BankGuam Holding Company
Consolidated Financial Statements
December 31, 2023

BankGuam Holding Company

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Independent Auditors' Report

To the Board of Directors of
BankGuam Holding Company

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of BankGuam Holding Company and its subsidiaries, which comprise the consolidated statements of financial condition as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive (loss) income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, based on our audits and the report of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of BankGuam Holding Company and its subsidiaries as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of ASC Trust LLC, a majority-owned subsidiary, which statements reflect total assets constituting 0.18 percent and 0.15 percent, respectively, of consolidated total assets at December 31, 2023 and 2022, and total revenues constituting 7.12 percent and 8.15 percent, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for ASC Trust LLC, is based solely on the report of the other auditors.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for accounting for credit losses effective January 1, 2023, due to the adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Codification No. 326, Financial Instruments - Credit Losses (ASC 326). The Company adopted the new credit loss standard using the modified retrospective method provided in ASC 326 such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principle.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of BankGuam Holding Company and its subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, BankGuam Holding Company's internal control over financial reporting as of December 31, 2023, based on criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, as required by Section 112 of the Federal Deposit Insurance Corporation Improvement Act, and our report dated March 25, 2024 expressed an adverse opinion as a result of an identified material weakness.

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Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about BankGuam Holding Company's ability to continue as a going concern for a reasonable period of time.

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

Baker Tilly US, LLP

Irvine, California
March 25, 2024

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

	December 31, 2023	December 31, 2022
ASSETS		
Cash and due from banks	$ 32,043	$ 31,152
Interest bearing deposits in banks	57,553	160,789
Total cash and cash equivalents	89,596	191,941
Restricted cash	150	150
Investment securities available-for-sale, at fair value	446,616	501,899
Investment securities held-to-maturity, at amortized cost (Fair Value $246,082 at 12/31/2023 and $239,210 at 12/31/2022)	314,906	318,674
Federal Home Loan Bank stock, at cost	1,524	3,318
Loans, net of allowance for credit losses [1] ($31,718 at 12/31/2023 and $36,797 at 12/31/2022)	1,557,652	1,379,613
Accrued interest receivable	9,281	7,613
Premises and equipment, net	19,276	19,396
Goodwill	13,014	13,014
Intangible assets	9,240	9,980
Other assets	114,445	116,526
Total assets	$ 2,575,700	$ 2,562,124
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$ 863,797	$ 850,480
Interest bearing	1,459,658	1,497,217
Total deposits	2,323,455	2,347,697
Accrued interest payable	31	30
Subordinated debt, net	34,537	34,469
Other liabilities	44,032	47,475
Total liabilities	2,402,055	2,429,671
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock $104.15 par value; 96,000 shares authorized; 19,520 shares issued and 18,226 shares outstanding at 12/31/2023 and 12/31/2022, respectively	2,034	2,034
Preferred stock $100 par value; 300,000 shares authorized; 9,800 shares issued and outstanding at 12/31/2023 and 12/31/2022, respectively	980	980
Additional paid-in capital, Common stock	24,989	24,989
Additional paid-in capital, Preferred stock	8,803	8,803
Retained earnings	198,170	168,193
Accumulated other comprehensive (loss) income	(59,320)	(70,408)
Non-controlling interest	7,347	7,220
Common stock in treasury, at cost (1,294 and 64 shares at 12/31/2023 and 12/31/2022, respectively)	(9,358)	(9,358)
Total stockholders' equity	173,645	132,453
Total liabilities and stockholders' equity	$ 2,575,700	$ 2,562,124

[1] Allowance for credit losses at December 31, 2023, Allowance for loan losses at December 31, 2022.

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

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

	Years Ended December 31,	
	2023	2022
Interest income:		
Loans	$ 96,716	$ 75,288
Investment securities	16,526	14,059
Deposits with banks	6,040	3,840
Total interest income	119,282	93,187
Interest expense:		
Savings deposits	815	151
Time deposits	14	14
Other borrowed funds	1,903	1,893
Total interest expense	2,732	2,058
Net interest income	116,550	91,129
Provision for credit losses [1]	7,493	5,700
Net interest income, after provision for loan losses	109,057	85,429
Non-interest income:		
Service charges and fees	18,884	20,745
Loss on sale of investment securities	(189)	-
Income from merchant services, net	5,149	3,137
Cardholders income, net	3,842	4,061
Trustee fees	3,880	2,617
Other income	6,057	3,644
Total non-interest income	37,623	34,204
Non-interest expense:		
Salaries and employee benefits	46,988	40,497
Occupancy	10,649	9,646
Equipment and depreciation	23,454	23,104
Insurance	1,886	1,858
Telecommunications	1,598	1,701
FDIC assessment	1,584	1,187
Professional services	2,811	2,850
Contract services	4,289	2,043
Other real estate owned	51	51
Stationery and supplies	924	750
Training and education	2,066	1,194
General, administrative and other	11,378	11,594
Total non-interest expense	107,678	96,475
Income before income taxes	39,002	23,158
Income tax expense	7,547	3,479
Net income	31,455	19,679
Net income attributable to noncontrolling interest	960	790
Net income available to BankGuam Holding Company	30,495	18,889
Preferred stock dividend	(862)	(600)
Net income attributable to common stockholders	$ 29,633	$ 18,289
Earnings per common share (EPS):		
Basic and diluted EPS	$ 1,625.86	$ 950.41
Dividends declared per common share	$ 200.00	$ 200.00
Basic and diluted weighted average common shares	18.2	19.2

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

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

	Years Ended December 31,	
	2023	**2022**
Net income	$ 31,455	$ 19,679
Other comprehensive income:		
Unrealized holding gain (loss) on available-for-sale securities arising during the period, net of tax	10,034	(54,547)
Reclassification for loss realized on available-for-sale securities	189	-
Amortization of post-transfer unrealized holding loss on held-to-maturity securities during the period, net of tax	865	860
Total other comprehensive income (loss)	11,088	(53,687)
Total comprehensive income (loss)	$ 42,543	$ (34,008)

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

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

	Number of Common Shares	Common Stock	Preferred Stock	Additional Paid-in Capital - Common	Additional Paid-in Capital - Preferred	Retained Earnings	Accumulated Other Comprehensive loss	Treasury Stock	Noncontrolling Interests	Total
Balances, December 31, 2021	19,441	$ 2,033	$ 980	$ 24,910	$ 8,803	$ 153,740	$ (16,721)	$ (290)	$ 7,294	$ 180,749
Comprehensive (loss) income:										
Net income	-	-	-	-	-	18,889	-	-	790	19,679
Change in accumulated other comprehensive income:										
Unrealized loss on available-for-sale securities	-	-	-	-	-	-	(53,687)	-	-	(53,687)
Common stock issued under Employee Stock Purchase Plan & Service Awards	14	1	-	79	-	-	-	-	-	80
Purchase of treasury stock	(1,229)							(9,068)		(9,068)
Return of capital from stocks owned by subsidiary	-	-	-	-	-	-	-	-	(19)	(19)
Cash dividends on common stock	-	-	-	-	-	(3,836)	-	-	(845)	(4,681)
Cash dividends on preferred stock	-	-	-	-	-	(600)	-	-	-	(600)
Balances, December 31, 2022	18,226	2,034	980	24,989	8,803	168,193	(70,408)	(9,358)	7,220	132,453
Comprehensive (loss) income:										-
Net income	-	-	-	-	-	30,495	-	-	960	31,455
Adoption of new accounting standard						3,996				3,996
Change in accumulated other comprehensive income:										
Unrealized loss on available-for-sale securities	-	-	-	-	-	-	11,088	-	-	11,088
Cash dividends on common stock	-	-	-	-	-	(3,651)	-	-	(833)	(4,484)
Cash dividends on preferred stock	-	-	-	-	-	(863)	-	-	-	(863)
Balances, December 31, 2023	18,226	$ 2,034	$ 980	$ 24,989	$ 8,803	$ 198,170	$ (59,320)	$ (9,358)	$ 7,347	$ 173,645

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

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

	Years Ended December 31,	
	2023	**2022**
Cash flows from operating activities:		
Net income	$ 31,455	$ 19,679
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses [1]	7,493	5,700
Depreciation	4,179	4,546
Amortization of intangibles	740	740
Amortization of debt issuance costs	69	69
Amortization of fees, discounts and premiums	(73)	45
Proceeds from sales of loans held for sale	1,358	7,841
Origination of loans held for sale	(1,358)	(7,841)
Change in mortgage servicing rights	(464)	439
Gross realized gains on sale of available-for-sale securities	189	-
Realized gain on sale of premises and equipment	126	237
Noncash lease expense	2,241	(1,165)
Change in deferred tax tassets	3,998	(16,448)
Net change in operating assets and liabilities:		
Accrued interest receivable	(1,668)	(898)
Other assets	(3,819)	(14,935)
Accrued interest payable	1	(16)
Lease liability	(1,810)	1,132
Other liabilities	(1,657)	3,148
Net cash provided by operating activities	41,000	2,273
Cash flows from investing activities:		
Purchases of available-for-sale securities	(19,996)	(143,052)
Proceeds from sales (purchases) of held-to-maturity securities	27,046	(11,595)
Proceeds from sales of available-for-sale securities	-	-
Maturities, prepayments and calls of available-for-sale securities	58,396	85,928
Maturities, prepayments and calls of held-to-maturity securities	4,577	6,021
Loan originations and principal collections, net	(181,513)	(101,591)
Dividends received from unconsolidated subsidiary	-	-
Purchase (sales) of FHLB stock	1,794	(504)
Proceeds from sales of premises and equipment	15	-
Purchases of premises and equipment	(4,075)	(3,139)
Net cash used in investing activities	(113,756)	(167,932)
Cash flows from financing activities:		
Net decrease in deposits	(24,242)	(185,534)
Proceeds from issuance of common stock	-	80
Purchase of treasury stock	-	(9,068)
Dividends paid	(5,347)	(5,281)
Net cash used in financing activities	(29,589)	(199,803)
Net change in cash, cash equivalents and restricted cash	(102,345)	(365,462)
Cash, cash equivalents and restricted cash at beginning of period	192,091	557,553
Cash, cash equivalents and restricted cash at end of period	$ 89,746	$ 192,091
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 797	$ 135
Income taxes	$ 9,730	$ 3,990
Supplemental disclosure of noncash investing and financing activities:		
Net change in unrealized loss on available-for-sale securities, net of tax	$ 10,223	$ (54,547)

[1] Provision for credit losses for the year ended December 31, 2023, Provision for loan losses for the year ended December 31, 2022.

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

Note 1 – Nature of Business

Organization

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

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

For ease of reference, the Company will sometimes be referred to hereinafter as "we", "us" or "our."

Note 2 – Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

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

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

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

The Company determined it has control of ASC Trust LLC in accordance to ASC 810 – Consolidation and accounts for the consolidation in accordance to ASC 805 – Business Combinations.

Use of Estimates

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

Cash Flows

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

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand and balances due from banks, Federal Funds sold, cash items in transit and interest bearing deposits with other banks. The Bank is required by the Federal Reserve System to maintain cash reserves against certain of its deposit accounts. At December 31, 2023 and 2022, the required combined reserves totaled zero. On March 15, 2020, the Federal Reserve Board reduced the reserve requirement ratios to zero percent effective March 26, 2020.

Restricted Cash

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

Investment Securities

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

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

Allowance for Credit Losses ("ACL") on Investment Securities

The ACL on investment securities is determined for both the HTM and AFS classifications of the investment portfolio in accordance with Accounting Standard Codification (ASC) 326 - *Financial Instruments - Credit Losses (Topic 326),* on a quarterly basis. The Company adopted Topic 326 on January 1, 2023. This topic requires the Company to record an ACL on held-to-maturity investment securities at the time of purchase or acquisition. The ACL for held-to-maturity investment securities represents the Company's current estimate of expected credit losses that may be incurred over the life of the investment. An ACL on available-for-sale investment securities is recorded when the fair value of the investment is below its amortized cost and the decline in fair value has been deemed to be credit related through the Company's qualitative assessment. Non-credit related declines in fair value of available-for-sale investment securities are not recorded through an ACL, but rather recorded as an adjustment to accumulated other comprehensive income, net of tax. The Company determines credit losses on both available-for-sale investment securities through the use of a discounted cash flow approach using the security's effective interest rate. The ACL is measured as the amount by which an investment security's amortized cost exceeds the net present value of expected future cash flows. However, the amount of credit losses for available-for-sale investment securities is limited to the amount of a security's unrealized loss. The ACL is established through a charge to provision for credit losses in current period earnings.

For available-for-sale securities where estimated fair value was below amortized cost, such declines were deemed non-credit related and recorded as an adjustment to accumulated other comprehensive income, net of tax. Non-credit related decline in fair value of available-for-sale investment securities can be attributed to changes in interest rates and other market related factors. The Company did not record an ACL for held-to maturity securities during the year ended December 31, 2023, because the likelihood of non-repayment is remote. As of December 31, 2023, the Company only holds investment securities guaranteed by the U.S. government or other government enterprises, where there is an explicit or implicit guarantee by the U.S. government, that are highly rated by rating agencies, and historically have had no credit loss experience. As such, the Company has reason to believe the credit loss exposure is remote and a zero-credit loss assumption was applied resulting in no ACL on its investment securities.

Federal Home Loan Bank Stock

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

Mortgage Servicing Rights (MSR)

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

Loans Held for Investment

Loans held for investment generally are reported at their outstanding unpaid principal balances, adjusted for charge-offs, an allowance for credit losses, and any deferred fees or costs on the originated loans, as well as unamortized premiums or discounts on purchased loans., except for certain purchased loans that fall under the scope of Accounting Standards Codification (ASC) Topic 326-10-65.

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

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

Loan Origination Fees and Costs

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

Allowance for Credit Losses ("ACL")

Effective January 1, 2023, the Company accounts for credit losses on loans in accordance with ASC 326 - *Financial Instruments - Credit Losses (Topic 326)*, using the modified retrospective method, which requires the Company to record an estimate of expected lifetime credit losses for loans at the time of origination or acquisition. The ACL is maintained at a level deemed appropriate by management to provide for expected credit losses in the portfolio as of the date of the consolidated statement of financial condition. Results for the reporting periods after January 1, 2023, are presented under Topic 326, while prior period amounts continue to be reported in accordance with previously applicable GAAP. Estimating expected credit losses requires management to use relevant forward-looking information, including the use of reasonable and supportable forecasts. The measurement of the ACL is performed by collectively evaluating loans with similar risk characteristics. The Company elected to use the discounted cash flow (DCF) method to determine the adequacy of the ACL.

The DCF model inputs include contractual loan level cash flow estimates, which are affected by prepayment and loss estimates derived for each loan segment based on a combination of forecasted economic factors and peer and bank historic loss data. The Company's DCF methodology incorporates a probability of default ("PD") and loss given default ("LGD") model, whereby PDs and LGDs are forecasted using economic scenarios over a four-quarter period to generate estimates for cash flows expected to be collected over the estimated life of a loan. Beyond the four-quarter forecast time horizon, the Company's ACL model reverts to historical long-term average loss rates over a period of four-quarters. Estimates of future expected cash flows ultimately reflect assumptions made concerning net credit losses over the life of a loan. The use of reasonable and supportable forecasts requires significant judgment, such as selecting forecast scenarios and related scenario-weighting, as well as determining the appropriate length of the forecast horizon. Management leverages economic projections from a reputable and independent third party to inform

and provide reasonable and supportable economic forecasts. Other internal and external indicators of economic forecasts may also be considered by management when developing the forecast metrics. The duration of the forecast horizon, the period over which forecasts revert to long-term averages, the economic forecasts that management utilizes, as well as additional internal and external indicators of economic forecasts that management considers, may change over time depending on the nature and composition of its loan portfolio.

Probability of Default (PD) & Loss Given Default (LGD)

In determining the parameters for the allowance for credit losses, the Bank has relied on both its own historical data and observed historical information from selected peer institutions to create models. These parameters were also calculated by a third-party service provider, which used the data supplied by the Bank to deduce the appropriate allowance amount. Each loan is collectively represented in the system, based on the loan segmentation selected by the Bank, unless individual assessment should be performed because the asset no longer shares the similar risk characteristics to those assets in the pool.

The forecast used in calculating the Bank's PD and LGD are updated quarterly as part of the resultant current expected credit losses (CECL). This is in line with the comprehensive criteria that management has established for defining default.

Economic Forecasts

Since the adoption of ASC 326 requires entities to consider reasonable and supportable forecasts of future economic conditions in their estimation of expected credit losses, the Bank uses macroeconomic factors that significantly impact the borrowers' ability to fulfill their obligations. This influences the collectability of future cash flows over the contractual life of the loan.

Macroeconomic scenarios are selected based on managerial judgments and decisions, focusing on the Unemployment Rate and Gross Domestic Product. Forecasts for these economic factors are obtained from the Federal Open Market Committee (FOMC) using the Federal Reserve Economic Data (FRED).

Management periodically reviews economic and financial condition updates, assessing the long-term average risks of each considered economic factor. The selection of economic scenarios for the model, as well as their assignment to specific loan portfolios, is based on managerial judgment and decision.

Qualitative Adjustments

The Bank acknowledges that solely relying on historical data to forecast future expected credit losses may not always render sufficient or accurate results. Therefore, on a quarterly basis, the Bank evaluates the need for incorporating qualitative adjustments into each loan portfolio when estimating expected credit losses.

The Bank outline its quarterly qualitative adjustment in its memorandum. These adjustments can be related to a variety of factors, which can include, but are not limited to;

1. Changes in lending policies and procedures, including changes in underwriting standards and collections, charge-offs, and recovery practices.
2. Changes in international, national, regional, and local conditions (i.e., tourism, weather and economic conditions)
3. Changes in the nature and volume of the portfolio and terms of loans.
4. Changes in the experience, depth, and ability of lending management.
5. Changes in the volume and severity of past due loans and other similar conditions.
6. Changes in the quality of the organization's loan review system.
7. Changes in the value of underlying collateral for collateral dependent loans.
8. The existence and effect of any concentrations of credit and changes in the levels of such concentrations.
9. The effect of other external factors (i.e. competition, legal and regulatory requirements) on the level of estimated credit losses.

In accordance with ASC 326-20, the Bank considers all relevant qualitative and quantitative factors that are reasonable in estimating expected credit loss based on the management's judgments. Each factor is assigned with risk weights that are considered to have an impact to allowance estimation for each portfolio.

Expectations of future cash flows are discounted at the loan's effective interest rate. The Company has made an accounting policy election to adjust the effective interest rate to take into consideration the effects of estimated prepayments. The resulting ACL for term loans represents the amount by which the loan's amortized cost exceeds the net present value of a loan's discounted cash flows. The ACL for credit facilities is determined by discounting estimates for cash flows not expected to be collected. The ACL is recorded through a charge to provision for credit losses and is reduced by charge-offs, net of recoveries on loans previously charged-off. It is the Company's policy to charge-off loan balances at the time they have been deemed uncollectible.

The Company's ACL model also includes adjustments for qualitative factors, where appropriate, since historical information, such as historical net losses and economic cycles, may not always provide a sufficient basis for determining future expected credit losses.

The Company has segmented the loan portfolio according to loans that share similar attributes and risk characteristics. Each segment possesses varying degrees of risk based on, among other things, the type of loan, the type of collateral, and the sensitivity of the

borrower or industry to changes in external factors such as economic conditions. These segment groupings are: commercial & industrial, construction, commercial real estate, real estate, consumer loans – cash secured, consumer loans – real estate secured, consumer loans – unsecured, auto secured, and workout consumer loans.

At December 31, 2023, the Company had the following segments and classes of loans:

- Commercial & industrial (C&I) – C&I loans are loans that are secured by business assets including inventory, receivables, and machinery and equipment. Loan types include revolving lines of credit and term loans. Risk associated with C&I loans arises primarily due to the difference between expected and actual cash flows of the borrowers. In addition, the recoverability of the Company's investment in these loans is also dependent on other factors primarily dictated by the type of collateral securing these loans, and occasionally upon other borrower assets and guarantor assets. The fair value of the collateral securing these loans may fluctuate as market conditions change. In the case of loans secured by accounts receivable, the recovery of the Company's investment is dependent upon the borrower's ability to collect amounts due from its customers.
- Construction – Construction loans are generally based on estimates of costs and value associated with the complete project. Construction loans usually involve the disbursement of funds with repayment substantially dependent on the success of the completion of the project. Construction loans are considered to have higher risks due to construction completion and timing risk, and the ultimate repayment being sensitive to interest rate changes, government regulation of real property, and the availability of long-term financing. Additionally, economic conditions may impact the Company's ability to recover its investment in construction loans, as adverse economic conditions may negatively impact the real estate market, which could affect the borrower's ability to complete and sell the project. Additionally, the fair value of the underlying collateral may fluctuate as market conditions change.
- Commercial real estate ("CRE") – Commercial real estate loans rely primarily on the cash flows of the properties securing the loan and secondarily on the value of the property that is securing the loan. CRE loans comprise two segments differentiated by owner occupied commercial real estate and non-owner commercial real estate. CRE loans may be adversely affected by conditions in the real estate markets or in the general economy. The primary risks associated with these loans include the borrower's inability to pay, material decreases in the value of the real estate that is being held as collateral, significant increases in interest rates, changes in market rents, and vacancy of the underlying property, any of which may make the real estate loan unprofitable to the borrower.
- Real estate – Real estate loans are granted to individuals to finance the purchase or construction of one to four housing units. It is also provided for debt refinancing or home equity financing. Real estate loans consist of owner occupied/non-owner occupied residential 1-4 family loan, home equity line of credit (HELOC), adjustable-rate mortgage, and home equity loans. The primary risks include the borrower's inability to pay, material decreases in the value of the real estate that is being held as collateral, and significant increases in interest rates, which may make loans unprofitable to the borrower.
- Consumer loans – Real estate secured - Consumer loans that are secured by personal property and rely primarily on the income of the borrower for repayment and secondarily on the collateral value for secured loans. Borrower income and collateral value can vary dependent on economic conditions.
- Consumer loans – Cash secured- Consumer loans secured by consumer deposits held at the bank. Borrower's income requirement is waived.
- Consumer loans – Unsecured – Consumer loans that are unsecured and rely primarily on the income of the borrower for repayment. Borrower income can vary dependent on economic conditions.
- Auto secured – Auto loans that are secured and rely primarily on the income of the borrower for repayment and secondarily on the collateral value for secured loans. Borrower income and collateral value can vary dependent on economic conditions.
- Workout consumer loans - Consumer workout loans are unsecured loan accounts that are in default or are showing signs of potential delinquency where the bank may modify or restructure the original terms of the credit agreement in order to mitigate credit risk.

Modified Loans to Borrowers Experiencing Financial Difficulty ("MLTB")

On January 1, 2023, the Company adopted ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326) - Troubled Debt Restructurings and Vintage Disclosures*, which introduces new reporting requirements for modifications of loans to borrowers experiencing financial difficulty, which the Company also refers to as modified loans to troubled borrowers ("MLTB"). An MLTB arises from a modification made to a loan in response to a borrower's financial difficulty, in order to alleviate temporary impairments in the borrower's financial condition and/or constraints on the borrower's ability to repay the loan, and to minimize potential losses to the Company. GAAP requires that certain types of modifications be reported, which consist of the following:

- Principal forgiveness
- Interest rate reduction

- Other-than-insignificant payment delay
- Term extension
- Any combination of the above

Infrequently, the Company makes modifications to certain loans in order to alleviate temporary difficulties in the borrower's financial condition and/or constraints on the borrower's ability to repay the loan, and to minimize potential losses to the Company. The Company also refers to these modifications as modified loans to troubled borrowers ("MLTB"). Modifications may include: changes in the amortization terms of the loan, reductions in interest rates, and acceptance of interest only payments. Such loans are typically placed on nonaccrual status when there is doubt concerning the full repayment of principal and interest or the loan has been in default for a period of 90 days or more. Such loans may be returned to accrual status when all contractual amounts past due have been brought current, and the borrower's performance under the modified terms of the loan agreement and the ultimate collectability of all contractual amounts due under the modified terms is no longer in doubt. The Company typically measures the ACL on MLTB on an individual basis when such loans are deemed to no longer share risk characteristics that are similar with other loans in the portfolio. The determination of the ACL for these loans is based on a discounted cash flow approach for both those measured collectively and individually, unless the loan is deemed collateral dependent, which requires measurement of the ACL based on the estimated expected fair value of the underlying collateral, less costs to sell. GAAP requires the Company to make certain disclosures related to these loans, including certain types of modifications, as well as how such loans have performed since their modifications. Please see Note 6 – Loans for additional information concerning modified loans to troubled borrowers.

Allowance for Loan Losses

Prior to the Company's adoption of Topic 326 on January 1, 2023, the Company maintained an allowance for loan and leases losses ("ALLL") in accordance with ASC 450, *Contingencies* and ASC 310, *Receivables*. The ALLL was maintained at a level deemed appropriate by management to provide for known or probable incurred losses in the portfolio as of the date of the consolidated statement of financial condition. The allowance for loan losses is established as losses are estimated to be likely, and is funded through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

The allowance for loan losses was management's estimate of credit losses inherent in the loan portfolio prior to January 1, 2023. The Company had a process to determine the appropriateness of the allowance for credit losses that assesses the losses inherent in the loan portfolio. The Company developed and documented its allowance methodology at the portfolio segment level – commercial loan, residential mortgage and consumer loan portfolios. While portions of the allowance were attributable to the respective commercial, residential mortgage and consumer portfolio segments, the entire allowance was available to absorb credit losses inherent in the total loan portfolio.

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

Troubled Debt Restructuring (TDRs)

Prior to the Company's adoption of ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326) - Troubled Debt Restructurings and Vintage Disclosures* on January 1, 2023, the Company, in infrequent situations, would modify or restructure loans when the borrower was experiencing financial difficulties by making a concession to the borrower. These loans were classified as TDRs.

These modified terms included rate reductions, principal forgiveness, term extensions, payment forbearance and other actions intended to minimize economic loss and to avoid foreclosure or repossession of the collateral, if applicable. For modifications where principal was forgiven, the entire amount of such principal forgiveness was immediately charged off. Loans classified as TDRs, including loans in trial payment periods (trial modifications), were considered impaired loans. Other than resolutions such as foreclosures, the Bank may have removed loans held for investment from TDR classification, but only if they had been refinanced or restructured at market terms and qualified as a new loan.

ASU 2022-02 eliminated the concept of TDRs in current GAAP, and therefore, beginning January 1, 2023, the Company no longer reports loans modified as TDRs following the Company's adoption of ASU 2022-02 on January 1, 2023.

Loans Held for Sale

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

During the years ended December 31, 2023 and 2022, the Bank originated and sold approximately $1.4 million and $7.8 million, respectively, of the above-mentioned loans.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit and standby letters of credit. Such financial instruments are recorded as off-balance sheet items when the commitment is made, then recorded as balance sheet items if and when funded (See Note 16).

Allowance for Credit Losses ("ACL") on Off-Balance Sheet Financial Instruments

As stated under ASC 326-20, management records a liability for lifetime expected losses on off-balance-sheet credit exposure, unless that commitment is unconditionally cancelable by the lender. In this measurement, management has followed the applicable guidance in its estimation of lifetime credit risk on commitments that do not meet the definition of unconditionally cancelable by consistently maintaining a liability account in each year-end balance.

Premises and Equipment

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

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

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

Leases

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

Other Real Estate Owned

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

holding such assets, and gains and losses realized from the sale of such assets, are charged to the valuation allowance.

Business Combinations

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

Bank Owned Life Insurance (BOLI)

BOLI assets are life insurance policies on certain current and former officers, directors, and employees for which the Bank is a beneficiary under each policy as disclosed in Note 13. Fair. BOLI is accounted for using the cash surrender value method and is recorded at its realizable value as an asset in the consolidated statements of financial condition. Changes in cash surrender value of BOLI and the death benefits of an insured individual covered by these policies, after distribution to the insured's beneficiaries, if any, are recorded as a tax-exempt noninterest income in the consolidated statements of income.

Goodwill

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

Asset-Based Fees

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

Income Taxes

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

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

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

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

Earnings Per Common Share

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

Fair Value of Financial Instruments/Fair Value Option

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

Transfers of Financial Assets

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

Contingencies

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

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued (See Note 21). The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

The Company has evaluated subsequent events through March 25, 2024, the date that these consolidated financial statements are being published.

Note 3 – Recent Accounting Pronouncements

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

In June 2016, the FASB issued ASU 2016-13, *"Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments"* (Topic 326):, to amend the standards for the measurement of credit losses on financial instruments by replacing the historical incurred loss impairment methodology of determining the level of the allowance for loan and lease losses ("ALLL"), including losses associated with available-for-sale securities, with a more decision-useful methodology that reflects expected credit losses ("ECL") over the life of a financial instrument based upon historical experience, current conditions, and reasonable and supportable forecasts in determining the ALLL level, as well as the reserve for off-balance-sheet credit exposures. The Company adopted Topic 326 on January 1, 2023 using the modified retrospective approach. On January 1, 2023, the Company recognized a decrease of $5.2 million to its allowance for credit losses for loans. The cumulative-effect adjustment as a result of the adoption of this guidance was recorded, net of tax of $1.2 million, as a $4.0 million increase to retained earnings effective January 1, 2023.

The Company's approach for estimating lifetime credit losses for its loan portfolio includes the following key components:

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

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

As of the implementation date of January 1, 2023, the Company recognized a decrease of $5.2 million to its allowance for credit losses for loans. The cumulative-effect adjustment as a result of the adoption of this guidance was recorded, net of tax of $1.2 million, as a $4.0 million increase to retained earnings effective January 1, 2023.

In March 2022, the FASB issued ASU 2022-02, *"Financial Instruments - Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures"*. The FASB issued this Update in response to feedback received from various stakeholders in its post-implementation review process related to the issuance of ASU 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"*, which was effective for the Company on January 1, 2023. This Update eliminates the accounting guidance for troubled debt restructurings (TDRs) by creditors while enhancing the disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty; and 2) requires that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases. The Company adopted the guidance of ASU 2022-02 on January 1, 2023 and the amendments were applied prospectively. The adoption of this new guidance did not impact the financial position or results of operations.

Note 4 – Interest-Bearing Deposits and Restricted Cash

The Company had $57.6 million and $160.8 million in interest bearing deposits, including restricted cash, at other financial institutions at December 31, 2023 and 2022, respectively. The weighted average percentage yields on these deposits were 4.44% and 1.24% at December 31, 2023 and 2022, respectively. Interest bearing deposits with financial institutions can be withdrawn by the Bank on demand, and are considered cash equivalents for purposes of the consolidated statements of financial condition and cash flows.

At December 31, 2023 and 2022, we had $150 thousand each, in restricted cash held in time deposits that were scheduled to mature within one year, of which $150 thousand are held by the Bank jointly under the names of Bank of Guam and the Guam Insurance Commissioner, and serve as a bond for the Bank of Guam Trust Department. The weighted average percentage yields on these restricted cash deposits were 0.01% at December 31, 2023 and 2022.

Note 5 – Investment Securities

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

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Available-for-Sale				
U.S. government agency and government sponsored enterprise (GSE) debt securities	$ 114,978	$ -	$ (17,071)	$ 97,907
U.S. government agency pool securities	48,059	-	(599)	47,460
U.S. government agency or GSE residential mortgage-backed securities	346,940	-	(45,691)	301,249
Total	$ 509,977	$ -	$ (63,361)	$ 446,616
Securities Held-to-Maturity				
U.S. government agency and government sponsored enterprise (GSE) debt securities	$ 278,427	$ -	$ (64,066)	$ 214,361
U.S. government agency pool securities	1,043	-	(10)	1,033
U.S. government agency or GSE residential mortgage-backed securities	35,436	-	(4,748)	30,688
Total	$ 314,906	$ -	$ (68,824)	$ 246,082

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Available-for-Sale				
U.S. government agency and government sponsored enterprise (GSE) debt securities	$ 114,973	$ -	$ (21,844)	$ 93,129
U.S. government agency pool securities	66,345	16	(764)	65,597
U.S. government agency or GSE residential mortgage-backed securities	397,108	23	(53,958)	343,173
Total	$ 578,426	$ 39	$ (76,566)	$ 501,899
Securities Held-to-Maturity				
U.S. government agency and government sponsored enterprise (GSE) debt securities	$ 277,308	$ -	$ (73,741)	$ 203,567
U.S. government agency pool securities	2,004	-	(43)	1,961
U.S. government agency or GSE residential mortgage-backed securities	39,362	-	(5,680)	33,682
Total	$ 318,674	$ -	$ (79,464)	$ 239,210

At December 31, 2023 and 2022, investment securities with a carrying value of $704.8 million and $673.3 million, respectively, were pledged to secure various government deposits and other government requirements.

Proceeds and gross realized gains (losses) from the sales or calls of investment securities for the years ended December 31, 2023 and 2022, are shown below:

	Years Ended December 31,	
	2023	2022
Proceeds from sales	$ 27,046	$ -
Gross realized gains from sales	-	-
Gross realized losses from sales	$ (189)	$ -

For the year ended December 31, 2023 and 2022, gross unrealized gains were zero and $39 thousand, respectively, and gross unrealized losses were $63.4 million and $76.6 million, respectively.

The amortized cost and estimated fair value of investment securities by contractual maturity at December 31, 2023 and 2022, are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or borrowers the right to prepay obligations with or without call or prepayment penalties. At December 31, 2023, obligations of U.S. government corporations and agencies with amortized costs totaling $824.9 million consist predominantly of residential mortgage-backed securities totaling $382.4 million and Small Business Administration agency pool securities totaling $49.1 million whose contractual maturity, or principal repayment, will follow the repayment of the underlying mortgage or small business loans. For purposes of the following table, the entire outstanding balance of these mortgage-backed securities and SBA Pools issued by U.S. government corporations and agencies is categorized based on final maturity date. At December 31, 2023, the Bank estimates the average remaining life of these mortgage-backed and SBA Pools securities to be approximately 5.3 years and 5.8 years, respectively.

	December 31, 2023			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$ 26	$ 26	$ 10	$ 10
Due after one but within five years	44,177	39,531	7,609	6,694
Due after five but within ten years	108,289	93,759	90,149	75,101
Due after ten years	357,485	313,300	217,138	164,277
Total	$ 509,977	$ 446,616	$ 314,906	$ 246,082

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

Temporarily Impaired Securities

The following table indicates the gross unrealized losses and fair value of the Bank's investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2023 and 2022.

	December 31, 2023					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value
Securities Available for Sale						
U.S. government agency and government sponsored enterprise (GSE) debt securities	$ -	$ -	$ (17,071)	$ 97,907	$ (17,071)	$ 97,907
U.S. government agency pool securities	(37)	8,171	(562)	39,264	(599)	47,435
U.S. government agency or GSE residential mortgage-backed securities	-	-	(45,691)	301,249	(45,691)	301,249
Total	$ (37)	$ 8,171	$ (63,324)	$ 438,420	$ (63,361)	$ 446,591
Securities Held to Maturity						
US government agency and sponsored Agencies (GSE) debt securities	$ -	$ -	$ (64,066)	$ 214,361	$ (64,066)	$ 214,361
U.S. government agency pool securities	(2)	800	(8)	228	(10)	1,028
U.S. government agency or GSE residential mortgage-backed securities	(86)	1,838	(4,662)	28,849	(4,748)	30,687
Total	$ (88)	$ 2,638	$ (68,736)	$ 243,438	$ (68,824)	$ 246,076

	December 31, 2022					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value
Securities Available for Sale						
U.S. government agency and government sponsored enterprise (GSE) debt securities	$ -	$ -	$ (21,844)	$ 93,129	$ (21,844)	$ 93,129
U.S. government agency pool securities	(594)	56,565	(170)	4,016	(764)	60,581
U.S. government agency or GSE residential mortgage-backed securities	(7,863)	79,536	(46,095)	258,834	(53,958)	338,370
Total	$ (8,457)	$ 136,101	$ (68,109)	$ 355,979	$ (76,566)	$ 492,080
Securities Held to Maturity						
U.S. government agency and government sponsored enterprise (GSE) debt securities	$ -	$ -	$ (73,741)	$ 203,568	$ (73,741)	$ 203,568
U.S. government agency pool securities	(5)	1,280	(38)	681	(43)	1,961
U.S. government agency or GSE residential mortgage-backed securities	(734)	11,921	(4,946)	21,761	(5,680)	33,682
Total	$ (739)	$ 13,201	$ (78,725)	$ 226,010	$ (79,464)	$ 239,211

The investment securities that were in an unrealized loss position as of December 31, 2023, which comprised a total of 236 securities, were not other-than-temporarily impaired. Specifically, the 236 securities are comprised of the following: 42 Small Business

Administration Pool securities, 26 agency securities issued by Federal Home Loan Bank ("FHLB"), 34 mortgaged-backed securities and 19 agency securities issued by Federal Home Loan Mortgage Corporation ("FHLMC"), 75 mortgaged-backed securities and 1 agency security issued by Federal National Mortgage Association ("FNMA"), 21 mortgaged-backed securities issued by Government National Mortgage Association ("GNMA") and 18 agency securities issued by Federal Farm Credit Banks ("FFCB").

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

Allowance for Credit Losses on Investment Securities

The Company had no ACL for investment securities at December 31, 2023 and 2022. All of the Company's investment securities are either backed by the full faith and credit of the U.S. government or carry an implied guarantee. Additionally, the Company continues to receive contractual principal and interest payments in a timely manner. It is more likely than not that the Company will not be required to sell the securities prior to their anticipated recoveries, and at this time the Company does not intend to sell these securities. There were no provisions for credit losses recognized for investment securities during the year ended December 31, 2023. There were no other than temporary impairment losses recognized for investment securities for the year ended December 31, 2022.

Investment in Majority-Owned Subsidiary

On July 6, 2021, the Company acquired an additional 25% of the voting common stock of ASC Trust LLC at the third and final closing, pursuant to the Stock Purchase Agreement (the "Agreement") dated May 27, 2016, between the Company and David J. John, as amended to date. This transaction brought the Company's interest in ASC Trust LLC to 70%. The Company evaluated its ownership in ASC Trust LLC after the last transaction in accordance to ASC 810 – *Consolidation*, and determined that the Company has control over ASC Trust LLC requiring consolidation The Company's Chief Executive Officer serves on the Board of Directors of ASC Trust LLC. Another member of the Company's Board of Directors also serves as a non-minority voting member of an entity that owns 5% of the common stock of ASC Trust LLC. The Agreement contains customary warranties, representations and indemnification provisions.

Note 6 – Loans

The Bank provides commercial and industrial, commercial mortgage, commercial construction, automobile and other consumer loans in each of the markets it serves. It also offers residential mortgage, home equity and certain U.S. government guaranteed loans in Guam, the Commonwealth of the Northern Mariana Islands and California. The Bank has one commercial agricultural loans outstanding in Guam. The Company's loan portfolio is grouped by commercial and consumer loans with residential mortgages and home equity grouped under consumer.

Outstanding loan balances are presented net of unearned income, net deferred loan fees, and unamortized discount and premium totaling $12.9 million at December 31, 2023 and $16.0 million at December 31, 2022. As of December 31, 2023, the Bank's 10 largest borrowing relationships totaled $390.9 million in commitments, or approximately 24.5% of total gross loans compared to $365.1 million, or approximately 25.7% in 2022.

The loan portfolio consisted of the following at:

	December 31, 2023		December 31, 2022	
	Amount	Percent	Amount	Percent
Commercial				
Commercial & industrial	$ 251,994	15.8%	$ 279,951	19.7%
Commercial mortgage	927,445	58.2%	797,655	56.2%
Commercial construction	33,449	2.1%	10,198	0.7%
Commercial agriculture	507	0.0%	551	0.0%
Total commercial	1,213,395	76.2%	1,088,355	76.7%
Consumer				
Residential mortgage	161,880	10.2%	156,711	11.0%
Home equity	2,967	0.2%	2,586	0.2%
Automobile	36,364	2.3%	18,870	1.3%
Other consumer loans[1]	178,166	11.2%	152,810	10.8%
Total consumer	379,377	23.8%	330,977	23.3%
Gross loans	1,592,772	100.0%	1,419,332	100.0%
Deferred loan (fees) costs, net	(3,402)		(2,922)	
Allowance for credit losses [2]	(31,718)		(36,797)	
Loans, net	$ 1,557,652		$ 1,379,613	

[1] Comprised of other revolving credit, installment, and overdrafts.
[2] Allowance for credit losses at December 31, 2023, Allowance for loan losses at December 31, 2022.

Credit Quality

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

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

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

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

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

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

Special Mention: A special mention asset has potential weaknesses that deserve close monitoring. These potential weaknesses may result in a deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special

Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Special Mention should neither be a compromise between a pass grade and substandard, nor should it be a "catch all" grade to identify any loan that has a policy exception.

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

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

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

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

The Company classifies its loan portfolios using internal credit quality ratings, as discussed above under *Allowance for Credit Losses*.

The following table provides a summary of loans by portfolio type and the Company's internal credit quality ratings as of December 31, 2023 and 2022.

	December 31,	
	2023	2022
	(Dollars in thousands)	
Pass:		
Commercial & industrial	$ 216,167	$ 227,995
Commercial mortgage	804,759	701,724
Commercial construction	33,449	10,198
Commercial agriculture	507	551
Residential mortgage	156,341	151,218
Home equity	2,967	2,586
Automobile	36,328	18,804
Other consumer	177,136	151,966
Total pass loans	1,427,654	1,265,042
Special Mention:		
Commercial & industrial	18,725	17,336
Commercial mortgage	94,893	81,566
Residential mortgage	1,475	1,550
Total special mention loans	115,093	100,452
Substandard:		
Commercial & industrial	11,624	28,594
Commercial mortgage	27,151	13,723
Residential mortgage	3,187	2,485
Other consumer	-	-
Total substandard loans	41,962	44,802

Formula Classified:		
Residential mortgage	877	1,458
Automobile	36	66
Other consumer	1,030	844
Total formula classified loans	1,943	2,368
Doubtful:		
Commercial & industrial	5,478	6,026
Commercial mortgage	642	642
Total doubtful loans	6,120	6,668
Total outstanding loans, gross	$ 1,592,772	$ 1,419,332

<u>*Allowance for Credit Losses*</u>

Effective January 1, 2023, the Company accounts for credit losses on loans in accordance with ASC 326 - *Financial Instruments - Credit Losses, to determine the Allowance for Credit Losses (ACL)* (Topic 326), using the modified retrospective method. Results for the reporting periods after January 1, 2023, are presented under Topic 326, while prior period amounts continue to be reported in accordance with previously applicable GAAP.

Topic 326 requires the Company to recognize estimates for lifetime losses on loans and off-balance sheet loan commitments at the time of origination or acquisition. The recognition of losses at origination or acquisition represents the Company's best estimate of the lifetime expected credit loss associated with a loan given the facts and circumstances associated with the loan and involves the use of significant management judgement and estimates, which are subject to change based on management's on-going assessment of the credit quality of the loan portfolio and changes in economic forecasts used in the model.

The Company elected to use the discounted cash flow (DCF) model to account for ACL. The Company has segmented the loan portfolio according to loans that share similar attributes and risk characteristics. Each segment possesses varying degrees of risk based on, among other things, the type of loan, the type of collateral, and the sensitivity of the borrower or industry to changes in external factors such as economic conditions. These segment groupings are: commercial & industrial, construction, commercial real estate, real estate, consumer loans – cash secured, consumer loans – real estate secured, consumer loans – unsecured, auto secured, and workout consumer loans. See *Note 2 – Summary of Significant Accounting Polices - Allowance for Credit Losses on Loans* for the summary of risk characteristics of each loan segment.

The following table shows the impact of adopting CECL on January 1, 2023:

	As reported under Topic 326	**Pre-Topic 326 Adoption**	**Impact of Topic 326 Adoption**
Auto Secured	$ 742	$ 363	$ 379
C&I	15,307	11,364	3,943
Construction	632	198	434
Consumer - Unsecured	5,202	7,011	(1,809)
Consumer Loans - RE Secured	216	53	163
CRE	7,543	15,120	(7,577)
RE Loans	1,887	2,626	(739)
Workout Consumer Loans	108	62	46
Total	$ 31,637	$ 36,797	$ (5,160)

As of the implementation date of January 1, 2023, the Company recognized a decrease of $5.2 million to its allowance for credit losses for loans. The cumulative-effect adjustment as a result of the adoption of this guidance was recorded, net of tax of $1.2 million, as a $4.0 million increase to retained earnings effective January 1, 2023.

The Company's only unfunded loan commitment that is not unconditionally cancellable are the Letters of Credit. This off-balance sheet exposure has not been drawn on since 2016, and the Company has not experienced any losses.

Set forth below is information regarding gross loan balances and the related allowance for credit losses as of December 31, 2023, and allowance loan losses as of December 31, 2022, by portfolio type. The allowance will change in the future in response to changes in the size, composition and quality of the loan portfolio, as well as periodic reassessments of prospective economic conditions.

	Commercial	Residential Mortgages	Consumer	Total
	(Dollars in thousands)			
Year Ended December 31, 2023				
Allowance for credit losses:				
Balance at beginning of year, Pre-Topic 326 Adoption	$ 26,771	$ 2,678	$ 7,348	$ 36,797
Impact of Topic 326 Adoption	(3,200)	(739)	(1,221)	(5,160)
Balance at beginning of year, As reported under Topic 326	$ 23,571	$ 1,939	$ 6,127	$ 31,637
Charge-offs	(6,325)	-	(2,992)	(9,317)
Recoveries	144	42	1,719	1,905
Provision for credit losses	7,079	(394)	808	7,493
Balance at end of period	$ 24,469	$ 1,587	$ 5,662	$ 31,718

The following table presents loans individually and collectively evaluated for impairment and their respective ALLL allocation at December 31, 2022 as determined in accordance with ASC 450 and ASC 310, prior to the adoption of ASC 326:

	Commercial	Residential Mortgages	Consumer	Total
Year Ended December 31, 2022				
Allowance for loan losses:				
Balance at beginning of year	$ 22,860	$ 2,304	$ 9,244	$ 34,408
Charge-offs	(982)	-	(4,567)	(5,549)
Recoveries	181	3	2,054	2,238
Provision for loan losses	4,712	371	617	5,700
Ending balance	$ 26,771	$ 2,678	$ 7,348	$ 36,797
Allowance balance at end of year related to:				
Loans individually evaluated for impairment	$ 6,139	$ 45	$ 839	$ 7,023
Loans collectively evaluated for impairment	20,632	2,633	6,509	29,774
Ending balance	$ 26,771	$ 2,678	$ 7,348	$ 36,797
Loan balances at end of year:				
Loans individually evaluated for impairment	$ 22,765	$ 38,996	$ 971	$ 62,732
Loans collectively evaluated for impairment	1,065,590	120,301	170,709	1,356,600
Ending balance	$ 1,088,355	$ 159,297	$ 171,680	$ 1,419,332

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

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

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Non-Accrual	90 Days and Greater Still Accruing	Total Past Due	Current	Total Loans Outstanding
December 31, 2023							
Commercial							
Commercial & industrial	$ 862	$ 4,072	$ 2,381	$ -	$ 7,315	$ 244,679	$ 251,994
Commercial mortgage	9,017	900	938	-	10,855	916,590	927,445
Commercial construction	-	-	-	-	-	33,449	33,449
Commercial agriculture	-	-	-	-	-	507	507
Total commercial	9,879	4,972	3,319	-	18,170	1,195,225	1,213,395
Consumer							
Residential mortgage	2,024	2,039	455	-	4,518	157,362	161,880
Home equity	-	-	-	-	-	2,967	2,967
Automobile	480	87	-	36	603	35,761	36,364
Other consumer [1]	1,781	933	150	865	3,729	174,437	178,166
Total consumer	4,285	3,059	605	901	8,850	370,527	379,377
Total	$ 14,164	$ 8,031	$ 3,924	$ 901	$ 27,020	$ 1,565,752	$ 1,592,772
December 31, 2022							
Commercial							
Commercial & industrial	$ 479	$ 2,955	$ 16,955	$ -	$ 20,389	$ 259,562	$ 279,951
Commercial mortgage	245	4,776	4,282	-	9,303	788,352	797,655
Commercial construction	-	-	-	-	-	10,198	10,198
Commercial agriculture	-	-	-	-	-	551	551
Total commercial	724	7,731	21,237	-	29,692	1,058,663	1,088,355
Consumer							
Residential mortgage	5,189	1,448	474	461	7,572	149,139	156,711
Home equity	-	-	-	-	-	2,586	2,586
Automobile	343	74	-	66	483	18,387	18,870
Other consumer [1]	1,517	1,158	47	758	3,480	149,330	152,810
Total consumer	7,049	2,680	521	1,285	11,535	319,442	330,977
Total	$ 7,773	$ 10,411	$ 21,758	$ 1,285	$ 41,227	$ 1,378,105	$ 1,419,332

[1] Comprised of other revolving credit, installment loans, and overdrafts.

Non-accrual Loans

Generally, the accrual of interest on a loan is discontinued when principal or interest payments become more than 90 days past due, unless management believes the loan is adequately collateralized and it is in the process of collection. When a loan is placed on non-accrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income. Non-accrual loans may be restored to accrual status when principal and interest become current and full repayment is expected. The following table provides information as of December 31, 2023 and 2022, with respect to loans on non-accrual status, by portfolio type:

	December 31,	
	2023	2022
	(Dollars in thousands)	
Non-accrual loans:		
Commercial		
Commercial & industrial	$ 7,030	$ 18,210
Commercial mortgage	1,586	5,879
Total commercial	8,616	24,089
Consumer		
Residential mortgage	$ 3,046	$ 2,785
Other consumer [1]	164	85
Total consumer	3,210	2,870
Total non-accrual loans	$ 11,826	$ 26,959

[1] Comprised of other revolving credit, installment loans, and overdrafts.

Allowance for Credit Losses on Off-Balance Sheet

The Bank keeps an allowance for credit losses for its Letters of Credit, which are the only not unconditionally cancellable off-balance sheet commitments. Although the Bank's Letters of Credit have not been called upon since 2016, the Bank consistently maintains a liability account with a recent year-end balance of $52,500.

Modified Loans to Troubled Borrowers

On January 1, 2023, the Company adopted ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures*, which introduces new reporting requirements for modifications of loans to borrowers experiencing financial difficulty. The Company also refers to these loans as modified loans to troubled borrowers ("MLTB"). A MLTB arises from a modification made to a loan in order to alleviate temporary difficulties in the borrower's financial condition and/or constraints on the borrower's ability to repay the loan, and to minimize potential losses to the Company. GAAP requires that certain types of modifications be reported, which consist of the following: (i) principal forgiveness, (ii) interest rate reduction, (iii) other-than-insignificant payment delay, (iv) term extension, or any combination of the foregoing. The ACL for an MLTB is measured on a collective basis, as with other loans in the loan portfolio, unless management determines that such loans no longer possess risk characteristics similar to others in the loan portfolio. In those instances, the ACL for an MLTB is determined through individual evaluation.

The Bank had $38.6 million in modified loans as of December 31, 2023. The modified loans recorded by the Bank represent financing receivables, modified for the purpose of alleviating temporary impairments to the borrower's financial condition. The modifications that the Bank has extended to borrowers have come in the form of a change in the amortization terms, a reduction in the interest rate, interest only payments and, in limited cases, a concession to the outstanding loan balance. The restructuring plans between the borrower and Bank are designed to provide a bridge for the cash flow shortfalls in the near term. As the borrower works through the near-term issues, in most cases, the original contractual terms will be reinstated.

Details of the Bank's MLTB as of December 31, 2023 are as follows:

	Number of Loans	**Pre-Modification Outstanding Recorded Investment**	**Principal Modifications**	**Post-Modification Outstanding Recorded Investment**	**Outstanding Balance December 31, 2023**
Performing					
Commercial & industrial	6	5,393	-	5,393	4,456
Commercial mortgage	9	34,627	-	34,627	33,707
Total performing	15	40,020	-	40,020	38,163
Nonperforming					
Commercial & industrial	-	-	-	-	-
Commercial mortgage	3	874	-	874	436
Total nonperforming	3	874	-	874	436
Modified Loan to Troubled Borrowers (MLTB)	18	$ 40,894	$ -	$ 40,894	$ 38,599

Impaired Loans

Prior to the adoption of Topic 326, the Bank considered a loan impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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

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

		December 31, 2022
Impaired loans:		
Restructured loans:		
Non-accruing restructured loans	$	4,279
Accruing restructured loans		33,516
Total restructured loans		37,795
Other impaired loans		24,938
Total impaired loans	$	62,733
Impaired loans less than 90 days delinquent and included in total impaired loans	$	39,451

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

		Recorded Investment		Unpaid Principal Balance		Average Recorded Investment		Interest Income Recognized
				(Dollars in thousands)				
December 31, 2022, With no related allowance recorded:								
Commercial & industrial	$	22,726	$	22,849	$	14,328	$	42
Commercial mortgage		34,836		35,403		35,451		152
Residential mortgage		3,019		3,019		1,955		(183)
Other consumer		-		-		-		-
Total impaired loans with no related allowance	$	60,581	$	61,271	$	51,734	$	11
December 31, 2022, With a related allowance recorded:								
Commercial & industrial	$	100	$	100	$	198	$	-
Commercial mortgage		161		176		154		-
Residential mortgage		981		991		969		(44)
Automobile		66		66		71		1
Other consumer		844		843		1,001		7
Total impaired loans with a related allowance	$	2,152	$	2,176	$	2,393	$	(36)

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

Individually Assessed Loans

Since adopting Topic 326, the Bank has performed collective evaluations of its loan accounts, grouping together those that are considered to share similar risk characteristics. However, when certain loans are identified as no longer possessing similar risk characteristics to those loans in the portfolio, the Company will undertake an individual evaluation to determine an appropriate Lifetime Allowance for Credit Losses (ACL).

In deciding whether to assess individual loans, the Bank considers whether they are dependent on collateral, which would require measurement based on the estimated fair value of the collateral, less cost to sell. The Bank will determine if the asset meets both conditions: the borrower is facing financial difficulty as of the measurement date, and repayment of the financial asset is substantially expected to be sourced from the operation or sale of the collateral.

Troubled Debt Restructurings (TDRs)

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

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

Note 7 – Premises and Equipment

A summary of premises and equipment at December 31, 2023 and 2022 follows:

	December 31, 2023		
	Cost	Accumulated Depreciation	Net Book Value
Buildings	$ 28,184	$ (22,868)	$ 5,316
Furniture and equipment	29,982	(22,498)	7,484
Automobiles and mobile facilities	2,197	(1,291)	906
Leasehold improvements	7,666	(4,322)	3,344
	68,029	(50,979)	17,050
Construction in progress	2,226	-	2,226
	$ 70,255	$ (50,979)	$ 19,276

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

For the years ended December 31, 2023 and 2022, depreciation expense was $4.0 million and $4.5 million, respectively. No fixed assets impairments were recorded during the years ending December 31, 2023 and 2022.

Note 8 – Other Assets

A summary of other assets at December 31, 2023 and 2022, follows:

	December 31,	
	2023	2022
Bank Owned Life Insurance (Note 13)	$ 43,864	$ 40,834
Prepaid income taxes	2,180	290
Prepaid expenses	10,640	11,667
Deferred tax asset, net (Note 12)	26,453	30,451
Mortgage servicing rights (Note 18)	1,606	1,142
Right-of-use asset (Note 19)	22,132	24,577
Accounts receivable	4,987	6,428
Other	2,583	1,137
Total other assets	$ 114,445	$ 116,526

Note 9 – Deposits

A summary of deposits at December 31, 2023 and 2022, follows:

	December 31,	
	2023	2022
	(Dollars in Thousands)	
Non-interest bearing deposits	$ 863,797	$ 850,480
Interest bearing deposits:		
Demand deposits	371,484	416,227
Regular savings	677,885	718,395
Time deposits:		
$250,000 or more	8,672	8,672
Less than $250,000	13,529	15,969
Other interest bearing deposits	388,088	337,954
Total interest bearing deposits	1,459,658	1,497,217
Total Deposits	$ 2,323,455	$ 2,347,697

At December 31, 2023, the scheduled maturities of time deposits were as follows:

Years ending December 31,	
2024	$ 18,931
2025	859
2026	1,444
2027	592
2028 and thereafter	375
Total	$ 22,201

Note 10 – Borrowings

Federal Reserve Discount Window

At December 31, 2023 and 2022 the Bank had investment securities with a market value of $14.0 million and $13.2 million, respectively, pledged to the FRB Discount Window supporting a borrowing capacity of $13.2 million and $12.7 million, respectively, based on an average Federal Reserve margin of 96%. The Bank had no outstanding borrowings through the discount window at December 31, 2023 or 2022.

Federal Home Loan Bank (FHLB) Advances

The Bank has a credit line with the FHLB of Des Moines equal to 35% of total Bank assets. At December 31, 2023 and 2022, the Bank did not have outstanding advances against this credit line under Blanket Agreements for Advances and Security Agreements ("the Agreements"). The Agreements enable the Bank to borrow funds from the FHLB to fund mortgage loan programs and to satisfy certain other funding needs.

Overnight Fed Funds Lines

At December 31, 2023 and 2022, the Bank had $35.0 million in Federal Funds lines of credit available with its correspondent banks. No borrowings were outstanding as of December 31, 2023 or 2022.

Note 11 – Transactions with Directors of the Company

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

	Years Ended December 31,	
	2023	2022
	(Dollars in thousands)	
Beginning balance	$ 16,474	$ 17,188
Undisbursed commitments	14	231
New loans granted	1,529	72
Principal repayments	(1,756)	(1,017)
Ending balance of term loans	16,261	16,474
Year-end balance of revolving accounts	2,850	1,093
Total term loans and revolving accounts	$ 19,111	$ 17,567

In addition, the Bank leases certain facilities from two separate entities in which two of its Directors have separate ownership interests. Lease payments made to these entities during the years ended December 31, 2023 and 2022, approximated $390 thousand and $388 thousand, respectively.

Note 12 – Income Taxes

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

The income tax provision includes the following components:

	Years Ended December 31,	
	2023	2022
Government of Guam tax expense (benefit):		
Current	$ 5,312	$ 1,999
Deferred	(378)	(822)
Foreign income taxes (including U.S. income taxes)	2,613	2,302
Total income tax expense	$ 7,547	$ 3,479

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

	2023	2022
Statutory Guam income tax rate	21.00%	21.00%
Permanent differences	-2.12%	-4.83%
Other	0.47%	-1.15%
Total income tax expense	19.35%	15.02%

The difference between effective income tax expense and income tax expense computed at the Guam statutory rate was due to nontaxable interest income earned on loans to the Government of Guam for each of the years ended December 31, 2023 and 2022.

The components of deferred income taxes are as follows:

	Years Ended December 31,	
	2023	2022
Deferred loan origination fees	$ (111)	$ 69
Loan loss provision	(15)	(548)
Fixed assets	(97)	(97)
SERP	(135)	(33)
Unfunded commitment reserve	-	(1)
Mortgage servicing rights	107	(101)
Right-of-use asset	(515)	206
Lease liability	462	(260)
Accrued bonus	66	(2)
Unearned income	15	42
Other	(155)	(97)
Deferred tax (benefit) provision	$ (378)	$ (822)

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

	Years Ended December 31,	
	2023	2022
Deferred tax asset:		
Allowance for loan losses	$ 7,280	$ 8,445
Lease liability	5,334	5,794
Loan origination fees	781	671
Net unrealized loss on securities available-for-sale	17,272	20,484
Unearned income	74	89
Accruals not currently deductible	2,259	2,188
Total deferred tax asset	33,000	37,671
Deferred tax liability:		
Right-of-use asset	$ (5,060)	$ (5,572)
Fixed assets	(519)	(616)
Mortgage servicing rights	(369)	(262)
Investment in ASC Trust LLC	(594)	(688)
Other	(5)	(82)
Total deferred tax liability	(6,547)	(7,220)
Valuation allowance	-	-
Net deferred tax asset	$ 26,453	$ 30,451

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

The Bank is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2020.

Note 13 – Bank Owned Life Insurance (BOLI)

At December 31, 2023 and 2022, the Company had investments in BOLI of $43.9 million and $40.8 million, respectively. The Company recorded non-interest income associated with the BOLI policies of $1.0 million and $2.6 million respectively.

BOLI involves the purchasing of life insurance by the Company on a select group of employees where the Company is the owner and beneficiary of the policies. BOLI is recorded as an asset at its cash surrender value. Increases in the cash surrender value of these policies, as well as a portion of the insurance proceeds received, are recorded in noninterest income and are not subject to income tax, as long as they are held for the life of the covered parties.

Note 14 – Employee Benefit Plans

Stock Purchase Plan

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

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

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

Employee Retirement Savings Plan

The Company has a 401(k) Plan whereby substantially all employees, with at least one year of continuous service, are eligible to participate in the Plan. The Company makes matching contributions equal to 100% of an employee's deferrals, up to 1% of the employee's compensation, plus 50% of the employee's deferrals that exceed 1% but are less than 6% of the employee's compensation. Matching contributions become 100% vested to the employee after two years of service. For the years ended December 31, 2023 and 2022, the expense attributable to the Plan was $1.5 million and $733 thousand, respectively.

Supplemental Executive Retirement Plan ("SERP")

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

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

The changes in the projected benefit obligation of other benefits under the Plan during 2023 and 2022, its funded status at December 31, 2023 and 2022, and the amounts recognized in the balance sheet at December 31, 2023 and 2022, were as follows:

	Years Ended December 31,	
	2023	**2022**
Change in benefit obligation:		
Benefit obligation at beginning of period	$ 10,204	$ 9,187
Service cost	771	633
Interest cost	390	384
Benefit obligation at end of period	$ 11,365	$ 10,204
Funded status:		
Amounts recognized in the Statement of Financial Condition		
Unfunded accrued SERP liability—current	$ 11,365	$ 10,204
Total unfunded accrued SERP liability	$ 11,365	$ 10,204
Net amount recognized in accumulated other comprehensive income		
Prior service cost/(benefit)	$ -	$ -
Net actuarial loss/(gain)	-	-
Total net amount recognized in accumulated other comprehensive income	-	-
Accumulated benefit obligation	$ 11,365	$ 10,204
Components of net periodic SERP cost:		
Service cost	$ 8,950	$ 8,178
Interest cost	2,415	2,026
Net periodic SERP cost	$ 11,365	$ 10,204
Assumptions as of December 31:		
Assumed discount rate	4.33%	4.33%
Rate of compensation increase	0.00%	0.00%

As of December 31, 2023, $4.3 million in benefits are expected to be paid in the next five years. During 2024, $1.2 million is expected to be recognized in net periodic benefit cost.

Note 15 – 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 2023 and 2022 under the Employee Stock Purchase Plan and are reported as dilutive options. No shares were subscribed but not issued at December 31, 2023 and 2022. In April 2022, the Company suspended the Employee Stock Purchase Plan indefinitely in connection with the Company's plans to implement a 1-for-500 reverse stock split. The Company effected the reverse stock split on October 31, 2022.

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

	Years Ended December 31,			
	2023		2022	
Net income available to BankGuam Holding Company	$	30,495	$	18,889
Less preferred stock dividends		(862)		(600)
Net income attributable to common stockholders	$	29,633	$	18,289
Weighted average number of common shares outstanding - used to calculate basic and diluted earnings per common share		18.2		19.2
Earnings per common share (EPS):				
Basic and diluted EPS	$	1,625.86	$	950.41

Note 16 – Commitments and Contingencies

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

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

A summary of financial instruments with off-balance-sheet risk at December 31, 2023 and 2022, is as follows:

	December 31,			
	2023		2022	
Commitments to extend credit	$	173,899	$	184,448
Letters of credit:				
Standby letters of credit	$	50,779	$	48,368
Commercial letters of credit		2,852		2,001
Total	$	53,631	$	50,369

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

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

The Bank considers its standby letters of credit to be guarantees. At December 31, 2023, the maximum undiscounted future payments that the Bank could be required to make was $53.6 million. All of these arrangements mature within one year. The Bank generally has recourse to recover from the customer any amounts paid under these guarantees. Most of the guarantees are fully collateralized; however, some are unsecured. The Bank recorded $52.5 thousand in reserve liabilities associated with these guarantees at December 31, 2023.

Mortgage loans serviced for others are not included in the accompanying consolidated statements of condition. The unpaid principal balances of mortgage loans serviced for others were $236.9 million and $169.8 million at December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, the Bank recorded mortgage servicing rights at their fair value of $1.6 million and $1.1 million, respectively.

Legal Contingencies

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

Note 17 – Minimum Regulatory Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1 capital and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). As of December 31, 2023 and 2022, the Bank met all capital adequacy requirements to which it is subject.

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

As of December 31, 2023, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category.

The Company's actual capital amounts and ratios as of December 31, 2023 and 2022, are presented in the table below.

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
		Amount	Ratio		Amount	Ratio		Amount	Ratio
At December 31, 2023:									
Total capital (to Risk Weighted Assets)	$	260,194	14.925%	$	139,463	8.000%	$	174,329	10.000%
Tier 1 capital (to Risk Weighted Assets)	$	203,280	11.661%	$	104,597	6.000%	$	139,463	8.000%
Tier 1 capital (to Average Assets)	$	203,280	7.805%	$	104,174	4.000%	$	130,217	5.000%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	$	193,497	11.100%	$	78,448	4.500%	$	113,314	6.500%
At December 31, 2022:									
Total capital (to Risk Weighted Assets)	$	229,497	14.377%	$	127,700	8.000%	$	159,625	10.000%
Tier 1 capital (to Risk Weighted Assets)	$	175,626	11.002%	$	95,775	6.000%	$	127,700	8.000%
Tier 1 capital (to Average Assets)	$	175,626	6.685%	$	105,080	4.000%	$	131,350	5.000%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	$	165,843	10.390%	$	71,831	4.500%	$	103,756	6.500%

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

Reverse Stock Split

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

As a result of the reverse stock split, every 500 shares of common stock issued and outstanding or held as treasury shares were automatically combined into one share of common stock. The total number of shares of the Company's common stock issued and outstanding was approximately 18,226, and the number of holders of record of the Company's common stock was approximately 1,104.

Non-Cumulative Perpetual Preferred Stock

Commencing September 15, 2016, the Company offered a private placement of securities for the issuance and sale of an aggregate of 10,000 shares of its new Series A Non-Cumulative Perpetual Preferred Stock. This offer carried a subscription price of $1,000.00 per share and a yield of 5.5% (the "Series A Preferred Stock") to various accredited and a limited number of non-accredited investors for total proceeds of up to $10 million (the "Offering"). The Offering agreement contains customary warranties, representations and indemnification provisions. At December 31, 2023, 9,800 of these shares were issued and outstanding.

Note 18 – Fair Value Measurements

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

Fair Value Hierarchy

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

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market, as well as certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

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

Financial assets measured at fair value on a recurring basis as of December 31, 2023 and 2022, 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
At December 31, 2023				
Available-for-sale Securities:				
U.S. treasury notes and bonds	$ -	$ -	$ -	$ -
U.S. government agency and government sponsored enterprise (GSE) debt securities	-	97,907	-	97,907
U.S. government agency pool securities	-	47,460	-	47,460
U.S. government agency or GSE	-	301,249	-	301,249
Total fair value of available-for-sale securities	-	446,616	-	446,616
Other assets:				
MSRs	-	-	1,606	1,606
Total fair value	$ -	$ 446,616	$ 1,606	$ 448,222
At December 31, 2022				
Available-for-sale Securities:				
U.S. treasury notes and bonds	$ -	$ -	$ -	$ -
U.S. government agency and government sponsored enterprise (GSE) debt securities	-	93,129	-	93,129
U.S. government agency pool securities	-	65,597	-	65,597
U.S. government agency or GSE	-	343,173	-	343,173
Total fair value of available-for-sale securities	-	501,899	-	501,899
Other assets:				
MSRs	-	-	1,142	1,142
Total fair value	$ -	$ 501,899	$ 1,142	$ 503,041

There were no liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022.

During the periods ended December 31, 2023 and 2022, the changes in Level 3 assets (consisting solely of MSRs) measured at fair value on a recurring basis are as follows:

	Years Ended December 31,	
	2023	2022
Beginning balance	$ 1,142	$ 1,581
Realized and unrealized net losses:		
Included in net income	464	(439)
Ending balance	$ 1,606	$ 1,142

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

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

	Estimated Fair Value	Valuation Technique	Unobservable Inputs	Range of Inputs	Weighted Average Rate
December 31, 2023					
Financial instrument:					
MSRs	$ 1,606	Discounted Cash Flow	Discount Rate	9.85% - 11.38%	9.90%
			Weighted Average Prepayment Rate (Public Securities Association)	125%	
December 31, 2022					
Financial instrument:					
MSRs	$ 1,142	Discounted Cash Flow	Discount Rate	9.84% - 10.30%	10.10%
			Weighted Average Prepayment Rate (Public Securities Association)	150%	

There were no transfers into or out of the Bank's Level 3 financial instruments for the periods ended December 31, 2023 and 2022.

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

Investment Securities

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

If quoted market prices are not available, the Bank estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include GSE obligations, corporate bonds, and other securities. Mortgage-backed securities are included in Level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, the Bank would classify those securities in Level 3. At December 31, 2023 and 2022, the Bank did not have any Level 3 investment securities.

Mortgage Servicing Rights

The fair value measurement of mortgage servicing rights is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques that incorporate assumptions that market participants would use in estimating the fair value of servicing rights. The most important of these assumptions is the interest rate used in discounting the future cash flows into their present value. Other assumptions might include estimates of prepayment speeds, costs to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations. The Bank's mortgage servicing rights are considered a Level 3 measurement at December 31, 2023 and 2022.

Assets Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances the Bank makes adjustments to fair value for assets and liabilities even though they are not measured at fair value on an ongoing basis. At December 31, 2023 and 2022, there are no financial instruments carried on the consolidated statements of financial condition by caption and by level in the fair value hierarchy for which a nonrecurring change in fair value has been recorded.

Fair Value of Other Financial Instruments

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

			Estimated Fair Value	
	Carrying Amount	**Level 1**	**Level 2**	**Level 3**
			(Dollars in thousands)	
December 31, 2023				
Financial assets:				
Cash and cash equivalents	$ 89,596	$ 89,596	$ -	$ -
Restricted cash	150	150	-	-
Federal Home Loan Bank stock	1,524	-	1,524	-
Investment securities held-to-maturity	314,906	-	246,082	-
Loans, net	1,557,652	-	-	1,547,899
Total	$ 1,963,828	$ 89,746	$ 247,606	$ 1,547,899
Financial liabilities:				
Deposits	2,323,455	-	-	2,323,385
Total	$ 2,323,455	$ -	$ -	$ 2,323,385
December 31, 2022				
Financial assets:				
Cash and cash equivalents	$ 191,941	$ 191,941	$ -	$ -
Restricted cash	150	150	-	-
Federal Home Loan Bank stock	3,318	-	3,318	-
Investment securities held-to-maturity	318,674	-	239,210	-
Loans, net	1,379,613	-	-	1,397,023
Total	$ 1,893,696	$ 192,091	$ 242,528	$ 1,397,023
Financial liabilities:				
Deposits	$ 2,347,697	$ -	$ -	$ 2,347,643
Total	$ 2,347,697	$ -	$ -	$ 2,347,643

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

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

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

Loans

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

Deposit Liabilities

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

Short-Term Borrowings

The carrying amounts of Federal Funds purchased and FHLB advances maturing within ninety days approximate their fair values. We had no outstanding short-term borrowings at December 31, 2022 or 2023.

Long-Term Borrowings

Fair value of FHLB advances maturing after ninety days is determined based on expected present value techniques based on current market rates for advances with similar terms and remaining maturities. We had no outstanding long-term borrowings at December 31, 2022 or 2023.

Accrued Interest

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

Note 19 – Leases

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

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

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

The Bank leases certain facilities from two separate entities in which two of its directors have separate ownership interests. Lease payments made to these entities during the year ended December 31, 2023 and 2022, were $390 thousand, and $388 thousand respectively.

Additionally, the Bank leases office space to third parties, with original lease terms ranging from 1 to 3 years with option periods ranging up to 12 years. At December 31, 2023, minimum future rents to be received under non-cancelable operating sublease agreements were $59 thousand each for the periods ending December 31, 2024 and 2025.

The cash flow from operating leases included in the measurement of lease liabilities during December 31, 2023 and 2022 was $2.9 million and $2.8 million, respectively.

The following table summarizes the lease-related assets and liabilities recorded as part of other assets and other liabilities in our consolidated statements of financial condition at December 31, 2023:

	December 31, 2023	December 31, 2022
Assets		
Operating lease right-of-use assets	$ 22,132	$ 24,276
Total lease assets	$ 22,132	$ 24,276
Liabilities		
Current		
Operating	$ 2,066	$ 2,014
Noncurrent		
Operating	21,262	23,231
Total lease liabilities	$ 23,328	$ 25,245

The operating lease cost, and variable lease costs, at December 31, 2023 and 2022 was $3.1 million and $3.0 million, respectively. The following table provides the maturities of lease liabilities at December 31, 2023:

	Operating Leases (a)	Total
2024	$ 2,875	$ 2,778
2025	2,722	2,722
2026	2,512	2,512
2027	2,172	2,172
2028	2,053	2,053
After 2028	31,046	31,143
Total lease payments	43,380	43,380
Less: Interest (b)	20,052	20,052
Present value of lease liabilities (c)	$ 23,328	$ 23,328

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

(a) Operating lease payments include $18.9 million related to options to extend lease terms that are reasonably certain of being exercised.

(b) Calculated using the incremental borrowing rate based on the lease term for each lease.

(c) Includes the current portion of $2.0 million for operating leases.

The following table provides the weighted-average lease term and discount rate at December 31, 2023:

	Years Ended December 31,	
	2023	2022
Weighted-average remaining lease term (years)		
Operating leases	24.6	24.0
Weighted-average discount rate		
Operating leases	4.10%	4.05%

Note 20 – Subordinated Debt

At December 31, 2023 and 2022, the Company had outstanding subordinated debt totaling $34.5 million. Subordinated debt is presented net of deferred fees totaling $463 thousand at December 31, 2023 and $531 thousand at December 31, 2022

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

The 2031 Notes have a ten-year term and initially bear interest at a fixed annual rate of 4.75%. Beginning July 1, 2026, the interest rate will reset quarterly to the then-current three-month Secured Overnight Financing Rate ("SOFR") plus 413 basis points. The Company is required to pay interest semi-annually during the fixed period, and quarterly during the floating rate period. The principal sum of the 2031 Notes plus any unpaid interest are due on the maturity date.

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

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

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

Note 21 – Subsequent Events

No subsequent events. Management has reviewed the events occurring through the date of this report, and there were no subsequent events that require additional disclosure to the accompanying financial statements.