BankGuam Holding Company

Consolidated Financial Statements

December 31, 2024

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, 2024 and 2023, and the related consolidated statements of income, comprehensive income (loss), 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, 2024 and 2023, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of ASC Trust LLC, a majority-owned subsidiary, which statements reflect total assets constituting 0.15 percent and 0.18 percent, respectively, of consolidated total assets at December 31, 2024 and 2023, and total revenues constituting 8.3 percent and 7.12 percent, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for ASC Trust LLC, is based solely on the report of the other auditors.

Basis for Opinion

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

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 27, 2025

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

	December 31, 2024		December 31, 2023	
ASSETS				
Cash and due from banks	$	33,937	$	32,043
Interest bearing deposits in banks		54,482		57,264
Total cash and cash equivalents		88,419		89,307
Restricted cash		400		439
Investment securities available-for-sale, at fair value		397,086		446,616
Investment securities held-to-maturity, at amortized cost (Fair Value $240,082 at 12/31/2024 and $246,082 at 12/31/2023)		311,767		314,906
Federal Home Loan Bank stock, at cost		1,527		1,524
Loans, net of allowance for credit losses ($27,073 at 12/31/2024 and $31,718 at 12/31/2023)		1,617,924		1,557,652
Accrued interest receivable		8,837		9,281
Premises and equipment, net		19,478		19,276
Goodwill		13,014		13,014
Intangible assets		8,500		9,240
Other assets		118,013		114,445
Total assets	$	2,584,965	$	2,575,700
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Deposits:				
Non-interest bearing	$	885,013	$	863,797
Interest bearing		1,428,494		1,459,658
Total deposits		2,313,507		2,323,455
Accrued interest payable		2,484		31
Subordinated debt, net		34,606		34,537
Other liabilities		46,838		44,032
Total liabilities		2,397,435		2,402,055
Commitments and contingencies (Note 16)				
Stockholders' equity:				
Common stock $104.15 par value; 96,000 shares authorized; 19,520 shares issued and 18,226 shares outstanding at 12/31/2024 and 12/31/2023, respectively		2,034		2,034
Preferred stock $100 par value; 300,000 shares authorized; 9,800 shares issued at 12/31/2024 and 12/31/2023, respectively, and zero shares outstanding at 12/31/2024 and 9,800 shares outstanding at 12/31/2023		980		980
Additional paid-in capital, Common stock		24,989		24,989
Additional paid-in capital, Preferred stock		8,803		8,803
Retained earnings		218,147		198,170
Accumulated other comprehensive loss		(55,449)		(59,320)
Non-controlling interest		7,184		7,347
Common stock in treasury, at cost (1,294 shares at 12/31/2024 and 12/31/2023, respectively)		(9,358)		(9,358)
Preferred stock in treasury, at cost (9,800 shares at 12/31/2024 and zero shares at 12/31/2023)		(9,800)		-
Total stockholders' equity		187,530		173,645
Total liabilities and stockholders' equity	$	2,584,965	$	2,575,700

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,	
	2024	**2023**
Interest income:		
Loans	$ 106,008	$ 96,716
Investment securities	14,071	16,526
Deposits with banks	4,788	6,040
Total interest income	124,867	119,282
Interest expense:		
Savings deposits	3,852	815
Time deposits	108	14
Other borrowed funds	2,201	1,903
Total interest expense	6,161	2,732
Net interest income	118,706	116,550
Provision for credit losses	5,292	7,493
Net interest income, after provision for loan losses	113,414	109,057
Non-interest income:		
Service charges and fees	20,726	18,884
Loss on sale of investment securities	5	(189)
Income from merchant services, net	5,173	5,149
Cardholders income, net	4,111	3,842
Trustee fees	3,800	3,880
Other income	5,146	6,057
Total non-interest income	38,961	37,623
Non-interest expense:		
Salaries and employee benefits	51,164	46,988
Occupancy	9,300	10,649
Equipment and depreciation	27,304	23,454
Insurance	1,942	1,886
Telecommunications	1,665	1,598
FDIC assessment	1,367	1,584
Professional services	2,952	2,811
Contract services	5,381	4,289
Other real estate owned	102	51
Stationery and supplies	731	924
Training and education	2,036	2,066
General, administrative and other	15,231	11,378
Total non-interest expense	119,175	107,678
Income before income taxes	33,200	39,002
Income tax expense	7,544	7,547
Net income	25,656	31,455
Net income attributable to noncontrolling interest	1,384	960
Net income available to BankGuam Holding Company	24,272	30,495
Preferred stock dividend	(643)	(862)
Net income attributable to common stockholders	$ 23,629	$ 29,633
Earnings per common share (EPS):		
Basic and diluted EPS	$ 1,296.44	$ 1,625.86
Dividends declared per common share	$ 200.00	$ 200.00
Basic and diluted weighted average common shares	18.2	18.2

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

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

	Years Ended December 31,	
	2024	**2023**
Net income	$ 25,656	$ 31,455
Other comprehensive income:		
Unrealized holding gain on available-for-sale securities arising during the period, net of tax	2,963	10,034
Reclassification for (gain) loss realized on available-for-sale securities	(5)	189
Amortization of post-transfer unrealized holding loss on held-to-maturity securities during the period, net of tax	913	865
Total other comprehensive income	3,871	11,088
Total comprehensive income	$ 29,527	$ 42,543

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	Number of Preferred Shares Outstanding	Preferred Stock	Additional Paid-in Capital - Common	Additional Paid-in Capital - Preferred	Retained Earnings	Accumulated Other Comprehensive loss	Treasury Stock – Common & Preferred	Noncontrolling Interests	Total
Balances, December 31, 2022	18,226	$ 2,034	9,800	$ 980	$ 24,989	$ 8,803	$ 168,193	$ (70,408)	$ (9,358)	$ 7,220	$ 132,453
Comprehensive 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	9,800	980	24,989	8,803	198,170	(59,320)	(9,358)	7,347	173,645
Comprehensive income:											
Net income	-	-	-	-	-	-	24,272	-	-	1,384	25,656
Change in accumulated other comprehensive income:											
Unrealized loss on available-for-sale securities	-	-	-	-	-	-	-	3,871	-	-	3,871
Purchase of treasury stock - preferred	-	-	(9,800)	-	-	-	-	-	(9,800)	-	(9,800)
Cash dividends on common stock	-	-	-	-	-	-	(3,652)	-	-	(1,547)	(5,199)
Cash dividends on preferred stock	-	-	-	-	-	-	(643)	-	-	-	(643)
Balances, December 31, 2024	18,226	$ 2,034	-	$ 980	$ 24,989	$ 8,803	$ 218,147	$ (55,449)	$ (19,158)	$ 7,184	$ 187,530

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,	
	2024	2023
Cash flows from operating activities:		
Net income	$ 25,656	$ 31,455
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	5,292	7,493
Depreciation	4,162	4,179
Amortization of intangibles	740	740
Amortization of debt issuance costs	69	69
Amortization of fees, discounts and premiums	(53)	(73)
Proceeds from sales of loans held for sale	1,490	1,358
Origination of loans held for sale	(1,490)	(1,358)
Change in mortgage servicing rights	303	(464)
Gross realized gains on sale of available-for-sale securities	(5)	189
Realized gain on sale of premises and equipment	77	126
Noncash lease expense	1,764	2,241
Decrease in deferred tax tassets	786	3,998
Net change in operating assets and liabilities:		
Accrued interest receivable	444	(1,668)
Other assets	(6,498)	(3,819)
Accrued interest payable	2,453	1
Lease liability	(1,756)	(1,810)
Other liabilities	3,652	(1,657)
Net cash provided by operating activities	37,086	41,000
Cash flows from investing activities:		
Purchases of available-for-sale securities	(3,853)	(19,996)
Proceeds from sales of available-for-sale securities	3,884	27,046
Maturities, prepayments and calls of available-for-sale securities	52,527	58,396
Maturities, prepayments and calls of held-to-maturity securities	4,039	4,577
Loan originations and principal collections, net	(64,653)	(181,513)
(Purchase) Redemption of FHLB stock	(3)	1,794
Proceeds from sales of premises and equipment	77	15
Purchases of premises and equipment	(4,441)	(4,075)
Net cash used in investing activities	(12,423)	(113,756)
Cash flows from financing activities:		
Net decrease in deposits	(9,948)	(24,242)
Purchase of treasury stock - preferred	(9,800)	-
Dividends paid	(5,842)	(5,347)
Net cash used in financing activities	(25,590)	(29,589)
Net change in cash, cash equivalents and restricted cash	(927)	(102,345)
Cash, cash equivalents and restricted cash at beginning of period	89,746	192,091
Cash, cash equivalents and restricted cash at end of period	$ 88,819	$ 89,746
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 1,476	$ 797
Income taxes	$ 7,018	$ 9,737
Supplemental disclosure of noncash investing and financing activities:		
Net change in unrealized loss on held-to-maturity securities, net of tax	$ 913	$ 865
Net change in unrealized gain on available-for-sale securities, net of tax	$ 2,958	$ 10,223

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 subsidiary, Bank of Guam ("Bank") and its majority-owned subsidiary ASC Trust LLC ("ASC Trust").

The Company is a Guam corporation organized on October 29, 2010, to act as the holding company of the Bank, a Guam banking corporation. The Bank was founded in 1972 and is 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.

In 2016, the Company executed an agreement to purchase up to 70% of ASC Trust. In 2021, the Company completed its final purchase of voting common stock of ASC Trust LLC under the agreement, as amended to date, bringing the Company's ownership of ASC Trust to 70%. See Note 5 under "Investment in Majority-Owned Subsidiary" for additional details.

On April 1, 2024, the Company reorganized and completed the sale of its formerly wholly-owned subsidiary, BG Investment Services ("BGIS"), to ASC Trust. As a result of this transaction, BGIS's financial results are included in the Company's consolidated financial statements until the date of sale. After the sale, the Company accounts for BGIS through consolidation with ASC Trust in accordance with the provisions of Accounting Standard Codification ("ASC") 810 – Consolidation. See Note 2, under "Principles of Consolidation and Basis of Presentation, Sale of BGIS" for additional details.

Other than holding the shares of the Bank and ASC Trust, 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.

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

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

Sale of BGIS: On April 1, 2024 ("the transaction date"), the Company sold its 100% ownership in BGIS to ASC Trust. This transaction is accounted for by ASC Trust as a transaction between entities under common control. The financial statements of BGIS are included in the consolidated financial statements of ASC Trust from the transaction date. Since the Company consolidates ASC Trust, the financial statements of BGIS are also included in the consolidated financial statements of the Company. The noncontrolling interest in BGIS, post-sale, is presented separately in the consolidated financial statements of the Company.

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

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 subject to the Federal Reserve System's regulatory framework to maintain cash reserves against certain of its deposit accounts. However, on March 15, 2020, the Federal Reserve Board reduced the reserve requirement ratios to zero percent, effective March 26, 2020. As such, the required reserve balance for the Bank was zero at December 31, 2024 and 2023.

Restricted Cash

Cash and cash equivalents that are not readily available for immediate or general use are classified as restricted in the consolidated statement of financial condition. At December 31, 2024 and 2023, restricted cash includes a $150 thousand time deposit that is held by the Bank jointly under the names of Bank of Guam and the Guam Insurance Commissioner, serving as a bond for the Bank of Guam Trust Department and a $250 thousand demand deposit that serves as the minimum balance requirement under the Bank's investment securities custodian agreement.

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 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, 2024 or 2023, because the likelihood of non-repayment is remote. As of December 31, 2024 and 2023, the Company only held 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 contractual servicing 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 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 adopted ASC 326 - *Financial Instruments - Credit Losses (Topic 326)*, using the modified retrospective method. Topic 326 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. 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 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 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 economic factor considered. 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 outlines 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, 2024 and 2023, the Company had the following segments and classes of loans:

Commercial 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.

Consumer loans

- 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

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.

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, 2024 and 2023, the Bank originated and sold approximately $1.5 million and $1.4 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.

As of December 31, 2024, the Bank held an allowance of $1.6 million for unfunded loan commitments after a comprehensive review of loan agreements and credit exposure. No allowance was recorded as of December 31, 2023, as management determined at that time that no reserve was necessary.

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. 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 27, 2025, the date that these consolidated financial statements are being published.

Note 3 – Recent Accounting Pronouncements

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 Topic 325. 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 $54.9 million and $57.7 million in interest bearing deposits, including restricted cash, at other financial institutions at December 31, 2024 and 2023, respectively. The weighted average percentage yields on these deposits were 4.63% and 4.44% at December 31, 2024 and 2023, 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, 2024 and 2023, we had $400 thousand in restricted cash. Of this amount, $150 thousand was held in a time deposit scheduled to mature within one year and served as a bond for the Bank of Guam Trust Department. This deposit was held by the Bank jointly under the names of Bank of Guam and the Guam Insurance Commissioner. Additionally, $250 thousand was maintained as a minimum balance requirement under the Bank's investment securities custodian agreement. The weighted average percentage yields on these restricted cash deposits were 0.01% at December 31, 2024 and 2023.

Certain prior year amounts have been reclassified to conform to the current year presentation. Specifically, as of December 31, 2023, $250 thousand previously reported as interest bearing deposits in banks has been reclassified to restricted cash to provide a more accurate presentation of the financial position and to align with the current year's classification. This reclassification had no impact on the total assets, liabilities, or net income for any period presented.

Note 5 – Investment Securities

The amortized cost and estimated fair value of investment securities, with gross unrealized gains and losses at December 31, 2024 and 2023, were as follows:

	December 31, 2024							
		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	$	114,983	$	-	$	(15,413)	$	99,570
U.S. government agency pool securities		34,030		4		(299)		33,735
U.S. government agency or GSE residential mortgage-backed securities		307,951		-		(44,170)		263,781
Total	$	456,964	$	4	$	(59,882)	$	397,086
Securities Held-to-Maturity								
U.S. government agency and GSE debt securities	$	279,546	$	-	$	(66,769)	$	212,777
U.S. government agency pool securities		752		4		(6)		750
U.S. government agency or GSE residential mortgage-backed securities		31,469		-		(4,914)		26,555
Total	$	311,767	$	4	$	(71,689)	$	240,082

	December 31, 2023							
		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Estimated Fair Value
Securities Available-for-Sale								
U.S. government agency and 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 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

At December 31, 2024 and 2023, investment securities with a carrying value of $644.4 million and $704.8 million, respectively, were pledged to secure various government deposits and other government requirements.

Proceeds and gross realized gains (losses) from the sales or calls of investment securities for the years ended December 31, 2024 and 2023, are shown below:

	Years Ended December 31,			
	2024		2023	
Proceeds from sales	$	3,884	$	27,046
Gross realized gains from sales	$	5	$	-
Gross realized losses from sales	$	-	$	(189)

The amortized cost and estimated fair value of investment securities by contractual maturity at December 31, 2024 and 2023, 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, 2024, obligations of U.S. government corporations and agencies with amortized costs totaling $768.7 million consist predominantly of residential mortgage-backed securities totaling $339.4 million and Small Business Administration agency pool securities totaling $34.8 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, 2024, the Bank estimates the average remaining life of these mortgage-backed and SBA Pools securities to be approximately 4.9 years and 5.4 years, respectively.

	December 31, 2024			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$ -	$ -	$ 438	$ 426
Due after one but within five years	77,977	69,588	6,578	5,821
Due after five but within ten years	78,511	69,049	103,545	85,522
Due after ten years	300,476	258,449	201,206	148,313
Total	$ 456,964	$ 397,086	$ 311,767	$ 240,082

	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

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, 2024 and 2023.

	December 31, 2024					
	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	$ -	$ -	$ (15,413)	$ 99,570	$ (15,413)	$ 99,570
U.S. government agency pool securities	(55)	13,135	(244)	19,920	(299)	33,055
U.S. government agency or GSE residential mortgage-backed securities	(214)	3,597	(43,956)	260,184	(44,170)	263,781
Total	$ (269)	$ 16,732	$ (59,613)	$ 379,674	$ (59,882)	$ 396,406
Securities Held to Maturity						
U.S. government agency and GSE debt securities	$ -	$ -	$ (66,769)	$ 212,777	$ (66,769)	$ 212,777
U.S. government agency pool securities	-	-	(6)	74	(6)	74
U.S. government agency or GSE residential mortgage-backed securities	(74)	1,826	(4,840)	24,729	(4,914)	26,555
Total	$ (74)	$ 1,826	$ (71,615)	$ 237,580	$ (71,689)	$ 239,406

	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						
U.S. government agency and 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

The investment securities that were in an unrealized loss position as of December 31, 2024, which comprised a total of 227 securities, were not other-than-temporarily impaired. Specifically, the 227 securities are comprised of the following: 32 Small Business Administration Pool securities, 26 agency securities issued by Federal Home Loan Bank ("FHLB"), 35 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, 2024 and 2023. 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 years ended December 31, 2024 and 2023.

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 $10.3 million at December 31, 2024 and $12.9 million at December 31, 2023. As of December 31, 2024, the Bank's 10 largest borrowing relationships totaled $458.0 million in commitments, or approximately 27.8% of total gross loans compared to $390.9 million, or approximately 24.5% in 2023.

The loan portfolio consisted of the following at:

	December 31, 2024		December 31, 2023	
	Amount	Percent	Amount	Percent
Commercial				
Commercial & industrial	$ 274,914	16.7%	$ 251,994	15.8%
Commercial construction	9,074	0.5%	33,449	2.1%
Commercial real estate	964,511	58.5%	927,953	58.3%
Total commercial	$ 1,248,499	75.7%	$ 1,213,396	76.2%
Consumer				
Auto secured	$ 47,697	2.9%	$ 36,371	2.2%
Consumer - secured	7,468	0.5%	6,137	0.4%
Consumer - unsecured [1]	179,775	10.9%	173,219	10.9%
Real estate	164,092	10.0%	162,376	10.2%
Workout consumer loans	786	0.0%	1,273	0.1%
Total consumer	$ 399,818	24.3%	$ 379,376	23.8%
Gross loans	1,648,317	100.0%	1,592,772	100.0%
Deferred loan (fees) costs, net	(3,320)		(3,402)	
Allowance for credit losses	(27,073)		(31,718)	
Loans, net	$ 1,617,924		$ 1,557,652	

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

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, 2024 and 2023.

	Pass	Special Mention	Substandard	Doubtful	Formula Classified	Total Outstanding loans, Gross
December 31, 2024	(Dollars in thousands)					
Commercial						
Commercial & industrial	$ 250,619	$ 5,300	$ 18,950	$ 45	$ -	$ 274,914
Commercial construction	9,074	-	-	-	-	9,074
Commercial real estate	767,985	119,425	76,459	642	-	964,511
Total commercial	$ 1,027,678	$ 124,725	$ 95,409	$ 687	$ -	$ 1,248,499
Consumer						
Auto secured	$ 47,662	$ -	$ -	$ -	$ 35	$ 47,697
Consumer - secured	7,453	-	-	-	15	7,468
Consumer - unsecured	178,586	-	-	-	1,189	179,775
Real estate	158,572	1,857	2,665	-	998	164,092
Workout consumer loans	773	-	-	-	13	786
Total consumer	$ 393,046	$ 1,857	$ 2,665	$ -	$ 2,250	$ 399,818
Gross loans	$ 1,420,724	$ 126,582	$ 98,074	$ 687	$ 2,250	$ 1,648,317
December 31, 2023						
Commercial						
Commercial & industrial	$ 216,167	$ 18,725	$ 11,624	$ 5,478	$ -	$ 251,994
Commercial construction	33,449	-	-	-	-	33,449
Commercial real estate	805,267	94,893	27,151	642	-	927,953
Total commercial	$ 1,054,883	$ 113,618	$ 38,775	$ 6,120	$ -	$ 1,213,396
Consumer						
Auto secured	$ 36,335	$ -	$ -	$ -	$ 36	$ 36,371
Consumer - secured	6,137	-	-	-	-	6,137
Consumer - unsecured	172,225	-	-	-	994	173,219
Real estate	156,838	1,475	3,187	-	876	162,376
Workout consumer loans	1,237	-	-	-	36	1,273
Total consumer	$ 372,772	$ 1,475	$ 3,187	$ -	$ 1,942	$ 379,376
Gross loans	$ 1,427,655	$ 115,093	$ 41,962	$ 6,120	$ 1,942	$ 1,592,772

Allowance for Credit Losses

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* 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)

At 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.

Set forth below is information regarding gross loan balances and the related allowance for credit losses as of December 31, 2024, and 2023, 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.

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, 2024							
Commercial							
Commercial & industrial	$ 24	$ 20	$ 75	$ -	$ 119	$ 274,795	$ 274,914
Commercial construction	-	-	-	-	-	9,074	9,074
Commercial real estate	1,240	365	29,829	-	31,434	933,077	964,511
Total commercial	$ 1,264	$ 385	$ 29,904	$ -	$ 31,553	$ 1,216,946	$ 1,248,499
Consumer							
Auto secured	$ 675	$ 237	$ -	$ 35	$ 947	$ 46,750	$ 47,697
Consumer - secured	-	-	15	-	15	7,453	7,468
Consumer - unsecured	2,158	1,292	75	1,071	4,596	175,179	179,775
Real estate	4,965	1,121	763	-	6,849	157,243	164,092
Workout consumer loans	86	10	-	13	109	677	786
Total consumer	$ 7,884	$ 2,660	$ 853	$ 1,119	$ 12,516	$ 387,302	$ 399,818
Total delinquency	$ 9,148	$ 3,045	$ 30,757	$ 1,119	$ 44,069	$ 1,604,248	$ 1,648,317
December 31, 2023							
Commercial							
Commercial construction	$ -	$ -	$ -	$ -	$ -	$ 251,994	$ 251,994
Commercial real estate	9,017	900	938	-	10,855	22,594	33,449
Commercial & industrial	862	4,072	2,381	-	7,315	920,638	927,953
Total commercial	$ 9,879	$ 4,972	$ 3,319	$ -	$ 18,170	$ 1,195,226	$ 1,213,396
Consumer							
Auto secured	$ 480	$ 87	$ -	$ 36	$ 603	$ 35,768	$ 36,371
Consumer - secured	4	18	-	-	22	6,115	6,137
Consumer - unsecured	1,752	816	120	865	3,553	169,666	173,219
Real estate	2,024	2,039	455	-	4,518	157,858	162,376
Workout consumer loans	25	100	30	-	155	1,118	1,273
Total consumer	$ 4,285	$ 3,060	$ 605	$ 901	$ 8,851	$ 370,525	$ 379,376
Total delinquency	$ 14,164	$ 8,032	$ 3,924	$ 901	$ 27,021	$ 1,565,751	$ 1,592,772

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, 2024 and 2023, with respect to loans on non-accrual status, by portfolio type:

	December 31, 2024	December 31, 2023
	(Dollars in thousands)	
Non-accrual loans:		
Commercial		
Commercial & industrial	$ 848	$ 7,030
Commercial construction	-	-
Commercial real estate	44,964	1,586
Total commercial	$ 45,812	$ 8,616
Consumer		
Auto secured	$ -	$ -
Consumer - secured	15	-
Consumer - unsecured [1]	118	159
Real estate	2,441	3,046
Workout consumer loans	-	5
Total consumer	2,574	3,210
Total non-accrual loans	$ 48,386	$ 11,826

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

The increase in delinquent and nonaccrual loans during the period primarily relates to loans that were individually evaluated for the allowance for credit losses. These loans are secured by collateral with estimated values in excess of the outstanding balances, and as such, did not require additional reserves under the allowance for credit losses framework.

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 calculate 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.

The following table provides a summary of the loans individually evaluated and the corresponding ACL as of December 31, 2024 and 2023:

	December 31, 2024		December 31, 2023	
	Amount	Allowance for Credit Losses	Amount	Allowance for Credit Losses
Commercial				
Commercial & industrial	$ 4,122	$ 176	$ 9,078	$ 4,425
Commercial real estate	44,306	-	38,419	3,526
Total commercial	$ 48,428	$ 176	$ 47,497	$ 7,951
Consumer				
Consumer - secured	$ 193	$ -	$ 209	$ -
Consumer - unsecured	217	166	55	
Real estate	1,558		2,862	-
Total consumer	$ 1,968	$ 166	$ 3,126	$ -
Total individually evaluated	$ 50,396	$ 342	$ 50,623	$ 7,951

Allowance for Credit Losses on Off-Balance Sheet Commitments

The Bank maintains an allowance for credit losses for its letters of credit, unfunded loan commitments, and commercial lines of credit which are not unconditionally cancellable off-balance sheet commitments. At December 31, 2024 and 2023, the Bank maintained a liability account with a balance of $1.5 million and $53 thousand, respectively.

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 $32.2 and $38.6 million in modified loans as of December 31, 2024 and 2023, respectively. 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, 2024 and 2023 are as follows:

December 31, 2024	**Number of Loans**	**Pre-Modification Outstanding Recorded Investment**	**Principal Modifications**	**Post-Modification Outstanding Recorded Investment**	**Outstanding Balance December 31, 2024**
Performing					
Commercial & industrial	2	$ 3,423	$ -	$ 3,423	$ 3,290
Commercial real estate	-	-	-	-	-
Total performing	2	3,423	-	3,423	3,290
Nonperforming					
Commercial real estate	2	29,207	-	29,207	28,871
Total nonperforming	2	29,207	-	29,207	28,871
Total MLTB	4	$ 32,630	$ -	$ 32,630	$ 32,161

December 31, 2023	**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 real estate	9	34,627	-	34,627	33,707
Total performing	15	40,020	-	40,020	38,163
Nonperforming					
Commercial real estate	3	874	-	874	436
Total nonperforming	3	874	-	874	436
Total MLTB	18	$ 40,894	$ -	$ 40,894	$ 38,599

Note 7 – Premises and Equipment

A summary of premises and equipment at December 31, 2024 and 2023 follows:

	December 31, 2024		
	Cost	Accumulated Depreciation	Net Book Value
Buildings	$ 28,378	$ (23,379)	$ 4,999
Furniture and equipment	30,726	(23,528)	7,198
Automobiles and mobile facilities	2,186	(1,271)	915
Leasehold improvements	7,730	(4,762)	2,968
	69,020	(52,940)	16,080
Construction in progress	3,398	-	3,398
	$ 72,418	$ (52,940)	$ 19,478

	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

For the years ended December 31, 2024 and 2023, depreciation expense was $4.2 million for each year. No fixed assets impairments were recorded during the years ending December 31, 2024 and 2023.

Note 8 – Other Assets

A summary of other assets at December 31, 2024 and 2023, follows:

	December 31,	
	2024	2023
Bank Owned Life Insurance	$ 46,521	$ 43,864
Prepaid income tax	1,257	2,180
Prepaid expenses	13,823	10,640
Deferred tax asset, net (Note 12)	25,669	26,453
Mortgage servicing rights (Note 18)	1,303	1,606
Right-of-use asset (Note 19)	20,554	22,035
Accounts receivable	4,661	4,987
Other	4,225	2,680
Total other assets	$ 118,013	$ 114,445

Note 9 – Deposits

A summary of deposits at December 31, 2024 and 2023, follows:

	December 31,			
	2024		2023	
	(Dollars in Thousands)			
Non-interest bearing deposits	$	885,013	$	863,797
Interest bearing deposits:				
Demand deposits		306,621		371,484
Regular savings		627,477		677,885
Time deposits:				
$250,000 or more		12,576		8,672
Less than $250,000		14,220		13,529
Other interest bearing deposits		467,600		388,088
Total interest bearing deposits		1,428,494		1,459,658
Total Deposits	$	2,313,507	$	2,323,455

At December 31, 2024, the scheduled maturities of time deposits were as follows:

Years ending December 31,		
2025	$	22,265
2026		2,628
2027		915
2028		580
2029 and thereafter		408
Total	$	26,796

Note 10 – Borrowings

Federal Reserve Discount Window

At December 31, 2024, the Bank did not have an active borrowing line with the FRB Discount Window and therefore had no investment securities pledged. At December 31, 2023, the Bank had investment securities with a market value of $14.0 million pledged to the FRB Discount Window, supporting a borrowing capacity of $13.2 million based on an average Federal Reserve margin of 96%. The Bank had no outstanding borrowings through the discount window at December 31, 2023.

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, 2024 and 2023, 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, 2024 and 2023, the Bank had $60.0 million and $35.0 million, respectively, in Federal Funds lines of credit available with its correspondent banks. No borrowings were outstanding as of December 31, 2024 or 2023.

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,	
	2024	2023
	(Dollars in thousands)	
Beginning balance	$ 16,261	$ 16,474
Undisbursed commitments	26	14
New loans granted	3,738	1,529
Principal repayments	(2,065)	(1,756)
Ending balance of term loans	17,960	16,261
Year-end balance of revolving accounts	995	2,850
Total term loans and revolving accounts	$ 18,955	$ 19,111

As of December 31, 2024, interest rates on outstanding loans to members of the Board of Directors ranged from 2.00% to 7.00% for consumer loans and 2.03% to 9.75% for commercial loans. As of December 31, 2023, interest rates on consumer loans ranged from 2.00% to 5.50%, while commercial loan rates were unchanged at 2.03% to 9.75%.

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, 2024 and 2023, approximated $257 thousand and $390 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,	
	2024	2023
Government of Guam tax expense (benefit):		
Current	$ 3,866	$ 5,312
Deferred	61	(378)
Foreign income taxes (including U.S. income taxes)	3,617	2,613
Total income tax expense	$ 7,544	$ 7,547

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

	Years Ended December 31,	
	2024	2023
Statutory Guam income tax rate	21.00%	21.00%
Permanent differences	-1.47%	-2.12%
Other	3.19%	0.47%
Total income tax expense	22.72%	19.35%

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, 2024 and 2023.

The components of deferred income taxes are as follows:

	Years Ended December 31, 2024	Years Ended December 31, 2023
Deferred loan origination fees	$ 1	$ (111)
Credit loss provision	918	(15)
Fixed assets	(87)	(97)
SERP	(261)	(135)
Unfunded commitment reserve	(333)	-
Mortgage servicing rights	(62)	107
Right-of-use asset	(294)	(515)
Lease liability	241	462
Accrued bonus	(49)	66
Unearned income	(5)	15
Other	(-13)	(155)
Deferred tax (benefit) provision	$ 56	$ (378)

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

	Years Ended December 31, 2024	Years Ended December 31, 2023
Deferred tax asset:		
Allowance for loan losses	$ 6,362	$ 7,280
Lease liability	5,093	5,334
Loan origination fees	780	781
Net unrealized loss on securities available-for-sale	16,549	17,272
Unearned income	79	74
Accruals not currently deductible	3,072	2,259
Total deferred tax asset	31,935	33,000
Deferred tax liability:		
Right-of-use asset	$ (4,766)	$ (5,060)
Fixed assets	(432)	(519)
Mortgage servicing rights	(306)	(369)
Investment in ASC Trust	(558)	(594)
Others	(204)	(5)
Total deferred tax liability	(6,266)	(6,547)
Valuation allowance	-	-
Net deferred tax asset	$ 25,669	$ 26,453

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 2021.

Note 13 – Bank Owned Life Insurance ("BOLI")

At December 31, 2024 and 2023, the Company had investments in BOLI of $46.5 million and $43.9 million, respectively. The Company recorded non-interest income associated with the BOLI policies of $1.2 million and $1.0 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, 2024 and 2023, the expense attributable to the Plan was $1.7 million and $1.5 million, respectively.

Supplemental Executive Retirement Plan ("SERP")

In April 2011, the Bank established an unfunded Supplemental Executive Retirement Plan (the "SERP") for its Executive Officers, Senior Vice Presidents and California Branch Regional 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 and Regional 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 2024 and 2023, its funded status at December 31, 2024 and 2023, and the amounts recognized in the balance sheet at December 31, 2024 and 2023, were as follows:

	Years Ended December 31,	
	2024	2023
Change in benefit obligation:		
Benefit obligation at beginning of period	$ 11,365	$ 10,204
Service cost	777	771
Interest cost	422	390
Benefit obligation at end of period	$ 12,564	$ 11,365
Funded status:		
Amounts recognized in the Statement of Financial Condition		
Unfunded accrued SERP liability—current	$ 12,564	$ 11,365
Total unfunded accrued SERP liability	$ 12,564	$ 11,365
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	$ 12,564	$ 11,365
Components of net periodic SERP cost:		
Service cost	$ 9,727	$ 8,950
Interest cost	2,837	2,415
Net periodic SERP cost	$ 12,564	$ 11,365
Assumptions as of December 31:		
Assumed discount rate	4.33%	4.33%
Rate of compensation increase	0.00%	0.00%

As of December 31, 2024, $4.7 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. No shares were subscribed but not issued at December 31, 2024 and 2023.

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

	Years Ended December 31,	
	2024	2023
Net income available to BankGuam Holding Company	$ 24,272	$ 30,495
Less preferred stock dividends	(643)	(862)
Net income attributable to common stockholders	$ 23,629	$ 29,633
Weighted average number of common shares outstanding - used to calculate basic and diluted earnings per common share	18.2	18.2
Earnings per common share (EPS):		
Basic and diluted EPS	$ 1,296.44	$ 1,625.86

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, 2024 and 2023, is as follows:

	December 31,	
	2024	2023
Commitments to extend credit	$ 121,034	$ 173,899
Letters of credit:		
Standby letters of credit	$ 43,699	$ 50,779
Commercial letters of credit	2,859	2,852
Total	$ 46,558	$ 53,631

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 considers its standby letters of credit to be guarantees and generally holds collateral supporting these commitments.

At December 31, 2024, the maximum undiscounted future payments that the Bank could be required to make was $167.6 million. All of these arrangements mature within one to two years. The Bank generally has recourse to recover from the customer amounts paid under these guarantees. Most of the guarantees are fully collateralized; however, some are unsecured. The Bank recorded $1.5 million in reserve liabilities associated with these guarantees at December 31, 2024.

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 $219.2 million and $236.9 million at December 31, 2024 and 2023, respectively. At December 31, 2024 and 2023, the Bank recorded mortgage servicing rights at their fair value of $1.3 million and $1.6 million, respectively.

Legal Contingencies

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

Note 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, 2024 and 2023, 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, 2024, 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, 2024 and 2023, 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, 2024:						
Total capital (to Risk Weighted Assets)	$ 272,242	15.262%	$ 142,706	8.000%	$ 178,382	10.000%
Tier 1 capital (to Risk Weighted Assets)	$ 214,878	12.046%	$ 107,029	6.000%	$ 142,706	8.000%
Tier 1 capital (to Average Assets)	$ 214,878	8.255%	$ 104,123	4.000%	$ 130,153	5.000%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	$ 214,895	12.047%	$ 80,272	4.500%	$ 115,948	6.500%
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%

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.

On March 31, 2024, the Company repurchased 4,900 shares, and on December 31, 2024, the remaining 4,900 shares were repurchased. All 9,800 shares are now held in treasury. As a result, as of December 31, 2024, no shares of Series A Preferred Stock remain 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, 2024 and 2023, 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, 2024				
Available-for-sale Securities:				
U.S. treasury notes and bonds	$ -	$ -	$ -	$ -
U.S. government agency and government sponsored enterprise (GSE) debt securities	-	99,570	-	99,570
U.S. government agency pool securities	-	33,735	-	33,735
U.S. government agency or GSE	-	263,781	-	263,781
Total fair value of available-for-sale securities	-	397,086	-	397,086
Other assets:				
MSRs	-	-	1,303	1,303
Total fair value	$ -	$ 397,086	$ 1,303	$ 398,389
At December 31, 2023				
Available-for-sale Securities:				
U.S. treasury notes and bonds	$ -	$ -	$ -	$ -
U.S. government agency and 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

There were no liabilities measured at fair value on a recurring basis as of December 31, 2024 and 2023.

During the periods ended December 31, 2024 and 2023, 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, 2024	Years Ended December 31, 2023
Beginning balance	$ 1,606	$ 1,142
Realized and unrealized net gains (losses):		
Included in net income	(303)	464
Ending balance	$ 1,303	$ 1,606

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, 2024					
Financial instrument:					
MSRs	$ 1,303	Discounted Cash Flow	Discount Rate	10.26% - 11.07%	10.50%
			Weighted Average Prepayment Rate (Public Securities Association)	100%	
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%	

There were no transfers into or out of the Bank's Level 3 financial instruments for the periods ended December 31, 2024 and 2023.

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, 2024 and 2023, 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, 2024 and 2023.

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, 2024 and 2023, 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, 2024				
Financial assets:				
Cash and cash equivalents	$ 88,419	$ 88,419	$ -	$ -
Restricted cash	400	400	-	-
Federal Home Loan Bank stock	1,527	-	1,527	-
Investment securities held-to-maturity	311,767	-	240,082	-
Loans, net	1,617,924	-	-	1,613,705
Total	$ 2,020,037	$ 88,819	$ 241,609	$ 1,613,705
Financial liabilities:				
Deposits	2,313,507	-	-	2,314,477
Total	$ 2,313,507	$ -	$ -	$ 2,314,477
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

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.

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, 2024 and 2023, were $257 thousand, and $390 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, 2024, minimum future rents to be received under non-cancelable operating sublease agreements were $59 thousand for the period ending December 31, 2025.

The cash flow from operating leases included in the measurement of lease liabilities during December 31, 2024 and 2023 was $3.0 million and $2.9 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, 2024 and 2023:

	December 31, 2024		December 31, 2023	
Assets				
Operating lease right-of-use assets	$	20,560	$	22,132
Total lease assets	$	20,560	$	22,132
Liabilities				
Current				
Operating	$	2,413	$	2,066
Noncurrent				
Operating		19,535		21,262
Total lease liabilities	$	21,948	$	23,328

The operating lease cost, and variable lease costs, at December 31, 2024 and 2023 was $3.2 million and $3.1 million, respectively. The following table provides the maturities of lease liabilities at December 31, 2024:

	Operating Leases (a)		Total	
2025	$	3,165	$	3,165
2026		2,598		2,598
2027		2,192		2,192
2028		2,073		2,073
2029		1,921		1,921
After 2029		29,336		29,336
Total lease payments		41,285		41,285
Less: Interest (b)		19,337		19,337
Present value of lease liabilities (c)	$	21,948	$	21,948

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 $19.1 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 $2.4 million for operating leases.

The following table provides the weighted-average lease term and discount rate at December 31, 2024:

	Years Ended December 31,	
	2024	**2023**
Weighted-average remaining lease term (years)		
Operating leases	26.5	24.6
Weighted-average discount rate		
Operating leases	4.13%	4.10%

Note 20 – Subordinated Debt

At December 31, 2024 and 2023, the Company had outstanding subordinated debt totaling $34.6 million and $34.5 million, respectively. Subordinated debt is presented net of deferred fees totaling $394 thousand at December 31, 2024 and $463 thousand at December 31, 2023.

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%. On June 30, 2024, the Notes entered the floating rate period during which the interest rate resets quarterly based on the then-current three-month LIBOR plus 466 basis points. During the fixed-rate period, interest was payable semi-annually, while in the floating-rate period, interest is payable quarterly. The principal sum of the 2029 Notes plus any unpaid interest are due on the maturity date.

The 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

In January 2025, the Company's Board of Directors approved a share repurchase program authorizing the Company to repurchase up to $500 thousand of its outstanding common stock. Repurchases may be made through open market transactions, block purchases, and privately negotiated transactions.

The timing and amount of any repurchases under the program will be based on various factors, including the market price of the Company's common stock, corporate considerations, general market and economic conditions, and legal requirements. The repurchase program does not have a set expiration date, does not obligate the Company to repurchase a specific amount of stock, and may be modified, discontinued, or suspended at any time at the Company's discretion. The funding for the repurchase program is expected to come from available corporate funds.

As of March 27, 2025, the Company repurchased 28 common stock shares that it now holds in treasury totaling $288 thousand.