1%</u>	<u>844,388</u>	<u>68.2%</u>
<b>Consumer</b>				
Residential mortgage	130,989	10.3%	138,923	11.2%
Home equity	2,172	0.2%	1,325	0.1%
Automobile	25,653	2.0%	26,686	2.2%
Other consumer loans <sup>1</sup>	222,134	17.4%	227,242	18.3%
Total consumer	<u>380,948</u>	<u>29.9%</u>	<u>394,176</u>	<u>31.8%</u>
Gross loans	<u>1,276,202</u>	<u>100.0%</u>	<u>1,238,564</u>	<u>100.0%</u>
Deferred loan (fees) costs, net	(2,612)		(2,649)	
Allowance for loan losses	(26,102)		(23,774)	
Loans, net	<u>\$ 1,247,488</u>		<u>\$ 1,212,141</u>	

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

At March 31, 2019, total gross loans increased by \$37.6 million, to \$1.28 billion, from \$1.24 billion at December 31, 2018. The increase in loans was largely attributed to a \$50.9 million increase in total commercial loans, to \$895.3 million at March 31, 2019, from \$844.4 million at December 31, 2018. The underlying increases were comprised of commercial mortgage loans rising by \$24.7

million, along with commercial & industrial loans by \$19.6 million and commercial construction loans by \$6.6 million. The increase in total commercial loans was partially offset by a \$13.2 million decrease in total consumer loans, to \$380.9 million at March 31, 2019, from \$394.2 million at December 31, 2018. The decreases were in residential mortgage loans by \$7.9 million, other consumer loans by \$5.1 million, and automobile loans by \$1.0 million. These were offset by the increase in home equity loans by \$847 thousand.

At March 31, 2019, loans outstanding were comprised of approximately 69.39% in variable rate loans and 30.61% in fixed rate loans.

Since it first opened in 1972, the Bank has expanded its operations and its branch network, first in Guam, then in the other islands of our region and in San Francisco, California. In the interests of enhancing performance and stability through market and industry diversification, the Bank has increased its focus on growth in the San Francisco area in recent years, adding personnel with experience and expertise in the Bay Area. The following table provides figures for loans, net of allowance and deferred fees, in the Bank's administrative regions for December 31, 2017 and 2018, and March 31, 2019:

	December 31,		March 31,
	2017	2018	2019
Guam	\$ 704,666	\$ 697,722	\$ 703,773
Commonwealth of the Northern Mariana Islands	\$ 79,489	\$ 90,291	\$ 100,707
The Freely Associated States of Micronesia *	\$ 93,560	\$ 91,640	\$ 95,221
California	\$ 352,165	\$ 358,911	\$ 376,501
Total	<u>\$ 1,229,880</u>	<u>\$ 1,238,564</u>	<u>\$ 1,276,202</u>

\* The Freely Associated States (FAS) are comprised of the Federated States of Micronesia (Chuuk, Kosrae, Pohnpei and Yap), the Republic of Palau and the Republic of the Marshall Islands.

As the table indicates, the Bank's total gross loans increased by 3.0% during the three months ended March 31, 2019, after having increased by 0.7% during 2018. By way of comparison, loans in the California region increased by 4.9% during the three months ended March 31, 2019, and by 1.9% in 2018, as the California region provided continued support for the expansion of the Bank. The continuing recovery of the economy in the Commonwealth of the Northern Mariana Islands allowed us to increase our lending there by \$10.4 million, or 11.5%, during the three months ended March 31, 2019, after increasing by \$10.8 million, or 13.6%, during all of 2018. Loans in the Freely Associated States of Micronesia increased by \$3.6 million, or 3.9%, during the three months ended March 31, 2019, after decreasing by \$1.9 million, or 2.1%, during 2018. In Guam, loans increased by \$6.1 million, or 0.9%, during the three months ended March 31, 2019, after having decreased by \$6.9 million, or 1.0%, during 2018.

#### ***Interest-Earning Deposits and Investment Securities***

In the current lending and interest rate environment, and in order to maintain sufficient liquidity in the ordinary course of business, the Bank held \$96.6 million in unrestricted interest-earning deposits with financial institutions at March 31, 2019, a decrease of \$25.2 million, or 20.7%, from the \$121.8 million in such deposits at December 31, 2018. From December 31, 2018, to March 31, 2019, the Bank's combined investment portfolio decreased by \$3.3 million, or 0.7%, from \$449.1 million to \$445.8 million. The reduction in the investment portfolio was comprised of a \$3.6 million decrease in held-to-maturity securities, which fell by 5.4%, from \$68.1 million to \$64.4 million, partially offset by a \$355 thousand increase in available-for-sale securities, which rose by 0.1%, from \$381.0 million to \$381.4 million. Management believes that the Bank maintains an adequate level of liquidity.

#### ***Nonperforming Loans and Other Nonperforming Assets***

Nonperforming loans consist of (i) loans on non-accrual status because we have ceased accruing interest on these loans; (ii) loans 90 days or more past due and still accruing interest; and (iii) restructured loans. Other nonperforming assets consist of real estate properties (OREO) that have been acquired through foreclosure or similar means and which management intends to offer for sale. Loans are placed on non-accrual status when, in the opinion of management, the full and timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payment becomes 90 days past due, unless the loan is adequately collateralized and the loan is in the process of collection. When a loan is placed in non-accrual status, accrued but unpaid interest is reversed against current income. Subsequently, when payments are received on such loans, the amounts are applied to reduce principal, except when the ultimate collectability of principal is probable, in which case accrued loans may be restored to accrual status when principal and interest becomes current and full repayment is expected. Interest income is recognized on an accrual basis for impaired loans not meeting the non-accrual criteria.

The following table contains information regarding our nonperforming assets as well as restructured loans as of March 31, 2019, and December 31, 2018:

	March 31, 2019	December 31, 2018
<b>Non-accrual loans:</b>		
Commercial & industrial	\$ 2,287	\$ 310
Commercial mortgage	6,906	6,909
Residential mortgage	4,773	4,795
Home equity	85	91
Other consumer <sup>1</sup>	320	278
Total non-accrual loans	<u>\$ 14,371</u>	<u>\$ 12,383</u>
<b>Loans past due 90 days and still accruing:</b>		
Commercial & industrial	\$ -	\$ 530
Commercial mortgage	15	184
Commercial construction	-	-
Residential mortgage	5	12
Home equity	-	-
Automobile	58	135
Other consumer <sup>1</sup>	1,290	1,123
Total loans past due 90 days and still accruing	<u>\$ 1,368</u>	<u>\$ 1,984</u>
Total nonperforming loans	<u>\$ 15,739</u>	<u>\$ 14,367</u>
<b>Other real estate owned (OREO):</b>		
Commercial real estate	\$ 895	\$ 1,428
Residential real estate	115	115
Total other real estate owned	<u>\$ 1,010</u>	<u>\$ 1,543</u>
Total nonperforming assets	<u>\$ 16,749</u>	<u>\$ 15,910</u>
<b>Restructured loans:</b>		
Accruing loans	\$ 234	\$ 254
Non-accruing loans (included in nonaccrual loans above)	5,524	5,653
Total restructured loans	<u>\$ 5,758</u>	<u>\$ 5,907</u>

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

The above table indicates that nonperforming loans increased by \$1.4 million during the three months ended March 31, 2019, which resulted from the increase in total non-accrual loans by \$2.0 million, from \$12.4 million to \$14.4 million. The increase in total non-accrual loans was primarily due to the \$2.0 million increase in non-accruing commercial & industrial loans. The increase in non-accrual loans was partially offset by a decrease in total loans past due 90 days and still accruing by \$616 thousand, to \$1.4 million, down from \$2.0 million at December 31, 2018.

At March 31, 2019, the Bank's largest nonperforming loans are two commercial real estate mortgage loan relationships totaling \$4.5 million, both of which are secured by real estate located in Guam. These loans were placed on non-accrual due to deficiencies in the underlying cash flow to service the monthly loan payments and meet operating expenses. At this time, management believes that the collateral and the allowance for loan losses are adequate to cover these loans; however, should property values deteriorate, additional write-downs or additional provisions may be necessary. The third largest nonperforming loan was in the commercial & industrial loan category, which consisted of three loans under one borrowing relationship totaling \$1.6 million not secured by real estate. The three loans under the borrowing relationship were placed on nonaccrual due to the borrower filing for reorganization under bankruptcy in January 2019, and the loans are over 90 days past due at March 31, 2019.

#### ***Analysis of Allowance for Loan Losses***

The allowance for loan losses was \$26.1 million, or 2.05% of outstanding gross loans, as of March 31, 2019, as compared to \$23.8 million, or 1.92% of outstanding gross loans at December 31, 2018. The allowance was \$18.1 million at March 31, 2018, or 1.44% of gross loans.

Management maintains an allowance for loan losses to absorb estimated credit losses associated with the loan portfolio. The adequacy of the allowance is determined by management through ongoing quarterly loan quality assessments.

Management assesses the estimated credit losses inherent in the non-classified and classified portions of our loan portfolio by considering a number of factors or elements including:

- Management's evaluation of the collectability of the loan portfolio;
- Historical loss experience in the loan portfolio;
- Levels of and trending in delinquency, classified assets, non-performing and impaired loans;
- Effects of changes in underwriting standards and other changes in lending policies, procedures and practices;
- Experience, ability, and depth of lending management and other relevant staff;
- Local, regional, and national trends and conditions, including industry-specific conditions;
- The effect of changes in credit concentration; and
- External factors such as competition, legal and regulatory conditions, as well as typhoon and other natural disasters.

Management determines the allowance for the classified loan portfolio and for non-classified loans by applying a percentage loss estimate that is calculated based on the above noted factors and trends. Management normally writes down impaired loans after determining the loans' credit and collateral fair value. Our analysis of the adequacy of the allowance incorporates the provisions made for our non-classified loans and classified loans.

While management believes it uses the best information available for calculating the allowance, the results of operation could be significantly affected if circumstances differ substantially from the assumptions used in determining the allowance. The current qualitative and quantitative factors used to calculate the allowance are inherently subjective. The estimates and assumptions are subject to changes in economic prospects and regulatory guidelines, and other circumstances over which management has no control. The allowance may prove in the future to be insufficient to cover all of the losses the Bank may incur and it may be necessary to increase the allowance from time to time as a result of monitoring its adequacy.

The following table summarizes the changes in our allowance for loan losses:

	<u>Commercial</u>	<u>Residential Mortgages</u>	<u>Consumer</u>	<u>Total</u>
	(Dollars in thousands)			
<b>Three Months Ended March 31, 2019</b>				
<b>Allowance for loan losses:</b>				
Balance at beginning of period	14,887	1,648	7,239	23,774
Charge-offs	(210)	-	(1,791)	(2,001)
Recoveries	4	2	471	477
Provision	2,664	(196)	1,384	3,852
Ending balance	<u>\$ 17,345</u>	<u>\$ 1,454</u>	<u>\$ 7,303</u>	<u>\$ 26,102</u>
<b>Allowance balance at end of period related to:</b>				
Loans individually evaluated for impairment	\$ 7,107	\$ 59	\$ 1,495	\$ 8,661
Loans collectively evaluated for impairment	10,238	1,395	5,808	17,441
Ending balance	<u>\$ 17,345</u>	<u>\$ 1,454</u>	<u>\$ 7,303</u>	<u>\$ 26,102</u>
<b>Loan balances at end of period:</b>				
Loans individually evaluated for impairment	\$ 24,812	\$ 4,891	\$ 1,668	\$ 31,371
Loans collectively evaluated for impairment	870,442	128,270	246,119	1,244,831
Ending balance	<u>\$ 895,254</u>	<u>\$ 133,161</u>	<u>\$ 247,787</u>	<u>\$ 1,276,202</u>
<b>Three Months Ended March 31, 2018</b>				
<b>Allowance for loan losses:</b>				
Balance at beginning of period	\$ 7,623	\$ 1,409	\$ 8,247	\$ 17,279
Charge-offs	(314)	-	(2,106)	(2,420)
Recoveries	20	2	436	458
Provision	3,273	(133)	(400)	2,740
Ending balance	<u>\$ 10,602</u>	<u>\$ 1,278</u>	<u>\$ 6,177</u>	<u>\$ 18,057</u>
<b>Allowance balance at end of period related to:</b>				
Loans individually evaluated for impairment	\$ 49	\$ 101	\$ 1,576	\$ 1,726
Loans collectively evaluated for impairment	10,553	1,177	4,601	16,331
Ending balance	<u>\$ 10,602</u>	<u>\$ 1,278</u>	<u>\$ 6,177</u>	<u>\$ 18,057</u>
<b>Loan balances at end of period:</b>				
Loans individually evaluated for impairment	\$ 7,254	\$ 5,242	\$ 1,958	\$ 14,454
Loans collectively evaluated for impairment	840,217	132,511	266,553	1,239,281
Ending balance	<u>\$ 847,471</u>	<u>\$ 137,753</u>	<u>\$ 268,511</u>	<u>\$ 1,253,735</u>
<b>Year Ended December 31, 2018</b>				
<b>Allowance for loan losses:</b>				
Balance at beginning of year	\$ 7,623	\$ 1,409	\$ 8,247	\$ 17,279
Charge-offs	(356)	(9)	(7,836)	(8,201)
Recoveries	39	7	1,788	1,834
Provision	7,581	241	5,040	12,862
Ending balance	<u>\$ 14,887</u>	<u>\$ 1,648</u>	<u>\$ 7,239</u>	<u>\$ 23,774</u>
<b>Allowance balance at end of year related to:</b>				
Loans individually evaluated for impairment	\$ 5,204	\$ 104	\$ 1,518	\$ 6,826
Loans collectively evaluated for impairment	9,683	1,544	5,721	16,948
Ending balance	<u>\$ 14,887</u>	<u>\$ 1,648</u>	<u>\$ 7,239</u>	<u>\$ 23,774</u>
<b>Loan balances at end of year:</b>				
Loans individually evaluated for impairment	\$ 18,328	\$ 4,925	\$ 1,746	\$ 24,999
Loans collectively evaluated for impairment	826,060	135,323	252,182	1,213,565
Ending balance	<u>\$ 844,388</u>	<u>\$ 140,248</u>	<u>\$ 253,928</u>	<u>\$ 1,238,564</u>

Management evaluates all impaired loans not less frequently than quarterly in conjunction with our calculation and determination of the adequacy of the allowance for loan losses.

During the process of the Bank’s quarterly assessment of the adequacy of its allowance for loan losses at March 31, 2019, it was determined that an elevated risk in one loan relationship totaling \$7.1 million warranted a substantial increase in the allowance for loan losses by \$1.8 million. On April 30, 2019, this borrower filed for bankruptcy. Bank’s management believes at March 31, 2019 there is sufficient coverage to protect the Bank’s exposure due to having \$3.7 million in collateral, a state loan guarantee of \$1.4 million, and a specific reserve of \$1.9 million.

***Total Cash and Cash Equivalents***

Total cash and cash equivalents were \$124.4 million and \$155.1 million at March 31, 2019, and December 31, 2018, respectively. This balance, which is comprised of cash and due from bank balances and interest-bearing deposits that we maintain at other financial institutions (including the Federal Reserve Bank of San Francisco, but excepting restricted cash), will vary depending on daily cash settlement activities, the amount of highly liquid assets needed based on known events such as the repayment of borrowings and scheduled withdrawals, and actual cash on hand in the Bank’s branches. The decrease in the balance during the period was primarily attributed to a government agency’s transfer of funds from an account with the Bank to an investment account in our Trust Department.

The following table sets forth the composition of our cash and cash equivalent balances at March 31, 2019, and December 31, 2018:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>Variance</b>
Cash and due from banks	\$ 27,798	\$ 33,279	\$ (5,481)
Interest-bearing deposits with financial institutions	96,581	121,816	(25,235)
Total cash and cash equivalents	<u>\$ 124,379</u>	<u>\$ 155,095</u>	<u>\$ (30,716)</u>

***Investment Securities***

The Bank manages its securities portfolio to provide a source of both liquidity and earnings. The Bank has an Asset/Liability Committee (“ALCO”) that develops and recommends current investment policies to the Board of Directors based on its operating needs and market circumstances. The Bank’s overall investment policy is formally reviewed and approved annually by the Board of Directors, and the Asset/Liability Committee is responsible for monitoring and reporting compliance with the investment policy. Investment portfolio reports are provided to the Board of Directors on a monthly basis.

At March 31, 2019, the carrying value of the investment securities portfolio (excluding ASC Trust Corporation stock and Federal Home Loan Bank stock) totaled \$445.8 million, which represents a \$3.3 million decrease from the portfolio balance of \$449.1 million at December 31, 2018. The table below sets forth the amortized cost and fair value of our investment securities portfolio, with gross unrealized gains and losses, at March 31, 2019, and December 31, 2018:

	<b>March 31, 2019</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	\$ 100,518	\$ -	\$ (1,037)	\$ 99,481
U.S. government agency pool securities	214,612	26	(1,633)	213,005
U.S. government agency or GSE residential mortgage-backed securities	69,622	111	(822)	68,911
Total	<u>\$ 384,752</u>	<u>\$ 137</u>	<u>\$ (3,492)</u>	<u>\$ 381,397</u>
<b>Securities Held-to-Maturity</b>				
U.S. government agency and government sponsored enterprise (GSE) debt securities	\$ 36,513	\$ 140	\$ (42)	\$ 36,611
U.S. government agency pool securities	8,116	4	(89)	8,031
U.S. government agency or GSE residential mortgage-backed securities	19,810	50	(289)	19,571
Total	<u>\$ 64,439</u>	<u>\$ 194</u>	<u>\$ (420)</u>	<u>\$ 64,213</u>
	<b>December 31, 2018</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	\$ 100,497	\$ -	\$ (1,587)	\$ 98,910
U.S. government agency pool securities	213,055	24	(1,707)	211,372
U.S. government agency or GSE residential mortgage-backed securities	72,735	-	(1,975)	70,760
Total	<u>\$ 386,287</u>	<u>\$ 24</u>	<u>\$ (5,269)</u>	<u>\$ 381,042</u>
<b>Securities Held-to-Maturity</b>				
U.S. government agency and government sponsored enterprise (GSE) debt securities	\$ 38,445	\$ 46	\$ (88)	\$ 38,403
U.S. government agency pool securities	9,089	3	(80)	9,012
U.S. government agency or GSE residential mortgage-backed securities	20,554	29	(521)	20,062
Total	<u>\$ 68,088</u>	<u>\$ 78</u>	<u>\$ (689)</u>	<u>\$ 67,477</u>

At March 31, 2019, and December 31, 2018, investment securities with a carrying value of \$307.0 million and \$285.9 million, respectively, were pledged to secure various government deposits and other public requirements.

The amortized cost and fair value of investment securities by contractual maturity at March 31, 2019, and December 31, 2018, follows:

	<b>March 31, 2019</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	\$ 29,984	\$ 29,730	\$ 9,982	\$ 9,957
Due after one but within five years	73,063	72,263	32,394	32,521
Due after five but within ten years	93,997	93,345	12,762	12,667
Due after ten years	187,708	186,059	9,301	9,068
Total	<u>\$ 384,752</u>	<u>\$ 381,397</u>	<u>\$ 64,439</u>	<u>\$ 64,213</u>

	<b>December 31, 2018</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	\$ 19,996	\$ 19,739	\$ 11,975	\$ 11,911
Due after one but within five years	83,671	82,323	32,511	32,512
Due after five but within ten years	98,465	97,339	13,995	13,769
Due after ten years	184,155	181,641	9,607	9,285
Total	<u>\$ 386,287</u>	<u>\$ 381,042</u>	<u>\$ 68,088</u>	<u>\$ 67,477</u>

## Temporarily Impaired Securities

The following table shows the gross unrealized losses and fair value of investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position at March 31, 2019, and December 31, 2018:

	<b>March 31, 2019</b>					
	<b>Less Than Twelve Months</b>		<b>More Than Twelve Months</b>		<b>Total</b>	
	<b>Unrealized Loss</b>	<b>Estimated Fair Value</b>	<b>Unrealized Loss</b>	<b>Estimated Fair Value</b>	<b>Unrealized Loss</b>	<b>Estimated Fair Value</b>
<b>Securities Available for Sale</b>						
U.S. government agency and government sponsored enterprise (GSE) debt securities	\$ -	\$ -	\$ (1,037)	\$ 99,481	\$ (1,037)	\$ 99,481
U.S. government agency pool securities	(38)	5,404	(1,595)	181,746	(1,633)	187,150
U.S. government agency or GSE residential mortgage-backed securities	-	-	(822)	48,474	(822)	48,474
<b>Total</b>	<b><u>\$ (38)</u></b>	<b><u>\$ 5,404</u></b>	<b><u>\$ (3,454)</u></b>	<b><u>\$ 329,701</u></b>	<b><u>\$ (3,492)</u></b>	<b><u>\$ 335,105</u></b>
<b>Securities Held to Maturity</b>						
U.S. government agency and government sponsored enterprise (GSE) debt securities	\$ -	\$ -	\$ (42)	\$ 6,982	\$ (42)	\$ 6,982
U.S. government agency pool securities	(62)	4,690	(27)	3,174	(89)	7,864
U.S. government agency or GSE residential mortgage-backed securities	-	-	(289)	17,050	(289)	17,050
<b>Total</b>	<b><u>\$ (62)</u></b>	<b><u>\$ 4,690</u></b>	<b><u>\$ (358)</u></b>	<b><u>\$ 27,206</u></b>	<b><u>\$ (420)</u></b>	<b><u>\$ 31,896</u></b>
<b>December 31, 2018</b>						
	<b>Less Than Twelve Months</b>		<b>More Than Twelve Months</b>		<b>Total</b>	
	<b>Unrealized Loss</b>	<b>Estimated Fair Value</b>	<b>Unrealized Loss</b>	<b>Estimated Fair Value</b>	<b>Unrealized Loss</b>	<b>Estimated Fair Value</b>
<b>Securities Available for Sale</b>						
U.S. government agency and government sponsored enterprise (GSE) debt securities	\$ -	\$ -	\$ (1,587)	\$ 98,910	\$ (1,587)	\$ 98,910
U.S. government agency pool securities	(217)	32,633	(1,490)	157,403	(1,707)	190,036
U.S. government agency or GSE residential mortgage-backed securities	(116)	12,679	(1,859)	58,081	(1,975)	70,760
<b>Total</b>	<b><u>\$ (333)</u></b>	<b><u>\$ 45,312</u></b>	<b><u>\$ (4,936)</u></b>	<b><u>\$ 314,394</u></b>	<b><u>\$ (5,269)</u></b>	<b><u>\$ 359,706</u></b>
<b>Securities Held to Maturity</b>						
U.S. government agency and government sponsored enterprise (GSE) debt securities	\$ (12)	\$ 4,918	\$ (76)	\$ 8,954	\$ (88)	\$ 13,872
U.S. government agency pool securities	(62)	6,609	(18)	2,232	(80)	8,841
U.S. government agency or GSE residential mortgage-backed securities	(25)	5,219	(496)	12,330	(521)	17,549
<b>Total</b>	<b><u>\$ (99)</u></b>	<b><u>\$ 16,746</u></b>	<b><u>\$ (590)</u></b>	<b><u>\$ 23,516</u></b>	<b><u>\$ (689)</u></b>	<b><u>\$ 40,262</u></b>

The Company does not believe that any of the investment securities that were in an unrealized loss position as of March 31, 2019, which included a total of 147 securities, were other-than-temporarily impaired. Specifically, the 147 securities are comprised of the following: 91 Small Business Administration (“SBA”) Pool securities, 18 mortgage-backed securities issued by the Government National Mortgage Association (“GNMA”), 14 U.S. Treasury securities, 10 mortgage-backed securities, 7 agency securities issued by the Federal Home Loan Bank (“FHLB”), 4 mortgage-backed securities and 1 step up bond issued by the Federal Home Loan Mortgage Corporation (“FHLMC”), 1 agency security issued by the Federal National Mortgage Association (“FNMA”) and 1 agency security issued by the Federal Farm Credit Banks (“FFCB”).

Total gross unrealized losses were primarily attributable to changes in interest rates relative to when the investment securities were purchased, and not due to changes in the credit quality of the investment securities. The Bank does not intend to sell the investment securities that are in an unrealized loss position and it is not likely that, except as needed to fund our liquidity position, the Bank will be required to sell the investment securities before recovery of their amortized cost bases, which may be at maturity.

## Deposits

At March 31, 2019, total deposit liabilities decreased by \$3.5 million, to \$1.73 billion, as compared to \$1.73 billion in total deposits at December 31, 2018. Interest-bearing deposits decreased by \$4.9 million, to \$1.19 billion at March 31, 2019, compared to \$1.19 billion at December 31, 2018, while non-interest bearing deposits increased by \$1.4 million, to \$539.5 million at March 31, 2019, from \$538.2 million at December 31, 2018. The 0.2% decrease in total deposits was primarily due to normal fluctuations in our deposit base.

The following table sets forth the composition of our interest-bearing deposit portfolio with the balances and average interest rates at March 31, 2019 and December 31, 2018, respectively:

	March 31, 2019		December 31, 2018	
	Balance	Average rate	Balance	Average rate
Interest-bearing checking accounts	\$ 259,373	0.12%	\$ 281,582	0.12%
Money market and savings accounts	895,766	0.18%	670,640	0.18%
Certificates of deposit	30,630	0.36%	238,433	0.35%
Total interest-bearing deposits	<u>\$ 1,185,769</u>	0.17%	<u>\$ 1,190,655</u>	0.17%

As mentioned earlier, the Bank has expanded its operations and its branch network since it first opened in 1972, first in Guam, then in the other islands of our region and in San Francisco, California. As time has passed, the Bank has gathered market share in each of the islands. In recent years, in order to diversify its geographic market, the Bank has increased its focus on growth in the California region. The following table provides figures for deposits in the Bank's administrative regions at December 31, 2017 and 2018, and at March 31, 2019:

	December 31,		March 31,
	2017	2018	2019
Guam	\$ 936,237	\$ 900,273	\$ 953,113
Commonwealth of the Northern Mariana Islands	\$ 343,149	\$ 334,987	\$ 312,625
The Freely Associated States of Micronesia *	\$ 491,276	\$ 447,011	\$ 420,946
California	\$ 45,470	\$ 46,552	\$ 38,621
Total	<u>\$ 1,816,132</u>	<u>\$ 1,728,823</u>	<u>\$ 1,725,305</u>

\* The Freely Associated States (FAS) are comprised of the Federated States of Micronesia (Chuuk, Kosrae, Pohnpei and Yap), the Republic of Palau and the Republic of the Marshall Islands.

During the three months ended March 31, 2019, the Bank's deposits decreased by \$3.5 million, or 0.2%, while in the full year of 2018, deposits decreased by a total of \$87.3 million. Our branches in Guam experienced an increase of \$52.8 million in deposits during the three months ended March 31, 2019, while the deposits in our branches in the CNMI were reduced by \$22.4 million. Deposits in our FAS branches decreased by \$26.1 million, while our California region deposits decreased by \$7.9 million during the same time period.

## Borrowed Funds

The Bank has a variety of sources from which it may obtain secondary funding. These sources include, among others, the Federal Reserve Bank of San Francisco, the Federal Home Loan Bank of Des Moines, and credit lines established with our correspondent banks. Borrowings are obtained for a variety of reasons which include, but are not limited to, funding loan growth, the purchase of investments in the absence of core deposits, and to provide additional liquidity to meet the demands of depositors.

At March 31, 2019, and at December 31, 2018, the Company had no short-term borrowings.

## Liquidity

We actively manage our liquidity to ensure that sufficient funds are available to meet our needs for cash, including cash needed to fund new loans and to accommodate deposit withdrawals and other transactions by our customers. We project future sources and uses of funds, and maintain additional liquid funds for unanticipated events. Our primary sources of cash include cash we have in deposits at other financial institutions, the repayment of loans, proceeds from the sale or maturity of investment securities, and increases in deposits. The primary uses of cash include funding new loans and making advances on existing lines of credit, purchasing investments, funding new residential mortgage loans, funding deposit withdrawals, and paying operating expenses. From time to time, we may maintain funds in overnight Federal Funds and other short-term investments to provide for short-term liquidity needs. We also have established, for contingency funding purposes, credit lines with the Federal Reserve Bank of San Francisco, the Federal Home Loan Bank-Seattle, and correspondent commercial banks in the U.S. We believe that our liquid assets, together with our available credit lines, will be sufficient to meet normal operating requirements for at least the next twelve months, including to enable us to meet any increase in withdrawals from depository accounts that might occur in the foreseeable future.

At March 31, 2019, our liquid assets, which include cash and due from banks, interest-earning deposits with financial institutions (excluding restricted cash), and investment securities available-for-sale totaled \$505.8 million, down \$30.4 million from \$536.1 million at December 31, 2018. This decrease is comprised of declines of \$25.2 million in interest bearing deposits in banks and \$5.5 million in cash and due from banks, only slightly offset by the increase of \$355 thousand in investment securities available-for-sale.

### **Contractual Obligations**

The Bank utilizes facilities, equipment and land under various operating leases with terms, including renewal options, ranging from 1 to 99 years.

The following table provides the maturities of lease liabilities at March 31, 2019:

	<b>Operating Leases (a)</b>	<b>Finance Leases</b>	<b>Total</b>
2020	\$ 3,336	\$ -	\$ 3,336
2021	3,275	-	3,275
2022	3,137	-	3,137
2023	2,649	-	2,649
2024	2,484	-	2,484
After 2024	41,774	-	41,774
<b>Total lease payments</b>	<b>\$ 56,655</b>	<b>\$ -</b>	<b>\$ 56,655</b>
Less: Interest (b)	24,749	-	24,749
<b>Present value of lease liabilities (c)</b>	<b><u>\$ 31,906</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 31,906</u></b>

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

- (a) Operating lease payments include \$23.5 million related to options to extend lease terms that are reasonably certain of being exercised.
- (b) Calculated using the interest rate for each lease.
- (c) Includes the current portion of \$3.1 million for operating leases.

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 three months ended March 31, 2019 and the year ended December 31, 2018, approximated \$58 thousand and \$350 thousand, respectively. During the three months ended March 31, 2018, lease payments made to these entities approximated \$87 thousand.

Additionally, the Bank leases office space to third parties, with original lease terms ranging from 3 to 5 years with option periods ranging up to 15 years. At March 31, 2019, minimum future rents to be received under non-cancelable operating sublease agreements were \$30 thousand, \$42 thousand, and \$26 thousand for the periods ending December 31, 2019, 2020 and 2021, respectively.

A summary of rental activities for the three months ended March 31, 2019 and 2018, respectively, is as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Rent expense	\$ 923	\$ 701
Total rent expense	<u>\$ 923</u>	<u>\$ 701</u>

### **Off Balance Sheet Arrangements**

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 our condensed 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 essentially 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 March 31, 2019, and December 31, 2018, is as follows:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Commitments to extend credit	\$ 151,648	\$ 163,802
Letters of credit:		
Standby letters of credit	\$ 55,185	\$ 55,418
Commercial letters of credit	2,883	3,070
Total	\$ 58,068	\$ 58,488

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 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 public and private borrowing arrangements. Almost all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is effectively the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments.

The Bank considers its standby and commercial letters of credit to be guarantees. At March 31, 2019, the maximum undiscounted future payments that the Bank could be required to make was \$58.1 million. Almost 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, several that are extended to the Bank's most creditworthy customers are unsecured. The Bank has recorded \$32 thousand in reserve liabilities associated with commitments to extend credit and letters of credit at March 31, 2019.

Mortgage loans serviced for others are not included in the accompanying condensed consolidated statements of financial condition. The unpaid principal balances of mortgage loans serviced for others were \$193.0 million and \$189.6 million at March 31, 2019, and December 31, 2018, respectively. At March 31, 2019, and December 31, 2018, the Bank recorded mortgage servicing rights at their fair value of \$1.7 million, and \$1.8 million, respectively.

### ***Capital Resources***

The Company and the Bank are 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 Company's and the Bank's condensed consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet or exceed 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 Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and 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). Management believes that, as of March 31, 2019, and December 31, 2018, the Bank met all capital adequacy requirements to which it is subject.

In December 2010, the Basel Committee on Bank Supervision ("Basel Committee") released its final framework for strengthening international capital and liquidity regulation, now officially identified as "Basel III," which require bank holding companies and their bank subsidiaries to maintain substantially more capital as of January 1, 2019 than had previously been required, with a greater emphasis on common equity.

In July 2013, the U.S. banking regulatory agencies approved the U.S. version of Basel III. The version of Basel III adopted 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 Act. Many of the rules apply on a phased-in basis to all banking organizations, including the Company and the Bank. Among other things, the rules establish 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%). An additional capital conservation buffer of 2.5% of risk weighted assets over each of the required capital ratios will be phased in from 2016 to 2019 (2.500% in 2019 and 1.875% in 2018) and must be met to avoid limitations on the ability of the Company and the Bank to pay dividends, repurchase shares or pay discretionary bonuses. The new rules assign higher risk weighting to credit 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 change 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). The rules, including alternative requirements for smaller community financial institutions like the Company and the Bank, were fully effective as of January 1, 2019.

As of March 31, 2019, the Bank's capital ratios each exceeded the Federal Deposit Insurance Corporation's well capitalized standards 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 and Tier 1 leverage ratios as set forth in the following table. There have been no conditions or events since the most recent FDIC notification that management believes have changed the Bank's category.

The Company's required and actual capital amounts and ratios as of March 31, 2019, and December 31, 2018, were as follows:

	<i>Actual</i>		<b>For Capital Adequacy Purposes</b>		<b>To Be Well Capitalized Under Prompt Corrective Action Provisions</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
<b><u>At March 31, 2019:</u></b>						
Total capital (to Risk Weighted Assets)	\$ 170,961	13.203%	\$ 103,593	8.000%	\$ 129,491	10.000%
Tier 1 capital (to Risk Weighted Assets)	\$ 154,652	11.943%	\$ 77,695	6.000%	\$ 103,593	8.000%
Tier 1 capital (to Average Assets)	\$ 154,652	8.046%	\$ 76,888	4.000%	\$ 96,110	5.000%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	\$ 144,869	11.188%	\$ 58,271	4.500%	\$ 84,169	6.500%
<b><u>At December 31, 2018:</u></b>						
Total capital (to Risk Weighted Assets)	\$ 167,732	13.662%	\$ 98,219	8.000%	\$ 122,774	10.000%
Tier 1 capital (to Risk Weighted Assets)	\$ 152,281	12.403%	\$ 73,664	6.000%	\$ 98,219	8.000%
Tier 1 capital (to Average Assets)	\$ 152,281	7.991%	\$ 76,229	4.000%	\$ 95,287	5.000%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	\$ 142,498	11.607%	\$ 55,248	4.500%	\$ 79,803	6.500%

Since the formation of BankGuam Holding Company in 2011, our assets have grown by 74.5% (\$821.6 million), while our stockholders' equity has grown by 71.6% (\$63.5 million, including \$47.7 million in retained earnings). The growth in equity has helped to increase our capital ratios, and those ratios remain well above the well capitalized standards. To provide sufficient capital resources to expand our holdings, the Board approved the issuance of \$10.0 million in non-cumulative perpetual preferred stock, of which \$9.8 million was issued during 2016. During the fourth quarter of 2017 and the first quarter of 2018, the Company issued an additional \$4.2 million in common stock in an SEC-registered public offering at a purchase price of \$12.25 per common share.

#### Stock Purchase Plan

The Bank's 2011 Employee Stock Purchase Plan (the "2011 Plan") was adopted by the Bank's Board of Directors and approved by the Bank's Stockholders on May 2, 2011, to replace the Bank's 2001 Non-Statutory Stock Option Plan. This plan was subsequently adopted by the Company after the Reorganization. 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 quarterly offer period 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. The Plan was suspended on April 4, 2018, due to the delayed filing of our 2017 report on Form 10-K, and resumed in the third quarter of 2018.

## **Contingency Planning and Cybersecurity**

The services provided by banks are crucial to the continuing performance of the economy, so it is very important that banks are able to conduct business as usual on an ongoing basis. In light of this, the Bank has developed a comprehensive business continuity plan to address whatever disruptions may directly affect customers or change internal processes, whether caused by man-made or natural events. Training in the plan components is conducted no less frequently than triennially, and risk-based testing of the major processes and procedures within the Bank occur on an annual basis. In modern banking, technology has taken on an increasingly important role, and the Bank also has a technology recovery component incorporated into the business continuity plan that provides specific, detailed procedures for recovering quickly from any technology failure. The technology recovery procedures are actively tested, and are also implemented from time to time. The recovery time objectives for all major technological processes range from eight hours to 80 hours, with the goal of enabling the Bank to maintain or resume operations with a minimum impact on its customers. As the results of testing are analyzed and as technology continues to advance, improvements are made in the Bank's processes and procedures as the plan evolves.

The rapid advances in computing and telecommunications technology over the past several decades have brought with them increasingly sophisticated methods of delivering financial services through electronic channels. Along with these advances, though, have come risks regarding the integrity and privacy of data, and these risks apply to banking, perhaps more than any other industry, falling into the general classification of cybersecurity. The Bank has made substantial investments in multiple systems to ensure both the integrity of its data and the protection of the privacy of its customers' personal financial and identity information. While it is not possible for anyone to give an absolute guarantee that data will not be compromised, the Bank continually strives to improve its systems to provide a reasonable assurance that the financial and personal data that it holds are secure.

### **Item 4. Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, in connection with the filing of this Quarterly Report on Form 10-Q, an evaluation was performed under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2019. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

### ***Changes in Internal Control over Financial Reporting***

Other than the remediation processes described below, there were no changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

As previously identified in our Annual Report on Form 10-K for the year ended December 31, 2018, our management identified the following material weakness in internal control over financial reporting:

- While the Company's Information Security Officer monitors reports of the production environment to identify authorized and unauthorized usage, as well as employee access to key financial applications, the activity is not reviewed against supporting documentation to ensure that all changes are authorized, and one privileged user account was not adequately monitored.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. We remediated the material weakness, and the Information Security Officer is reviewing all changes made by all privileged user accounts to the production environment against supporting documents to ensure that all such changes are authorized.

We believe the remediation measures strengthened our internal control over financial reporting and remediated the material weakness identified earlier. We will continue to monitor the effectiveness of these remediation measures and will make any adjustments and take such other actions as are appropriate.

## PART II. OTHER INFORMATION

### Item 6. Exhibits

<u>Exhibit No.</u>	<u>Exhibit</u>
10.01	<a href="#">Employment Agreement dated April 1, 2019, between Bank of Guam and Joaquin P.L.G. Cook</a>
10.02	<a href="#">Employment Agreement dated April 1, 2019, between Bank of Guam and Maria Eugenia H. Leon Guerrero</a>
10.03	<a href="#">Employment Agreement dated April 1, 2019, between Bank of Guam and William D. Leon Guerrero</a>
10.04	<a href="#">First Amendment to Stock Purchase Agreement dated March 12, 2019, between BankGuam Holding Company and David J. John</a>
31.01	<a href="#">Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.02	<a href="#">Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.01	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002</a>
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Unaudited Condensed Consolidated Statements of Financial Condition as of March 31, 2019, and December 31, 2018, (ii) Unaudited Condensed Consolidated Statements of Income for the three months ended March 31, 2019 and 2018, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2019 and 2018, (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2019 and 2018, and (v) Notes to Unaudited Condensed Consolidated Financial Statements

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, BankGuam Holding Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**BANKGUAM HOLDING COMPANY**

Date: May 10, 2019

By: /s/ JOAQUIN P.L.G. COOK

Joaquin P.L.G. Cook,  
President and Chief Executive Officer

Date: May 10, 2019

By: /s/ FRANCISCO M. ATALIG

Francisco M. Atalig,  
Senior Vice President and Chief Financial Officer

**EMPLOYMENT AGREEMENT**

This Agreement is made and entered into as of the 1<sup>st</sup> day of April 2019 by and between BANK OF GUAM, a Guam corporation (herein called the "Bank") and JOAQUIN P. L.G. COOK, (herein called the "President") (herein called "Agreement").

NOW, THEREFORE, in consideration of the mutual promises of the parties to the Agreement, it is hereby agreed as follows:

1. Employment. Bank hereby designates and employs President, and President hereby accepts employment with Bank, as its President and Chief Executive Officer.

2. Term. This Agreement shall be for a term commencing from April 1, 2019, and terminating on March 31, 2022.

3. Duties. President shall be the Chief Executive Officer of the Bank, and shall, subject to the control of the Board of Directors of said Bank, have general supervision, direction and control of the business and affairs of the Bank. President shall have the general powers and duties of management usually vested in the office of the President of a corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors of the Bank, or the By-Laws. In connection therewith, upon direction of the Board of Directors, President shall make necessary and reasonable business trips for which he will be reimbursed or expenses will be provided in accordance with such regulations as may be established by the Board of Directors. Included herewith shall be trips to visit with officials of correspondent banks and technical seminars as may be available.

4. Extent of Services. President shall devote his full time, attention and energy to the business of Bank and shall not, during the term of this Agreement, be engaged in any other business activities, unless such activities are reasonably determined by the Board of Directors of Bank not to be in competition or in conflict with the commercial banking business of Bank.

5. Termination of Employment. President's employment hereunder may be terminated by either the Bank or the President at any time and for any reason; provided that, unless otherwise provided herein, either party shall be required to give the other party at least 60 days advance written notice of any termination of the President's employment. Upon termination of the President's employment during the term of this Agreement, the President shall be entitled to the compensation and benefits described below and shall have no further rights to any compensation or any other benefits from the Bank or any of its affiliates.

(a) If the President's employment is terminated by the Bank for Cause, by the President without Good Reason or upon the President's death, the President shall be entitled to receive (i) accrued but unpaid Base Compensation which shall be paid on the pay date immediately following the termination date in accordance with the Bank's customary payroll procedures, (ii) reimbursement for unreimbursed business expenses properly incurred by the President and (iii) such employee benefits, if any, as to which the President may be entitled under the Bank's employee benefit plans, including the Survivor Income Plan and the SERP (items (i) through (iii) are referred to collectively as the "Accrued Amounts").

(b) If the President's employment is terminated by the Bank without Cause or by the President for Good Reason, the President shall be entitled to receive (i) the Accrued Amounts and (ii) the Adjusted Base Compensation, together with all Incentive Bonuses, for the remainder of the term of this Agreement.

(c) For purposes of this Agreement, "Cause" shall mean: (i) the President's willful failure to perform his duties (other than any such failure resulting from incapacity due to physical or mental illness); (ii) the President's willful failure to comply with any valid and legal directive of the Board of Directors or any material policy of the Bank; (iii) the President's willful engagement in dishonesty, illegal conduct, or gross misconduct which is, in each case, injurious to the Bank or its affiliates; (iv) the President's embezzlement, misappropriation, or fraud, whether or not related to the Executive's employment with the Company; (v) the President's conviction of or plea of guilty or nolo contendere to a crime that constitutes a felony (or state law equivalent); or (vi) the President's material breach of any material obligation under this Agreement or any other written agreement between the President and the Bank or its affiliates.

(d) For purposes of this Agreement, "Good Reason" shall mean the occurrence of any of the following during the term of this Agreement, in each case without the President's written consent: (i) a material reduction in the President's Base Compensation; (ii) a material reduction in the President's Incentive Bonus opportunity; (iii) a relocation of the President's principal place of employment by more than 100 miles; (iv) a material breach by the Bank of any material provision of this Agreement or any material provision of any other agreement between the President and the Bank or its affiliates; or (vii) a material, adverse change in the President's title or authority (other than temporarily while the Executive is physically or mentally incapacitated or as required by applicable law). The President cannot terminate his employment for Good Reason unless he has provided written notice to the Bank of the existence of the circumstances providing grounds for termination for Good Reason within 30 days of the initial existence of such grounds and the Bank has had at least 30 days from the date on which such notice is provided to cure such circumstances.

6. Base Compensation. As regular compensation for President's services hereunder, Bank shall pay President an annual base salary of Two Hundred Sixty Thousand Dollars and 00/100 (\$260, 000.00) during each year of the term hereof, payable in equal installments not less frequently than bi-weekly (herein called "Base Compensation").

7. Adjustments to Base Compensation. The Base Compensation shall be adjusted annually to reflect the increase, if any, in the cost-of-living by adding thereto an amount obtained by multiplying the Base Compensation by the percentage of which the level of the Consumer Price Index for the United States has increased over its level as of the date of commencement of the term of Agreement (herein called, together with Base Compensation, the "Adjusted Base Compensation").

Following the end of each year of this Agreement and within thirty (30) days after the release of the United States Bureau of Labor Statistics of the figures for such year, Bank shall pay to the President the amount of any additional compensation to which he is entitled as a result of such cost-of-living adjustment.

8. Incentive Bonus. As an incentive to President for his continuing services and contributions to the growth and profitability of Bank, President shall be paid, in addition to his Adjusted Base Compensation, an Incentive Bonus as follows:

(a) Subject to the quarterly adjustments at Section 9 below, an amount equal to two percent (2%) of current net profits of the Bank after taxes or Two Hundred and Fifty Thousand Dollars (\$250,000.00) whichever is less. However such Incentive Bonus is subject to a minimum payment of \$50,000 per year after all quarterly adjustments are computed pursuant to Section 9 below. The maximum amount shall be subject to review by the Board of Directors of Bank annually and appropriate adjustments shall then be made.

(b) The Incentive Bonus shall be computed and payable quarterly, within fifteen (15) days following each quarter except that each of the first quarterly payments of the Incentive Bonus shall be subject to adjustment, either increase or decrease, depending on the Bank's final audited financial statements of the preceding year by the Bank's independent accountants.

9. Adjustments to Bonus. On an annual basis, the President shall submit an annual budget and strategic plan to the Board. Based upon the criteria contained within the budget and strategic plan, the Incentive Bonus of the President shall be adjusted on a quarterly basis as follows:

(a) If the then current Return on Equity (ROE) of the Bank is 5 basis points or more below the preceding three-year average ROE of the Bank, then the Incentive Bonus shall be reduced by five percent (5%); if such ROE is 10 basis points or more below the preceding three-year average ROE of the Bank, then the Incentive Bonus shall be reduced by fifteen percent (15%); if such ROE is 20 basis points or more below the preceding three-year average ROE of the Bank, then the Incentive Bonus shall be reduced by twenty-five percent (25%);

(b) If the then current Return on Assets (ROA) of the Bank is 25 basis points or more below the Bank's peer group as published in the Federal Deposit Insurance Corporation's (FDIC) Uniform Bank Performance Report, then the Incentive Bonus shall be reduced by five percent (5%); if such ROA is 30 basis points or more below peer group, then the Incentive Bonus shall be reduced by fifteen percent (15%); if such ROA is 40 basis points or more below peer group, then the Incentive Bonus shall be reduced by twenty-five percent (25%);

(c) If the ratio of the then current Total Adversely Classified Assets of the Bank to Tier 1 Capital and Allowance for Loan and Lease Losses is greater than or equal to twenty-six percent (26%), then the Incentive Bonus shall be reduced by five percent (5%); if such ratio is greater than or equal to thirty-five percent (35%), then the Incentive Bonus shall be reduced by fifteen percent (15%); if such ratio is greater than or equal to forty percent (40%), then the Incentive Bonus shall be reduced by twenty-five percent (25%). If, however, if the ratio of the then current Total Adversely Classified Items to Tier 1 Capital and Allowance for Loan Lease Losses is eighteen percent (18%) and below, then the Incentive Bonus shall be increased by twelve and a half percent (12.5%); if such ratio is twenty percent (20%) and below, then an increase of 10%, if such ratio is twenty three percent (23%) and below, an increase by 5%;

(d) The Incentive Bonus shall be adjusted as follows based on the Bank's quarterly Efficiency Ratio:

<u>If such ratio is:</u>	<u>Incentive Bonus adjustment:</u>
68% or lower	Increase of 10%
69%	Increase of 5%
70%	No adjustment
71%	Reduction of 5%
72%	Reduction of 15%
73% or more	Reduction of 25%

For purposes of this Section 8, the ROA, ROE, Total Adversely Classified Items to Tier 1 Capital, Allowance for Loan and Lease Losses and Efficiency Ratio shall all be derived from any report of management submitted to the Board of Directors at the Board Meeting immediately preceding the date of any adjustment. If any dispute arises as to the calculations of any of such figures, the Compensation Committee, subject to Board approval, shall make the sole determination of such figures using whatever resources the Committee shall deem reasonably necessary. Attached to this Agreement and made a part hereof by this reference as Exhibit A, is a worksheet, which shall be used by the Bank to calculate the Incentive Bonus of the President.

10. Other Compensation or Benefits. In addition to the Adjusted Base Compensation and Incentive Bonus and any other compensation provided hereunder, Bank shall provide President with the following:

- (a) A five-week vacation, at full pay;
- (b) A health insurance, an accident insurance and disability insurance of a type and in an amount generally made available by Bank to its executive employees, at Bank's sole cost and expense;
- (c) A group term life insurance that is generally available to Bank's executive employees, at Bank's sole expense and cost;
- (d) A motor vehicle, at Bank's sole cost and expense, together with comprehensive insurance including public liability, in amounts not less than the amount required by law. All reasonable operating expenses shall be paid by Bank; and
- (e) A Survivor Income Plan with a death benefit of \$1,060,606.00 that is or will be made generally available to Bank's executive employees, at Bank's sole expense and cost.

11. Business Expenses. Bank shall pay or reimburse President upon submission of an itemized account by him for all reasonable business expenses incurred by President in promoting, pursuing or otherwise furthering the business of Bank, including, but not limited to expenses for travel, meals, hotel accommodations, entertainment, gifts and the like.

12. Payments Following Disability. Upon the permanent disability of the President, Bank shall pay to the President, or his assigns, the Adjusted Base Compensation, together with all Incentive Bonuses, for the remainder of the term of this Contract.

13. Successors and Assigns. This Agreement and all the terms and conditions hereof shall be binding upon and inure to the benefit of the Bank, including any successor entity to Bank by liquidation, merger, consolidation, reorganization, sale of assets or otherwise, and to the President, and when applicable, to his heirs, successors and assigns.

14. Retirement Plans. Employee may participate in any retirement plan of Bank and to receive payments thereunder which includes a Supplemental Executive Retirement Plan ("SERP") which pays out for a period of 15 years the amount of \$150,000 per annum after 10 years from the date of SERP contract, at the Bank's sole expense and cost, which benefit is generally made available to the Bank's executive employees, as described in the attached Exhibit B.

15. Non-Assumption. The services to be performed by President under this Agreement are personal to him, and may not be assumed by any other party except with Bank's prior written consent.

16. Entire Agreement. The making and execution of this Agreement by the parties hereto have been induced by no representations, statements, warranties or agreements other than those expressed herein. This Agreement embodies the entire understanding of the parties, and there are no further or other agreements or understandings, written or oral, in effect between the parties relating to the subject matter hereof, unless specifically referred to herein by reference.

17. Amendments. This Agreement and any term hereof may be changed, waived, discharged, or terminated only by an instrument in writing signed by the party against whom enforcement of such change, waiver, discharge or termination is or would be sought and without the necessity of additional consideration.

18. Notices. All communications and notices hereunder shall be deemed to have been properly given or served for all purposes when personally delivered to the party to whom it is directed, or in lieu of such personal service, if received by certified or registered United States mail, postage prepaid, at the following addresses:

If to Bank at: P.O. Box BW  
Hagatna, Guam 96910

If to President at: 210 Archbishop Flores Street  
Hagatna, Guam 96910

Either party may change the address provided above by giving written notice of such change to the other party as herein provided.

19. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited or invalid under such law, such provision shall be ineffective to the extent of the prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Agreement.

20. Law. This Agreement shall be governed under and construed in accordance with the law of Guam.

21. Attorney's Fees. In the event of any action, suit or proceeding brought under or in connection with this Agreement, the prevailing party therein shall be entitled to recover, and the other party thereto agrees to pay, costs and expenses in connection therewith including reasonable attorney's fees, disbursements and expenses.

22. Board Approval. This Contract is made pursuant to the Resolution of the Board of Directors adopted unanimously at its regular monthly meeting on March 25, 2019.

23. Headings. The headings of the sections of this Agreement have been included for convenience of reference only and shall in no way restrict or modify any of the terms or provisions thereof.

24. Compliance with Section 409A. The intent of the parties is that payments and benefits under this Agreement comply with Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations and guidance promulgated thereunder ("Section 409A"), to the extent applicable, and this Agreement be interpreted and administered to be in compliance with Section 409A. Notwithstanding anything in this Agreement to the contrary, the President shall not be considered to have terminated employment with the Bank for purposes of any payments under this Agreement which are subject to Section 409A until the President would be considered to have a "separation from service" from the Bank within the meaning of Section 409A. Each amount to be paid or benefit to be provided under this Agreement shall be construed as a separate and distinct payment for purposes of Section 409A. To the extent required to avoid accelerated taxation and/or tax penalties under Section 409A, amounts that would otherwise be payable and benefits that would otherwise be provided pursuant to this Agreement or any other arrangement between the President and the Bank during the six (6) month period immediately following the President's separation from service shall instead be paid on the first business day after the date that is six (6) months following the President's separation from service. The Bank makes no representation that any or all of the payments described in this Agreement will be exempt from or comply with Section 409A. The President shall be solely responsible for the payment of any taxes, penalties, interest or other expenses incurred by the President on account of non-compliance with Section 409A.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above mentioned.

BANK OF GUAM, a Guam corporation  
(herein called the "Bank")

By: /s/ ROGER P. CROUTHAMEL  
ROGER P. CROUTHAMEL  
Its Authorized Representative

/s/ JOAQUIN P. L.G. COOK  
JOAQUIN P. L.G COOK  
(herein called the "President")

**Executive Contracts**

**Period Calculated:**

Process Date:

**Net Income**  
(Bonus =2.00% of Net Income)

**Parameters:**

	Actual	Reductions
ROE	0.00%	-
ROA	0.00%	-
	0	
TACI/T1C+ALLL	0.00%	-
Efficiency Ratio	0.00%	-

**Total Reductions**

**Total Bonus**

1st Qtr Bonus	
2nd Qtr Bonus	
3rd Qtr Bonus	
4th Qtr Bonus	
Total YTD	-
Bonus Minimum	\$50,000
Bonus Maximum	\$250,000

**Bonus**

-

**Reductions**

-

-

-

-

-

-

-

**Incentive Parameters**

ROE	>last 3 year avg.
ROA	>UBPR
Total Adversely Classified Items/Tier 1 Capital + ALLL greater than:	=/<25%
Efficiency Ratio	=/< 70%

(none reflected for 2018 in contract)

**ROE**

2018	0.00%
2017	0.00%
2016	0.00%

**Prior Three Year Average 0.00%**

**UBPR ROA 0.00%**

Change upon Availability

**Net Profit**

**1st Qtr**

**2nd Qtr**

**3rd Qtr**

**4th Qtr**

**Total Full Year -**

**Reduce Total Incentive by:**

>or=5bps below G7 reduce by 5%	>or=10bps below G7 reduce by 15%	>or=20bps below G7 reduce by 25%
>or=26bps below UPBR reduce by 5%	>or=30bps below UBPR reduce by 15%	>or=40bps below UBPR reduce by 25%
>or= 26% reduce by 5% if 71% reduce by 5%	>or=35% reduce by 15% if 72% reduce by 15%	>or=40% reduce by 25% if 73% or more reduce by 25%

**Increase Total Incentive By:**

<or=18% increase by 12.5% if 68% or lower increase by 10%	<or=20% increase by 10% if 69% or lower increase by 5%	<or=23% increase by 5%
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CLARK CONSULTING

**Supplemental Executive Retirement Plan (SERP)  
with Bank Owned Life Insurance  
and Survivor Benefit Plan**

for  
**Bank of Guam**

February 28, 2011

Presented by

**Bill Gardiner, CLU**

3415 NE 40th Avenue  
Portland, OR 97212  
(503) 227-3816 Office  
(503) 539-8777 Cell  
(503) 465-3830 Fax

Securities offered through Clark Securities, Inc., DBA CCFS, Inc. in Texas  
Member FINRA & SIPC. Dallas, Texas 75201. Ph: 800-999-3125.

EXHIBIT B

## CLARK CONSULTING.

A Supplemental Executive Retirement Plan (SERP), also known as a Salary Continuation Plan (SCP), is essentially a defined benefit plan in which the employer agrees to pay a participant a future benefit in return for continued satisfactory job performance. A bank may choose to implement this type of benefit in order to recruit, retain or reward valuable executives.

Unlike a 401(k) plan or pension plan, this is a nonqualified plan. Accordingly, the bank can selectively reward certain key individuals without regard to the non-discrimination and reporting requirements of qualified plans. This plan is also an unfunded plan which means there are no specific assets set aside by the bank in connection with the establishment of the plan. The participant has no rights under the plan beyond those of a general creditor of the bank.

The plan is embodied in a written agreement between the bank and the individuals selected to participate in the plan. The agreement includes provisions which indicate the benefits to be provided at retirement or in the event of death, disability or termination of employment prior to retirement.

### **Plan Benefits**

- ✓ The bank's ability to recruit, retain and reward key decision makers is enhanced by the plan
- ✓ Supplemental retirement income is provided for participating executives
- ✓ Amounts awarded are not subject to federal income tax to the participants or heirs until received
- ✓ Individual agreements specify the benefit amounts, payout duration, vesting and other terms

**EMPLOYMENT AGREEMENT**

This Agreement is made and entered into as of the 1<sup>st</sup> day of April 2019 by and between BANK OF GUAM, a Guam corporation (herein called the "Bank") and MARIA EUGENIA H. LEON GUERRERO, (herein called the "Executive Vice President") (herein called "Agreement").

NOW, THEREFORE, in consideration of the mutual promises of the parties to the Agreement, it is hereby agreed as follows:

1. Employment. Bank hereby designates and employs Executive Vice President, and Executive Vice President hereby accepts employment with Bank, as its Executive Vice President and Chief Operating Officer.

2. Term. This Agreement shall be for a term commencing from April 1, 2019, and terminating on March 31, 2022.

3. Duties. Executive Vice President shall be the Chief Operating Officer of the Bank, and shall, subject to the control of the Board of Directors of said Bank, have general supervision, direction and control of the business and affairs of the Bank. Executive Vice President shall have the general powers and duties of management usually vested in the office of the Executive Vice President of a corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors of the Bank, or the By-Laws. In connection therewith, upon direction of the Board of Directors, Executive Vice President shall make necessary and reasonable business trips for which she will be reimbursed or expenses will be provided in accordance with such regulations as may be established by the Board of Directors. Included herewith shall be trips to visit with officials of correspondent banks and technical seminars as may be available.

4. Extent of Services. Executive Vice President shall devote her full time, attention and energy to the business of Bank and shall not, during the term of this Agreement, be engaged in any other business activities, unless such activities are reasonably determined by the Board of Directors of Bank not to be in competition or in conflict with the commercial banking business of Bank.

5. Termination of Employment. Executive Vice President's employment hereunder may be terminated by either the Bank or the Executive Vice President at any time and for any reason; provided that, unless otherwise provided herein, either party shall be required to give the other party at least 60 days advance written notice of any termination of the Executive Vice President's employment. Upon termination of the Executive Vice President's employment during the term of this Agreement, the Executive Vice President shall be entitled to the compensation and benefits described below and shall have no further rights to any compensation or any other benefits from the Bank or any of its affiliates.

(a) If the Executive Vice President's employment is terminated by the Bank for Cause, by the Executive Vice President without Good Reason or upon the Executive Vice President's death, the Executive Vice President shall be entitled to receive (i) accrued but unpaid Base Compensation which shall be paid on the pay date immediately following the termination date in accordance with the Bank's customary payroll procedures, (ii) reimbursement for unreimbursed business expenses properly incurred by the Executive Vice President and (iii) such employee benefits, if any, as to which the Executive Vice President may be entitled under the Bank's employee benefit plans, including the Survivor Income Plan and the SERP (items (i) through (iii) are referred to collectively as the "Accrued Amounts").

(b) If the Executive Vice President's employment is terminated by the Bank without Cause or by the Executive Vice President for Good Reason, the Executive Vice President shall be entitled to receive (i) the Accrued Amounts and (ii) the Adjusted Base Compensation, together with all Incentive Bonuses, for the remainder of the term of this Agreement.

(c) For purposes of this Agreement, "Cause" shall mean: (i) the Executive Vice President's willful failure to perform his duties (other than any such failure resulting from incapacity due to physical or mental illness); (ii) the Executive Vice President's willful failure to comply with any valid and legal directive of the Board of Directors or any material policy of the Bank; (iii) the Executive Vice President's willful engagement in dishonesty, illegal conduct, or gross misconduct which is, in each case, injurious to the Bank or its affiliates; (iv) the Executive Vice President's embezzlement, misappropriation, or fraud, whether or not related to the Executive Vice President's employment with the Bank; (v) the Executive Vice President's conviction of or plea of guilty or nolo contendere to a crime that constitutes a felony (or state law equivalent); or (vi) the Executive Vice President's material breach of any material obligation under this Agreement or any other written agreement between the Executive Vice President and the Bank or its affiliates.

(d) For purposes of this Agreement, "Good Reason" shall mean the occurrence of any of the following during the term of this Agreement, in each case without the Executive Vice President's written consent: (i) a material reduction in the Executive Vice President's Base Compensation; (ii) a material reduction in the Executive Vice President's Incentive Bonus opportunity; (iii) a relocation of the Executive Vice President's principal place of employment by more than 100 miles; (iv) a material breach by the Bank of any material provision of this Agreement or any material provision of any other agreement between the Executive Vice President and the Bank or its affiliates; or (vii) a material, adverse change in the Executive Vice President's title or authority (other than temporarily while the Executive is physically or mentally incapacitated or as required by applicable law). The Executive Vice President cannot terminate his employment for Good Reason unless he has provided written notice to the Bank of the existence of the circumstances providing grounds for termination for Good Reason within 30 days of the initial existence of such grounds and the Bank has had at least 30 days from the date on which such notice is provided to cure such circumstances.

6. Base Compensation. As regular compensation for Executive Vice President's services hereunder, Bank shall pay Executive Vice President an annual base salary of Two Hundred Fifty Thousand Dollars and 00/100 (\$250,000.00) during each year of the term hereof, payable in equal installments not less frequently than bi-weekly (herein called "Base Compensation").

7. Adjustments to Base Compensation. The Base Compensation shall be adjusted annually to reflect the increase, if any, in the cost-of-living by adding thereto an amount obtained by multiplying the Base Compensation by the percentage of which the level of the Consumer Price Index for the United States has increased over its level as of the date of commencement of the term of Agreement (herein called, together with Base Compensation, the "Adjusted Base Compensation").

Following the end of each year of this Agreement and within thirty (30) days after the release of the United States Bureau of Labor Statistics of the figures for such year, Bank shall pay to the Executive Vice President the amount of any additional compensation to which she is entitled as a result of such cost-of-living adjustment.

8. Incentive Bonus. As an incentive to Executive Vice President for her continuing services and contributions to the growth and profitability of Bank, Executive Vice President shall be paid, in addition to her Adjusted Base Compensation, an Incentive Bonus as follows:

(a) Subject to the quarterly adjustments at Section 9 below, an amount equal to two percent (2%) of current net profits of the Bank after taxes or Two Hundred and Fifty Thousand Dollars (\$250,000.00) whichever is less. However such Incentive Bonus is subject to a minimum payment of \$50,000 per year after all quarterly adjustments are computed pursuant to Section 9 below. The maximum amount shall be subject to review by the Board of Directors of Bank annually and appropriate adjustments shall then be made.

(b) The Incentive Bonus shall be computed and payable quarterly, within fifteen (15) days following each quarter except that each of the first quarterly payments of the Incentive Bonus shall be subject to adjustment, either increase or decrease, depending on the Bank's final audited financial statements of the preceding year by the Bank's independent accountants.

9. Adjustments to Bonus. On an annual basis, the Executive Vice President shall submit an annual budget and strategic plan to the Board. Based upon the criteria contained within the budget and strategic plan, the Incentive Bonus of the Executive Vice President shall be adjusted on a quarterly basis as follows:

(a) If the then current Return on Equity (ROE) of the Bank is 5 basis points or more below the preceding three-year average ROE of the Bank, then the Incentive Bonus shall be reduced by five percent (5%); if such ROE is 10 basis points or more below the preceding three-year average ROE of the Bank, then the Incentive Bonus shall be reduced by fifteen percent (15%); if such ROE is 20 basis points or more below the preceding three-year average ROE of the Bank, then the Incentive Bonus shall be reduced by twenty-five percent (25%);

(b) If the then current Return on Assets (ROA) of the Bank is 25 basis points or more below the Bank's peer group as published in the Federal Deposit Insurance Corporation's (FDIC) Uniform Bank Performance Report, then the Incentive Bonus shall be reduced by five percent (5%); if such ROA is 30 basis points or more below peer group, then the Incentive Bonus shall be reduced by fifteen percent (15%); if such ROA is 40 basis points or more below peer group, then the Incentive Bonus shall be reduced by twenty-five percent (25%);

(c) If the ratio of the then current Total Adversely Classified Assets of the Bank to Tier 1 Capital and Allowance for Loan and Lease Losses is greater than or equal to twenty-six percent (26%), then the Incentive Bonus shall be reduced by five percent (5%); if such ratio is greater than or equal to thirty-five percent (35%), then the Incentive Bonus shall be reduced by fifteen percent (15%); if such ratio is greater than or equal to forty percent (40%), then the Incentive Bonus shall be reduced by twenty-five percent (25%). If, however, if the ratio of the then current Total Adversely Classified Items to Tier 1 Capital and Allowance for Loan Lease Losses is eighteen percent (18%) and below, then the Incentive Bonus shall be increased by twelve and a half percent (12.5%); if such ratio is twenty percent (20%) and below, then an increase of 10%, if such ratio is twenty three percent (23%) and below, an increase by 5%;

(d) The Incentive Bonus shall be adjusted as follows based on the Bank's quarterly Efficiency Ratio:

<u>If such ratio is:</u>	<u>Incentive Bonus adjustment:</u>
68% or lower	Increase of 10%
69%	Increase of 5%
70%	No adjustment
71%	Reduction of 5%
72%	Reduction of 15%
73% or more	Reduction of 25%

For purposes of this Section 8, the ROA, ROE, Total Adversely Classified Items to Tier 1 Capital, Allowance for Loan and Lease Losses and Efficiency Ratio shall all be derived from any report of management submitted to the Board of Directors at the Board Meeting immediately preceding the date of any adjustment. If any dispute arises as to the calculations of any of such figures, the Compensation Committee, subject to Board approval, shall make the sole determination of such figures using whatever resources the Committee shall deem reasonably necessary. Attached to this Agreement and made a part hereof by this reference as Exhibit A, is a worksheet, which shall be used by the Bank to calculate the Incentive Bonus of the Executive Vice President.

10. Other Compensation or Benefits. In addition to the Adjusted Base Compensation and Incentive Bonus and any other compensation provided hereunder, Bank shall provide Executive Vice President with the following:

- (a) A five-week vacation, at full pay;
- (b) A health insurance, an accident insurance and disability insurance of a type and in an amount generally made available by Bank to its executive employees, at Bank's sole cost and expense;
- (c) A group term life insurance that is generally available to Bank's executive employees, at Bank's sole expense and cost;

(d) A motor vehicle, at Bank's sole cost and expense, together with comprehensive insurance including public liability, in amounts not less than the amount required by law. All reasonable operating expenses shall be paid by Bank; and

(e) A Survivor Income Plan with a death benefit of \$1,060,606.00 that is or will be made generally available to Bank's executive employees, at Bank's sole expense and cost.

11. Business Expenses. Bank shall pay or reimburse Executive Vice President upon submission of an itemized account by her for all reasonable business expenses incurred by Executive Vice President in promoting, pursuing or otherwise furthering the business of Bank, including, but not limited to expenses for travel, meals, hotel accommodations, entertainment, gifts and the like.

12. Payments Following Disability. Upon the permanent disability of the Executive Vice President, Bank shall pay to the Executive Vice President, or her assigns, the Adjusted Base Compensation, together with all Incentive Bonuses, for the remainder of the term of this Contract.

13. Successors and Assigns. This Agreement and all the terms and conditions hereof shall be binding upon and inure to the benefit of the Bank, including any successor entity to Bank by liquidation, merger, consolidation, reorganization, sale of assets or otherwise, and to the Executive Vice President, and when applicable, to her heirs, successors and assigns.

14. Retirement Plans. Employee may participate in any retirement plan of Bank and to receive payments thereunder which includes a Supplemental Executive Retirement Plan ("SERP") which pays out for a period of 15 years the amount of \$100,000 per annum after 10 years from the date of SERP contract, at the Bank's sole expense and cost, which benefit is generally made available to the Bank's executive employees, as described in the attached Exhibit B.

15. Non-Assumption. The services to be performed by Executive Vice President under this Agreement are personal to her, and may not be assumed by any other party except with Bank's prior written consent.

16. Entire Agreement. The making and execution of this Agreement by the parties hereto have been induced by no representations, statements, warranties or agreements other than those expressed herein. This Agreement embodies the entire understanding of the parties, and there are no further or other agreements or understandings, written or oral, in effect between the parties relating to the subject matter hereof, unless specifically referred to herein by reference.

17. Amendments. This Agreement and any term hereof may be changed, waived, discharged, or terminated only by an instrument in writing signed by the party against whom enforcement of such change, waiver, discharge or termination is or would be sought and without the necessity of additional consideration.

18. Notices. All communications and notices hereunder shall be deemed to have been properly given or served for all purposes when personally delivered to the party to whom it is directed, or in lieu of such personal service, if received by certified or registered United States mail, postage prepaid, at the following addresses:

If to Bank at: P.O. Box BW  
Hagatna, Guam 96910

If to Executive Vice President at: 181 Jose Q. Pangelinan St.  
Yona, Guam 96915

Either party may change the address provided above by giving written notice of such change to the other party as herein provided.

19. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited or invalid under such law, such provision shall be ineffective to the extent of the prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Agreement.

20. Law. This Agreement shall be governed under and construed in accordance with the law of Guam.

21. Attorney's Fees. In the event of any action, suit or proceeding brought under or in connection with this Agreement, the prevailing party therein shall be entitled to recover, and the other party thereto agrees to pay, costs and expenses in connection therewith including reasonable attorney's fees, disbursements and expenses.

22. Board Approval. This Contract is made pursuant to the Resolution of the Board of Directors adopted unanimously at its regular monthly meeting on March 25, 2019.

23. Headings. The headings of the sections of this Agreement have been included for convenience of reference only and shall in no way restrict or modify any of the terms or provisions thereof.

24. Compliance with Section 409A. The intent of the parties is that payments and benefits under this Agreement comply with Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations and guidance promulgated thereunder ("Section 409A"), to the extent applicable, and this Agreement be interpreted and administered to be in compliance with Section 409A. Notwithstanding anything in this Agreement to the contrary, the Executive Vice President shall not be considered to have terminated employment with the Bank for purposes of any payments under this Agreement which are subject to Section 409A until the Executive Vice President would be considered to have a "separation from service" from the Bank within the meaning of Section 409A. Each amount to be paid or benefit to be provided under this Agreement shall be construed as a separate and distinct payment for purposes of Section 409A. To the extent required to avoid accelerated taxation and/or tax penalties under Section 409A, amounts that would

otherwise be payable and benefits that would otherwise be provided pursuant to this Agreement or any other arrangement between the Executive Vice and the Bank during the six (6) month period immediately following the Executive Vice President's separation from service shall instead be paid on the first business day after the date that is six (6) months following the Executive Vice President's separation from service. The Bank makes no representation that any or all of the payments described in this Agreement will be exempt from or comply with Section 409A. The Executive Vice President shall be solely responsible for the payment of any taxes, penalties, interest or other expenses incurred by the Executive Vice President on account of non-compliance with Section 409A.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above mentioned.

BANK OF GUAM, a Guam corporation  
(herein called the "Bank")

By:           /s/ ROGER P. CROUTHAMEL            
ROGER P. CROUTHAMEL  
Its Authorized Representative

          /s/ MARIA E. H. LEON GUERRERO            
MARIA E. H. LEON GUERRERO  
(herein called the "Executive Vice President")

**Executive Contracts**

**Period Calculated:**

Process Date:

**Net Income**  
(Bonus =2.00% of Net Income)

**Parameters:**

ROE

ROA

TACI/T1C+ALLL

Efficiency Ratio

**Total Reductions**

**Total Bonus**

1st Qtr Bonus

2nd Qtr Bonus

3rd Qtr Bonus

4th Qtr Bonus

Total YTD

Bonus Minimum

Bonus Maximum

**Bonus**

-

**Actual Reductions**

**0.00%**

**0.00%**

0

**0.00%**

**0.00%**

-

-

-

\$50,000

\$250,000

**Incentive Parameters**

ROE	>last 3 year avg.
ROA	>UBPR
Total Adversely Classified Items/Tier 1 Capital + ALLL greater than:	=/<25%
Efficiency Ratio	=/< 70%

(none reflected for 2018 in contract)			
<b>ROE</b>			
	2018		0.00%
	2017		0.00%
	2016		0.00%
<b>Prior Three Year Average</b>			<b>0.00%</b>
<b>UBPR ROA</b>			<b>0.00%</b>

Change upon Availability

**Net Profit**

**1st Qtr**

**2nd Qtr**

**3rd Qtr**

**4th Qtr**

**Total Full Year**

-

**Reduce Total Incentive by:**

>or=5bps below G7 reduce by 5%	>or=10bps below G7 reduce by 15%	>or=20bps below G7 reduce by 25%
>or=26bps below UPBR reduce by 5%	>or=30bps below UBPR reduce by 15%	>or=40bps below UBPR reduce by 25%
>or= 26% reduce by 5%	>or=35% reduce by 15%	>or=40% reduce by 25%
if 71% reduce by 5%	if 72% reduce by 15%	if 73% or more reduce by 25%

**Increase Total Incentive By:**

<or=18% increase by 12.5% if 68% or lower increase by 10%	<or=20% increase by 10% if 69% or lower increase by 5%	<or=23% increase by 5%
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CLARK CONSULTING

**Supplemental Executive Retirement Plan (SERP)  
with Bank Owned Life Insurance  
and Survivor Benefit Plan**

for  
**Bank of Guam**

February 28, 2011

Presented by

**Bill Gardiner, CLU**

3415 NE 40th Avenue  
Portland, OR 97212  
(503) 227-3816 Office  
(503) 539-8777 Cell  
(503) 465-3830 Fax

EXHIBIT B

Securities offered through Clark Securities, Inc., DBA CCFS, Inc. in Texas  
Member FINRA & SIPC, Dallas, Texas 75201. Ph: 800-999-3125.

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## CLARK CONSULTING.

A Supplemental Executive Retirement Plan (SERP), also known as a Salary Continuation Plan (SCP), is essentially a defined benefit plan in which the employer agrees to pay a participant a future benefit in return for continued satisfactory job performance. A bank may choose to implement this type of benefit in order to recruit, retain or reward valuable executives.

Unlike a 401(k) plan or pension plan, this is a nonqualified plan. Accordingly, the bank can selectively reward certain key individuals without regard to the non-discrimination and reporting requirements of qualified plans. This plan is also an unfunded plan which means there are no specific assets set aside by the bank in connection with the establishment of the plan. The participant has no rights under the plan beyond those of a general creditor of the bank.

The plan is embodied in a written agreement between the bank and the individuals selected to participate in the plan. The agreement includes provisions which indicate the benefits to be provided at retirement or in the event of death, disability or termination of employment prior to retirement.

### **Plan Benefits**

- ✓ The bank's ability to recruit, retain and reward key decision makers is enhanced by the plan
- ✓ Supplemental retirement income is provided for participating executives
- ✓ Amounts awarded are not subject to federal income tax to the participants or heirs until received
- ✓ Individual agreements specify the benefit amounts, payout duration, vesting and other terms

## EMPLOYMENT AGREEMENT

This Agreement is made and entered into as of the 1<sup>st</sup> day of April 2019 by and between BANK OF GUAM, a Guam corporation (herein called the "Bank") and WILLIAM D. LEON GUERRERO, (herein called the "Chairman of the Board") (herein called "Agreement").

NOW, THEREFORE, in consideration of the mutual promises of the parties to the Agreement, it is hereby agreed as follows:

1. Employment. Bank hereby designates and employs Chairman of the Board, and Chairman of the Board hereby accepts employment with Bank, as its Chairman of the Board.

2. Term. This Agreement shall be for a term commencing from April 1, 2019, and terminating on March 31, 2022.

3. Duties. Chairman of the Board shall, subject to the control of the Board of Directors of said Bank, have the responsibility of providing leadership to the Board of Directors, taking responsibility of the Board's composition and development, ensuring the Board has proper information, plans and conducts board meetings effectively, gets all directors involved in the Board's work, ensures the Board focuses on its key tasks, engage the Board in assessing and improving the Bank's performance, oversees the induction and development of directors and supports the President and Chief Executive Officer and the Executive Vice President and Chief Operating Officer. In connection therewith, the Chairman of the Board shall make necessary and reasonable business trips for which he will be reimbursed or expenses will be provided in accordance with such regulations as may be established by the Board of Directors. Included herewith shall be trips to visit with officials of correspondent banks and technical seminars as may be available.

4. Extent of Services. Chairman of the Board shall devote his full time, attention and energy to the business of Bank and shall not, during the term of this Agreement, be engaged in any other business activities, unless such activities are reasonably determined by the Board of Directors of Bank not to be in competition or in conflict with the commercial banking business of Bank.

5. Termination of Employment. Chairman of the Board's employment hereunder may be terminated by either the Bank or the Chairman of the Board at any time and for any reason; provided that, unless otherwise provided herein, either party shall be required to give the other party at least 60 days advance written notice of any termination of the Chairman of the Board's employment. Upon termination of the Chairman of the Board's employment during the term of this Agreement, the Chairman of the Board shall be entitled to the compensation and benefits described below and shall have no further rights to any compensation or any other benefits from the Bank or any of its affiliates.

(a) If the Chairman of the Board's employment is terminated by the Bank for Cause, by the Chairman of the Board without Good Reason or upon the Chairman of the Board's death, the Chairman of the Board shall be entitled to receive (i) accrued but unpaid Base Compensation which shall be paid on the pay date immediately following the termination date in

accordance with the Bank's customary payroll procedures, (ii) reimbursement for unreimbursed business expenses properly incurred by the Chairman of the Board and (iii) such employee benefits, if any, as to which the Chairman of the Board may be entitled under the Bank's employee benefit plans, including the Survivor Income Plan and the SERP (items (i) through (iii) are referred to collectively as the "Accrued Amounts").

(b) If the Chairman of the Board's employment is terminated by the Bank without Cause or by the Chairman of the Board for Good Reason, the Chairman of the Board shall be entitled to receive (i) the Accrued Amounts and (ii) the Adjusted Base Compensation, together with all Incentive Bonuses, for the remainder of the term of this Agreement.

(c) For purposes of this Agreement, "Cause" shall mean: (i) the Chairman of the Board's willful failure to perform his duties (other than any such failure resulting from incapacity due to physical or mental illness); (ii) the Chairman of the Board's willful failure to comply with any valid and legal directive of the Board of Directors or any material policy of the Bank; (iii) the Chairman of the Board's willful engagement in dishonesty, illegal conduct, or gross misconduct which is, in each case, injurious to the Bank or its affiliates; (iv) the Chairman of the Board's embezzlement, misappropriation, or fraud, whether or not related to the Executive Vice Executive's employment with the Bank; (v) the Chairman of the Board's conviction of or plea of guilty or nolo contendere to a crime that constitutes a felony (or state law equivalent); or (vi) the Chairman of the Board's material breach of any material obligation under this Agreement or any other written agreement between the Chairman of the Board and the Bank or its affiliates.

(d) For purposes of this Agreement, "Good Reason" shall mean the occurrence of any of the following during the term of this Agreement, in each case without the Chairman of the Board's written consent: (i) a material reduction in the Chairman of the Board's Base Compensation; (ii) a material reduction in the Chairman of the Board's Incentive Bonus opportunity; (iii) a relocation of the Chairman of the Board's principal place of employment by more than 100 miles; (iv) a material breach by the Bank of any material provision of this Agreement or any material provision of any other agreement between the Chairman of the Board and the Bank or its affiliates; or (vii) a material, adverse change in the Chairman of the Board's title or authority (other than temporarily while the Executive is physically or mentally incapacitated or as required by applicable law). The Chairman of the Board cannot terminate his employment for Good Reason unless he has provided written notice to the Bank of the existence of the circumstances providing grounds for termination for Good Reason within 30 days of the initial existence of such grounds and the Bank has had at least 30 days from the date on which such notice is provided to cure such circumstances.

6. Base Compensation. As regular compensation for Chairman of the Board's services hereunder, Bank shall pay Chairman of the Board an annual base salary of Three Hundred Thousand Dollars and 00/100 (\$300,000.00) during each year of the term hereof, payable in equal installments not less frequently than bi-weekly (herein called "Base Compensation").

7. Adjustments to Base Compensation. The Base Compensation shall be adjusted annually to reflect the increase, if any, in the cost-of-living by adding thereto an amount obtained by multiplying the Base Compensation by the percentage of which the level of the Consumer Price Index for the United States has increased over its level as of the date of commencement of the term of Agreement (herein called, together with Base Compensation, the "Adjusted Base Compensation").

Following the end of each year of this Agreement and within thirty (30) days after the release of the United States Bureau of Labor Statistics of the figures for such year, Bank shall pay to the Chairman of the Board the amount of any additional compensation to which he is entitled as a result of such cost-of-living adjustment.

8. Incentive Bonus. As an incentive to Chairman of the Board for his continuing services and contributions to the growth and profitability of Bank, Chairman of the Board shall be paid, in addition to his Adjusted Base Compensation, an Incentive Bonus as follows:

(a) Subject to the quarterly adjustments at Section 9 below, an amount equal to two percent (2%) of current net profits of the Bank after taxes or Two Hundred and Fifty Thousand Dollars (\$250,000.00) whichever is less. However such Incentive Bonus is subject to a minimum payment of \$50,000 per year after all quarterly adjustments are computed pursuant to Section 9 below. The maximum amount shall be subject to review by the Board of Directors of Bank annually and appropriate adjustments shall then be made.

(b) The Incentive Bonus shall be computed and payable quarterly, within fifteen (15) days following each quarter except that each of the first quarterly payments of the Incentive Bonus shall be subject to adjustment, either increase or decrease, depending on the Bank's final audited financial statements of the preceding year by the Bank's independent accountants.

9. Adjustments to Bonus. On an annual basis, the Chairman of the Board shall submit an annual budget and strategic plan to the Board. Based upon the criteria contained within the budget and strategic plan, the Incentive Bonus of the Chairman of the Board shall be adjusted on a quarterly basis as follows:

(a) If the then current Return on Equity (ROE) of the Bank is 5 basis points or more below the preceding three-year average ROE of the Bank, then the Incentive Bonus shall be reduced by five percent (5%); if such ROE is 10 basis points or more below the preceding three-year average ROE of the Bank, then the Incentive Bonus shall be reduced by fifteen percent (15%); if such ROE is 20 basis points or more below the preceding three-year average ROE of the Bank, then the Incentive Bonus shall be reduced by twenty-five percent (25%);

(b) If the then current Return on Assets (ROA) of the Bank is 25 basis points or more below the Bank's peer group as published in the Federal Deposit Insurance Corporation's (FDIC) Uniform Bank Performance Report, then the Incentive Bonus shall be reduced by five percent (5%); if such ROA is 30 basis points or more below peer group, then the Incentive Bonus shall be reduced by fifteen percent (15%); if such ROA is 40 basis points or more below peer group, then the Incentive Bonus shall be reduced by twenty-five percent (25%);

(c) If the ratio of the then current Total Adversely Classified Assets of the Bank to Tier 1 Capital and Allowance for Loan and Lease Losses is greater than or equal to twenty-six percent (26%), then the Incentive Bonus shall be reduced by five percent (5%); if such ratio is greater than or equal to thirty-five percent (35%), then the Incentive Bonus shall be reduced by fifteen percent (15%); if such ratio is greater than or equal to forty percent (40%), then the Incentive Bonus shall be reduced by twenty-five percent (25%). If, however, if the ratio of the then current Total Adversely Classified Items to Tier 1 Capital and Allowance for Loan Lease Losses is eighteen percent (18%) and below, then the Incentive Bonus shall be increased by twelve and a half percent (12.5%); if such ratio is twenty percent (20%) and below, then an increase of 10%, if such ratio is twenty three percent (23%) and below, an increase by 5%;

(d) The Incentive Bonus shall be adjusted as follows based on the Bank's quarterly Efficiency Ratio:

<u>If such ratio is:</u>	<u>Incentive Bonus adjustment:</u>
68% or lower	Increase of 10%
69%	Increase of 5%
70%	No adjustment
71%	Reduction of 5%
72%	Reduction of 15%
73% or more	Reduction of 25%

For purposes of this Section 8, the ROA, ROE, Total Adversely Classified Items to Tier 1 Capital, Allowance for Loan and Lease Losses and Efficiency Ratio shall all be derived from any report of management submitted to the Board of Directors at the Board Meeting immediately preceding the date of any adjustment. If any dispute arises as to the calculations of any of such figures, the Compensation Committee, subject to Board approval, shall make the sole determination of such figures using whatever resources the Committee shall deem reasonably necessary. Attached to this Agreement and made a part hereof by this reference as Exhibit A, is a worksheet, which shall be used by the Bank to calculate the Incentive Bonus of the Chairman of the Board.

10. Other Compensation or Benefits. In addition to the Adjusted Base Compensation and Incentive Bonus and any other compensation provided hereunder, Bank shall provide Chairman of the Board with the following:

- (a) A five-week vacation, at full pay;
- (b) A health insurance, an accident insurance and disability insurance of a type and in an amount generally made available by Bank to its executive employees, at Bank's sole cost and expense;
- (c) A group term life insurance that is generally available to Bank's executive employees, at Bank's sole expense and cost;

(d) A motor vehicle, at Bank's sole cost and expense, together with comprehensive insurance including public liability, in amounts not less than the amount required by law. All reasonable operating expenses shall be paid by Bank; and

(e) A Survivor Income Plan with a death benefit of \$1,060,606.00 that is or will be made generally available to Bank's executive employees, at Bank's sole expense and cost.

11. Business Expenses. Bank shall pay or reimburse Chairman of the Board upon submission of an itemized account by him for all reasonable business expenses incurred by Chairman of the Board in promoting, pursuing or otherwise furthering the business of Bank, including, but not limited to expenses for travel, meals, hotel accommodations, entertainment, gifts and the like.

12. Payments Following Disability. Upon the permanent disability of the Chairman of the Board, Bank shall pay to the Chairman of the Board, or his assigns, the Adjusted Base Compensation, together with all Incentive Bonuses, for the remainder of the term of this Contract.

13. Successors and Assigns. This Agreement and all the terms and conditions hereof shall be binding upon and inure to the benefit of the Bank, including any successor entity to Bank by liquidation, merger, consolidation, reorganization, sale of assets or otherwise, and to the Chairman of the Board, and when applicable, to his heirs, successors and assigns.

14. Retirement Plans. Employee may participate in any retirement plan of Bank and to receive payments thereunder which includes a Supplemental Executive Retirement Plan ("SERP") which pays out for a period of 15 years the amount of \$150,000 per annum after 10 years from the date of SERP contract, at the Bank's sole expense and cost, which benefit is generally made available to the Bank's executive employees, as described in the attached Exhibit B.

15. Non-Assumption. The services to be performed by Chairman of the Board under this Agreement are personal to him, and may not be assumed by any other party except with Bank's prior written consent.

16. Entire Agreement. The making and execution of this Agreement by the parties hereto have been induced by no representations, statements, warranties or agreements other than those expressed herein. This Agreement embodies the entire understanding of the parties, and there are no further or other agreements or understandings, written or oral, in effect between the parties relating to the subject matter hereof, unless specifically referred to herein by reference.

17. Amendments. This Agreement and any term hereof may be changed, waived, discharged, or terminated only by an instrument in writing signed by the party against whom enforcement of such change, waiver, discharge or termination is or would be sought and without the necessity of additional consideration.

18. Notices. All communications and notices hereunder shall be deemed to have been properly given or served for all purposes when personally delivered to the party to whom it is directed, or in lieu of such personal service, if received by certified or registered United States mail, postage prepaid, at the following addresses:

If to Bank at: P.O. Box BW  
Hagatna, Guam 96910

If to Chairman of the Board at: P.O. Box 92  
Hagatna, Guam 96910

Either party may change the address provided above by giving written notice of such change to the other party as herein provided.

19. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited or invalid under such law, such provision shall be ineffective to the extent of the prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Agreement.

20. Law. This Agreement shall be governed under and construed in accordance with the law of Guam.

21. Attorney's Fees. In the event of any action, suit or proceeding brought under or in connection with this Agreement, the prevailing party therein shall be entitled to recover, and the other party thereto agrees to pay, costs and expenses in connection therewith including reasonable attorney's fees, disbursements and expenses.

22. Board Approval. This Contract is made pursuant to the Resolution of the Board of Directors adopted unanimously at its regular monthly meeting on March 25, 2019.

23. Headings. The headings of the sections of this Agreement have been included for convenience of reference only and shall in no way restrict or modify any of the terms or provisions thereof.

24. Compliance with Section 409A. The intent of the parties is that payments and benefits under this Agreement comply with Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations and guidance promulgated thereunder ("Section 409A"), to the extent applicable, and this Agreement be interpreted and administered to be in compliance with Section 409A. Notwithstanding anything in this Agreement to the contrary, the Chairman of the Board shall not be considered to have terminated employment with the Bank for purposes of any payments under this Agreement which are subject to Section 409A until the Chairman of the Board would be considered to have a "separation from service" from the Bank within the meaning of Section 409A. Each amount to be paid or benefit to be provided under this Agreement shall be construed as a separate and distinct payment for purposes of Section 409A. To the extent required to avoid accelerated taxation and/or tax penalties under Section 409A, amounts that would otherwise be payable and

benefits that would otherwise be provided pursuant to this Agreement or any other arrangement between the Executive Vice and the Bank during the six (6) month period immediately following the Chairman of the Board's separation from service shall instead be paid on the first business day after the date that is six (6) months following the Chairman of the Board's separation from service. The Bank makes no representation that any or all of the payments described in this Agreement will be exempt from or comply with Section 409A. The Chairman of the Board shall be solely responsible for the payment of any taxes, penalties, interest or other expenses incurred by the Chairman of the Board on account of non-compliance with Section 409A.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above mentioned.

BANK OF GUAM, a Guam corporation  
(herein called the "Bank")

By:           /s/ ROGER P. CROUTHAMEL            
ROGER P. CROUTHAMEL  
Its Authorized Representative

          /s/ WILLIAM D. LEON GUERRERO            
WILLIAM D. LEON GUERRERO  
(herein called the "Chairman of the Board")

**Executive Contracts**

**Period Calculated:**

Process Date:

**Net Income**  
(Bonus =2.00% of Net Income)

**Bonus**

-

**Parameters:**

**Actual**

**Reductions**

ROE	0.00%	-
ROA	0.00%	-
TACI/T1C+ALLL	0	-
Efficiency Ratio	0.00%	-

**Total Reductions** -

**Total Bonus** -

1st Qtr Bonus	
2nd Qtr Bonus	
3rd Qtr Bonus	
4th Qtr Bonus	
Total YTD	-

Bonus Minimum \$50,000

Bonus Maximum \$250,000

**Incentive Parameters**

ROE	>last 3 year avg.
ROA	>UBPR
Total Adversely Classified Items/Tier 1 Capital + ALLL greater than:	=/<25%
Efficiency Ratio	=/< 70%

(none reflected for 2018 in contract)

<b>ROE</b>		
	2018	0.00%
	2017	0.00%
	2016	0.00%

**Prior Three Year Average** 0.00%

**UBPR ROA** 0.00%

Change upon Availability

<b>Net Profit</b>	
1st Qtr	
2nd Qtr	
3rd Qtr	
4th Qtr	
<b>Total Full Year</b>	-

**Reduce Total Incentive by:**

>or=5bps below G7 reduce by 5%	>or=10bps below G7 reduce by 15%	>or=20bps below G7 reduce by 25%
>or=26bps below UPBR reduce by 5%	>or=30bps below UBPR reduce by 15%	>or=40bps below UBPR reduce by 25%
>or= 26% reduce by 5% if 71% reduce by 5%	>or=35% reduce by 15% if 72% reduce by 15%	>or=40% reduce by 25% if 73% or more reduce by 25%

**Increase Total Incentive By:**

<or=18% increase by 12.5% if 68% or lower increase by 10%	<or=20% increase by 10% if 69% or lower increase by 5%	<or=23% increase by 5%
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CLARK CONSULTING

**Supplemental Executive Retirement Plan (SERP)  
with Bank Owned Life Insurance  
and Survivor Benefit Plan**

for  
**Bank of Guam**

February 28, 2011

Presented by

**Bill Gardiner, CLU**

3415 NE 40th Avenue  
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EXHIBIT B

Securities offered through Clark Securities, Inc., DBA CCFS, Inc. in Texas  
Member FINRA & SIPC, Dallas, Texas 75201. Ph: 800-999-3129.

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## CLARK CONSULTING.

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Unlike a 401(k) plan or pension plan, this is a nonqualified plan. Accordingly, the bank can selectively reward certain key individuals without regard to the non-discrimination and reporting requirements of qualified plans. This plan is also an unfunded plan which means there are no specific assets set aside by the bank in connection with the establishment of the plan. The participant has no rights under the plan beyond those of a general creditor of the bank.

The plan is embodied in a written agreement between the bank and the individuals selected to participate in the plan. The agreement includes provisions which indicate the benefits to be provided at retirement or in the event of death, disability or termination of employment prior to retirement.

### **Plan Benefits**

- ✓ The bank's ability to recruit, retain and reward key decision makers is enhanced by the plan
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- ✓ Individual agreements specify the benefit amounts, payout duration, vesting and other terms

**FIRST AMENDMENT TO STOCK PURCHASE AGREEMENT**

This First Amendment to certain Stock Purchase Agreement (“First Amendment”) is entered into as of the date indicated below, by and among **BANKGUAM HOLDING COMPANY**, a bank holding company (“Company”) and **DAVID J. JOHN** (“Seller”).

**RECITALS**

A. Company and Seller entered into a certain Stock Purchase Agreement dated May 27, 2016 (“SPA”) for the purchase of ASC TRUST CORPORATION capital stock.

B. The parties wish to modify the SPA to extend the Second Closing stated at Section 2.2.2 of the SPA.

NOW THEREFORE, in consideration of the premises, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Company and Seller agree as follows:

1. Section 2.2.2 of the SPA is amended to read as follows:

Second Closing. On July 1, 2019, and subject to the fulfillment of the conditions set forth in this Agreement and the Ancillary Stockholders’ Agreement, Seller shall sell, transfer, convey, assign and deliver to Buyer, and Buyer shall purchase and accept from Seller shares of Stock of ASC which equals twenty (20%) of the Stock of ASC.

In witness thereof, the parties have executed this First Amendment to be effective on the date written below.

DATED: March 12, 2019

SELLER:

/s/ David J. John

Name: David J. John

Date: \_\_\_\_\_

**COMPANY:**

**BANKGUAM HOLDING COMPANY**

/s/ William D. Leon Guerrero

Name: William D. Leon Guerrero

Title: Executive Vice President /  
Chief Operating Officer

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO  
EXCHANGE ACT RULE 13a-14(a)/15d-14(a)  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joaquin P.L.G. Cook, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BankGuam Holding Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 10, 2019

/s/ JOAQUIN P.L.G. COOK

Joaquin P.L.G. Cook  
President and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO  
EXCHANGE ACT RULE 13a-14(a)/15d-14(a)  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Francisco M. Atalig, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BankGuam Holding Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 10, 2019

/s/ FRANCISCO M. ATALIG

Francisco M. Atalig  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT**

The certification set forth below is being submitted in connection with the report on Form 10-Q of BankGuam Holding Company for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Joaquin P.L.G. Cook, the President and Chief Executive Officer of BankGuam Holding Company, and Francisco M. Atalig, the Senior Vice President and Chief Financial Officer of BankGuam Holding Company, each certifies that, to the best of their knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of BankGuam Holding Company.

Date: May 10, 2019

By: /s/ JOAQUIN P.L.G. COOK  
Joaquin P.L.G. Cook  
President and Chief Executive Officer

Date: May 10, 2019

By: /s/ FRANCISCO M. ATALIG  
Francisco M. Atalig  
Senior Vice President and Chief Financial Officer