UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2022

or

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

For the transition period from to .

Commission file number: 000-54483

BankGuam Holding Company
(Exact name of registrant as specified in its charter)

Guam **(State or other jurisdiction of incorporation or organization)**	**66-0770448** **(IRS Employer Identification No.)**

P.O. Box BW
Hagåtña, Guam 96932
(671) 472-5300
(Address, including Zip Code, and telephone number, including area code, of the registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act: None

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.2083 par value per share	"BKGM"	Not listed

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
Emerging growth company	☐		

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

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

As of May 12, 2022, there were 9,727,743 shares outstanding

BANKGUAM HOLDING COMPANY
FORM 10-Q
QUARTERLY REPORT

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Cautionary Note Regarding Forward-Looking Statements

For purposes of this Quarterly Report, the terms the “Company,” “we,” “us” and “our” refer to BankGuam Holding Company and its subsidiaries. This Quarterly Report on Form 10-Q contains statements that are not historical in nature, are predictive in nature, or that depend upon or refer to future events or conditions or contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”), and the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be preceded by, followed by or include the words “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “will,” “is designed to” and similar expressions as well as other statements regarding our future operations, financial condition and prospects, and business strategies. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements.

We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about our business that could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. We are not able to predict all of the factors that may affect future results. These include, among other things, the following risks:

- Competition for loans and deposits and failure to attract or retain deposits and loans;
- Local, regional, national and global economic conditions, and the impact they may have on us and our customers, and our assessment of that impact on our estimates, including the allowance for loan losses and fair value measurements;
- The effects of the COVID-19 pandemic, including reduced tourism in Guam, volatility in the international and national economy and credit markets, quarantines or other travel or health-related restrictions, the length and severity of the COVID-19 pandemic and the pace of recovery following the COVID-19 pandemic;
- Risks associated with concentrations in real estate related loans;
- Changes in the level of nonperforming assets and charge-offs and other credit quality measures, and their impact on the adequacy of our allowance for loan losses and our provision for loan losses;
- The effects of and changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Federal Open Market Committee of the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”); and the anticipated elimination of the London Interbank Offered Rate (“LIBOR”) as a benchmark interest rate;
- Stability of funding sources and continued availability of borrowings;
- The effect of changes in laws and regulations with which the Company and Bank of Guam must comply, including any change in Federal Deposit Insurance Corporation insurance premiums;
- Our ability to raise capital or incur debt on reasonable terms;
- Regulatory limits on Bank of Guam’s ability to pay dividends to the Company;
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;
- Changes in the deferred tax asset valuation allowance in future quarters;
- The costs and effects of legal and regulatory developments, including resolution of legal proceedings or regulatory or other governmental inquiries, and the results of regulatory examinations or reviews;
- Our ability to increase market share and control expenses;
- Any interruption or security breach of our information systems, or the information systems of our third party service providers, resulting in failures or disruptions in customer services or confidentiality; and
- Our success in managing the risks involved in the foregoing items.

Other factors that might cause or contribute to such differences include, but are not limited to, those discussed in “Risk Factors” included in filings we make from time to time with the U.S. Securities and Exchange Commission (“SEC”), including our Quarterly Reports on Form 10-Q to be filed by us in our fiscal year ending December 31, 2022. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or risks, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. New information, future events or risks could cause the forward-looking events we discuss in this Quarterly Report not to occur. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Quarterly Report.

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

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

	March 31, 2022	December 31, 2021
ASSETS		
Cash and due from banks	$ 43,100	$ 36,660
Interest bearing deposits in banks	405,337	520,743
Total cash and cash equivalents	448,437	557,403
Restricted cash	150	150
Investment securities available-for-sale, at fair value	528,055	499,366
Investment securities held-to-maturity, at amortized cost (Fair Value $287,229 at 3/31/2022 and $310,372 at 12/31/2021)	320,481	312,294
Federal Home Loan Bank stock, at cost	3,318	2,814
Loans, net of allowance for loan losses ($35,085 at 3/31/2022 and $34,408 at 12/31/2021)	1,287,170	1,283,690
Accrued interest receivable	6,247	6,715
Premises and equipment, net	20,821	20,802
Goodwill	13,014	13,014
Intangible assets	10,535	10,720
Other assets	88,615	84,620
Total assets	$ 2,726,843	$ 2,791,588
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$ 882,316	$ 981,537
Interest bearing	1,612,337	1,551,694
Total deposits	2,494,653	2,533,231
Accrued interest payable	33	46
Subordinated debt, net	34,417	34,400
Other liabilities	40,050	43,162
Total liabilities	2,569,153	2,610,839
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock $0.2083 par value; 48,000 shares authorized; 9,777 and 9,770 shares issued and 9,728 and 9,721 shares outstanding at 3/31/2022 and 12/31/2021, respectively	2,034	2,033
Preferred stock $100 par value; 300 shares authorized; 9.8 shares issued and outstanding at 3/31/2022 and 12/31/2021, respectively	980	980
Additional paid-in capital, Common stock	24,989	24,910
Additional paid-in capital, Preferred stock	8,803	8,803
Retained earnings	155,911	153,740
Accumulated other comprehensive (loss) income	(42,051)	(16,721)
Non-controlling interest	7,314	7,294
Common stock in treasury, at cost (32 shares)	(290)	(290)
Total stockholders' equity	157,690	180,749
Total liabilities and stockholders' equity	$ 2,726,843	$ 2,791,588

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

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

	Three Months Ended March 31,	
	2022	**2021**
Interest income:		
Loans	$ 17,635	$ 18,247
Investment securities	3,175	2,199
Deposits with banks	179	67
Total interest income	20,989	20,513
Interest expense:		
Savings deposits	39	103
Time deposits	4	12
Other borrowed funds	465	238
Total interest expense	508	353
Net interest income	20,481	20,160
Provision for loan losses	1,425	2,475
Net interest income, after provision for loan losses	19,056	17,685
Non-interest income:		
Service charges and fees	5,443	1,670
Gain on sale of investment securities	10	272
Income from merchant services, net	651	648
Cardholders income, net	553	253
Trustee fees	86	152
Other income	650	1,214
Total non-interest income	7,393	4,209
Non-interest expense:		
Salaries and employee benefits	9,225	8,696
Occupancy	2,221	2,129
Equipment and depreciation	5,321	2,941
Insurance	457	489
Telecommunications	450	366
FDIC assessment	322	344
Professional services	803	565
Contract services	448	621
Other real estate owned	13	14
Stationery and supplies	169	121
Training and education	260	44
General, administrative and other	2,431	1,540
Total non-interest expense	22,120	17,870
Income before income taxes	4,329	4,024
Income tax expense	815	729
Net income	3,514	3,295
Net income attributable to noncontrolling interest	247	-
Net income available to BankGuam Holding Company	3,267	3,295
Preferred stock dividend	(122)	(135)
Net income attributable to common stockholders	$ 3,145	$ 3,160
Earnings per common share (EPS):		
Basic and diluted EPS	$ 0.32	$ 0.33
Dividends declared per common share	$ 0.10	$ 0.10
Basic and diluted weighted average common shares	9,721	9,705

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

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

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Net income	$ 3,514	$ 3,295
Other comprehensive income (loss):		
Unrealized holding gain (loss) on available-for-sale securities arising during the period, net of tax	(25,546)	(20,488)
Reclassification for (gain) realized on available-for-sale securities	-	(272)
Amortization of post-transfer unrealized holding loss on held-to-maturity securities during the period, net of tax	216	25
Total other comprehensive income (loss)	(25,330)	(20,735)
Total comprehensive income (loss)	$ (21,816)	$ (17,440)

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

BankGuam Holding Company

Unaudited Condensed Consolidated Statements of Stockholders' Equity

(Dollar Amounts and Number of Shares in Thousands)

	Number of Common Shares	Common Stock	Preferred Stock	Additional Paid-in Capital - Common	Additional Paid-in Capital - Preferred	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interests	Total
Balances, January 1, 2022	9,721	$ 2,033	$ 980	$ 24,910	$ 8,803	$ 153,740	$ (16,721)	$ (290)	$ 7,294	$ 180,749
Net income	-	-	-	-	-	3,267	-	-	247	3,514
Change in accumulated other comprehensive income:										
Unrealized loss on available-for-sale securities, net	-	-	-	-	-	-	(25,330)	-	-	(25,330)
Common stock issued under Employee Stock Purchase Plan & Service Awards	7	1	-	79	-	-	-	-	-	80
Return of capital from stocks owned by subsidiary	-	-	-	-	-	-	-	-	(8)	(8)
Cash dividends on common stock	-	-	-	-	-	(974)	-	-	(219)	(1,193)
Cash dividends on preferred stock	-	-	-	-	-	(122)	-	-	-	(122)
Balances, March 31, 2022	9,728	$ 2,034	$ 980	$ 24,989	$ 8,803	$ 155,911	$ (42,051)	$ (290)	$ 7,314	$ 157,690

	Number of Common Shares	Common Stock	Preferred Stock	Additional Paid-in Capital - Common	Additional Paid-in Capital - Preferred	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Noncontrolling Interests	Total
Balances, January 1, 2021	9,702	$ 2,029	$ 980	$ 24,777	$ 8,803	$ 137,646	$ 3,111	$ (290)	$ -	$ 177,056
Net income	-	-	-	-	-	3,295	-	-	-	3,295
Change in accumulated other comprehensive income:										
Unrealized gain on available-for-sale securities, net	-	-	-	-	-	-	(20,735)	-	-	(20,735)
Common stock issued under Employee Stock Purchase Plan & Service Awards	11	2	-	95	-	-	-	-	-	97
Cash dividends on common stock	-	-	-	-	-	(970)	-	-	-	(970)
Cash dividends on preferred stock	-	-	-	-	-	(135)	-	-	-	(135)
Balances, March 31,2021	9,714	$ 2,031	$ 980	$ 24,872	$ 8,803	$ 139,836	$ (17,624)	$ (290)	$ -	$ 158,608

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

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

	Three Months Ended March 31,	
	2022	2021
Cash flows from operating activities:		
Net income	$ 3,514	$ 3,295
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	1,425	2,475
Depreciation	1,356	983
Amortization of debt issuance costs	17	7
Amortization of fees, discounts and premiums	7	150
Proceeds from sales of loans held for sale	2,408	10,696
Origination of loans held for sale	(2,408)	(10,696)
Increase in mortgage servicing rights	-	(137)
Gross realized gains on sale of available-for-sale securities	(10)	(272)
Realized gain (loss) on sale of premises and equipment	(94)	6
Noncash lease expense	2,956	736
Net change in operating assets and liabilities:		
Accrued interest receivable	468	689
Other assets	(6,857)	(7,965)
Accrued interest payable	(13)	(7)
Lease liability	(3,060)	(652)
Other liabilities	(58)	1,133
Net cash (used in) provided by operating activities	(349)	441
Cash flows from investing activities:		
Purchases of available-for-sale securities	(77,122)	(120,138)
Purchases of held-to-maturity securities	(9,645)	-
Proceeds from sales of available-for-sale securities	-	46,993
Maturities, prepayments and calls of available-for-sale securities	22,895	29,624
Maturities, prepayments and calls of held-to-maturity securities	1,661	3,500
Loan originations and principal collections, net	(4,899)	1,695
Income from equity investment in unconsolidated subsidiary	-	(412)
Dividends received from unconsolidated subsidiary	-	875
Cost from FHLB stock purchase	(504)	(479)
Proceeds from sales of premises and equipment	-	7
Purchases of premises and equipment	(1,190)	(1,153)
Net cash used in investing activities	(68,804)	(39,488)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(38,578)	74,184
Proceeds from issuance of common stock	80	97
Dividends paid	(1,315)	(1,105)
Net cash provided by (used in) financing activities	(39,813)	73,176
Net change in cash, cash equivalents and restricted cash	(108,966)	34,129
Cash, cash equivalents and restricted cash at beginning of period	557,553	287,778
Cash, cash equivalents and restricted cash at end of period	$ 448,587	$ 321,907
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 10	$ 45
Income taxes	$ 104	$ 112
Supplemental disclosure of noncash investing and financing activities:		
Net change in unrealized loss on held-to-maturity securities, net of tax	$ 215	$ 25
Net change in unrealized gain on available-for-sale securities, net of tax	$ (25,546)	$ (20,760)

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

Note 1 – Nature of Business

Organization

The accompanying condensed consolidated financial statements include the accounts of BankGuam Holding Company ("Company") and its wholly-owned subsidiaries, Bank of Guam ("Bank") and BankGuam Investment Services ("BGIS"). The Company is a Guam corporation organized on October 29, 2010, to act as the holding company of the Bank, a Guam banking corporation, an 17-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. BGIS was incorporated in Guam in 2015 and initially capitalized during the first quarter of 2016. During July 2016, the Company executed an agreement to purchase up to 70% of ASC Trust LLC, formerly ASC Trust Corporation. On July 6, 2021, the Company completed its final purchase of 25% of the voting common stock of ASC Trust LLC under the agreement, as amended to date, bringing the Company's ownership of ASC Trust LLC to 70%. See Note 4 under "Investment in AST Trust LLC" for additional details.

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

For ease of reference we will sometimes refer to the Company and the Bank as "we", "us" or "our".

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

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

These unaudited condensed consolidated financial statements have been prepared on a basis consistent with prior periods, and should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2021, and the notes thereto, included in our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the U.S. Securities and Exchange Commission ("SEC") under the Exchange Act on March 28, 2022.

Our condensed consolidated financial condition at March 31, 2022, and the condensed consolidated results of operations for the three months ended March 31, 2022, are not necessarily indicative of what our financial condition will be at December 31, 2022, or of the results of our operations that may be expected for the full year ending December 31, 2022.

Use of Estimates

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

Restricted Cash

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

COVID-19

The outbreak of a novel coronavirus ("COVID-19") in 2020 and subsequent impact on public commerce and related business activities continues to impact the Company as well as a broad range of industries in which the Company's customers operate and, in some instances, impaired their ability to fulfill their financial obligations to the Company. On March 3, 2020, the Federal Open Market Committee (FOMC) reduced the target range for federal funds by 50 basis points to 1.00% - 1.25%. This rate was further reduced to a target range of 0% - 0.25% on March 16, 2020. The economy has since improved, and the FOMC increased the target range by 25bps to 0.25% - 0.50% on March 16, 2022, and 50bps to 0.75% - 1.00% on May 4, 2022. The increase in interest rates will have a positive impact to the Company's net interest income as loans and securities reprice.

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

Currently one branch in Guam remains closed due to renovations, and will reopen upon completion. The Bank continues to provide a secure telecommuting program for those personnel who are able to perform their responsibilities remotely, the computer hardware and software needed to support those tasks, and established teleconferencing capabilities to reduce the number of people in attendance at all of its larger group meetings. The Company has not materially changed its accounting policies or procedures due to COVID-19.

Russia/Ukraine Conflict

The current Russia and Ukraine conflict has raised economic and financial market concerns causing uncertainty and disruption in financial markets globally and further straining an already struggling global supply chain. Furthermore, such events have the potential to adversely impact the availability of commodities, commodity prices, and create global inflationary pressures. These and other effects of the conflict could have a negative impact on the ability of borrowers to repay their obligations to the Bank, which could impact our reserves for loan losses and have an adverse effect on our results of operations.

Recently Adopted Accounting Pronouncements

None.

Recently Issued but Not Yet Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *"Financial Instruments – Credit Losses (Topic 326)"*, to amend the standards for the measurement of credit losses on financial instruments by replacing the historical incurred loss impairment methodology of determining the level of the allowance for loan and lease losses ("ALLL"), including losses associated with available-for-sale securities, with a more decision-useful methodology that reflects expected credit losses over the life of a financial instrument based upon historical experience, current conditions, and reasonable and supportable forecasts in determining the ALLL level, as well as the reserve for off-balance-sheet credit exposures. The Company was preparing to implement ASU 2016-13 when it was scheduled to become effective January 1, 2020, but the FASB announced on October 16, 2019, a delay of the effective date for smaller reporting companies until January 1, 2023. Management expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the first reporting period in which the new standard is effective, but cannot yet estimate the magnitude of the adjustment or the overall impact of the new guidance on the Company's financial position, results of operations or cash flows.

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

Note 3 – Earnings Per Common Share

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

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

	Three Months Ended March 31, 2022	2021
Net income available to BankGuam Holding Company	$ 3,267	$ 3,295
Less preferred stock dividends	(122)	(135)
Net income attributable to common stockholders	$ 3,145	$ 3,160
Weighted average number of common shares outstanding - used to calculate basic and diluted earnings per common share	9,721	9,705
Earnings per common share (EPS):		
Basic and diluted EPS	$ 0.32	$ 0.33

Note 4 – Investment Securities

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

March 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Available-for-Sale				
U.S. government agency and government sponsored enterprise (GSE) debt securities	$ 114,969	$ -	$ (11,694)	$ 103,275
U.S. government agency pool securities	29,066	12	(260)	28,818
U.S. government agency or GSE residential mortgage-backed securities	423,117	-	(27,155)	395,962
Total	$ 567,152	$ 12	$ (39,109)	$ 528,055
Securities Held-to-Maturity				
U.S. government agency and government sponsored enterprise (GSE) debt securities	$ 276,468	$ -	$ (30,684)	$ 245,784
U.S. government agency pool securities	2,386	6	(64)	2,328
U.S. government agency or GSE residential mortgage-backed securities	41,627	35	(2,545)	39,117
Total	$ 320,481	$ 41	$ (33,293)	$ 287,229

December 31, 2021	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	$ 114,969	$ -	$ (4,007)	$ 110,962
U.S. government agency pool securities	21,106	2	(247)	20,861
U.S. government agency or GSE residential mortgage-backed securities	369,419	1,957	(3,833)	367,543
Total	$ 505,494	$ 1,959	$ (8,087)	$ 499,366
Securities Held-to-Maturity				
U.S. government agency and government sponsored enterprise (GSE) debt securities	$ 276,188	$ -	$ (1,621)	$ 274,567
U.S. government agency pool securities	3,028	8	(45)	2,991
U.S. government agency or GSE residential mortgage-backed securities	33,078	105	(369)	32,814
Total	$ 312,294	$ 113	$ (2,035)	$ 310,372

At March 31, 2022 and December 31, 2021, investment securities with a carrying value of $682.9 million and $558.8 million, respectively, were pledged to secure various government deposits and to meet other public requirements.

Proceeds and gross realized gains from the sales of available-for-sale investment securities for the three months ended March 31, 2022 and 2021 are shown below.

	Three Months Ended March 31,	
	2022	2021
Proceeds from sales	$ -	$ 46,993
Gross realized gains from sales	$ -	$ 272

The amortized cost and estimated fair value of investment securities by contractual maturity at March 31, 2022 and December 31, 2021 are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or borrowers the right to prepay obligations with or without call or prepayment penalties. At March 31, 2022, obligations of U.S. government corporations and agencies with amortized costs totaling $887.6 million consisted of residential mortgage-backed securities totaling $464.7 million and Small Business Administration agency pool securities totaling $31.5 million whose contractual maturity, or principal repayment, will follow the repayment of the underlying small business loans or mortgages. For purposes of the following table, the entire outstanding balance of these mortgage-backed securities issued by U.S. government corporations and agencies and SBA pools is categorized based on final maturity date. At March 31, 2022, the Bank estimates the average remaining life of these mortgage-backed securities and SBA pools to be approximately 5.7 years and 4.4 years, respectively.

	March 31, 2022			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$ 26	$ 26	$ -	$ -
Due after one but within five years	6,954	6,916	1,709	1,691
Due after five but within ten years	158,847	146,421	61,833	56,368
Due after ten years	401,325	374,692	256,939	229,170
Total	$ 567,152	$ 528,055	$ 320,481	$ 287,229

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

Temporarily Impaired Securities

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2022, and December 31, 2021.

	March 31, 2022					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value
Securities Available for Sale						
U.S. government agency and government sponsored enterprise (GSE) debt securities	$ -	$ -	$ (11,694)	$ 103,275	$ (11,694)	$ 103,275
U.S. government agency pool securities	(170)	15,443	(90)	10,055	(260)	25,498
U.S. government agency or GSE residential mortgage-backed securities	(26,475)	389,126	(680)	6,836	(27,155)	395,962
Total	$ (26,645)	$ 404,569	$ (12,464)	$ 120,166	$ (39,109)	$ 524,735
Securities Held to Maturity						
US government agency and sponsored Agencies (GSE) debt securities	$ (15,566)	$ 106,613	$ (15,118)	$ 139,171	$ (30,684)	$ 245,784
U.S. government agency pool securities	(52)	1,303	(12)	106	(64)	1,409
U.S. government agency or GSE residential mortgage-backed securities	(2,514)	28,677	(31)	281	(2,545)	28,958
Total	$ (18,132)	$ 136,593	$ (15,161)	$ 139,558	$ (33,293)	$ 276,151

	December 31, 2021					
	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	$ (2,824)	$ 82,145	$ (1,183)	$ 28,817	$ (4,007)	$ 110,962
U.S. government agency pool securities	(71)	5,127	(176)	14,743	(247)	19,870
U.S. government agency or GSE residential mortgage-backed securities	(3,833)	290,573	-	-	(3,833)	290,573
Total	$ (6,728)	$ 377,845	$ (1,359)	$ 43,560	$ (8,087)	$ 421,405
Securities Held to Maturity						
U.S. government agency and government sponsored enterprise (GSE) debt securities	$ (1,395)	$ 159,840	$ (226)	$ 114,726	$ (1,621)	$ 274,566
U.S. government agency pool securities	(37)	1,507	(8)	403	(45)	1,910
U.S. government agency or GSE residential mortgage-backed securities	(362)	28,498	(7)	529	(369)	29,027
Total	$ (1,794)	$ 189,845	$ (241)	$ 115,658	$ (2,035)	$ 305,503

The investment securities that were in an unrealized loss position as of March 31, 2022, which comprised a total of 221 securities, were not other-than-temporarily impaired. Specifically, the 221 securities are comprised of the following: 34 Small Business Administration Pool securities, 26 agency securities issued by Federal Home Loan Bank (FHLB), 33 mortgaged-backed securities and 19 agency securities issued by Federal Home Loan Mortgage Corporation (FHLMC), 71 mortgaged-backed securities and 1 agency security issued by Federal National Mortgage Association (FNMA), 19 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 of the investment securities. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not likely that the Company will be required to sell the investment securities before recovery of their amortized cost, which may be at maturity. However, the Company may elect to sell certain investment securities with an unrealized loss position in its “available for sale” portfolio as needed to replenish its liquidity.

Investment in ASC Trust LLC

On July 6, 2021, with the approval of the Federal Reserve Bank of San Francisco, the Company used $6.2 million of the proceeds from the subordinated notes totaling $20 million that were issued on June 29, 2021, to acquire an additional 25% of the voting common stock of ASC Trust LLC at the third and final closing, pursuant to the Stock Purchase Agreement (the “Agreement”) dated May 27, 2016, between the Company and David J. John, as amended to date. This transaction brought the Company’s interest in ASC Trust LLC to 70%. The Company evaluated its ownership in ASC Trust LLC after the last transaction in accordance to ASC 810 – Consolidation, and determined that the Company has control over ASC Trust LLC requiring consolidation. The Company’s Chief Executive Officer serves on the Board of Directors of ASC Trust LLC. Another of the Company’s Board members 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 5 – Loans Held for Sale, Loans and Allowance for Loan Losses

Loans Held for Sale

In its normal course of business, the Bank originates mortgage loans held for sale to the FHLMC. The Bank has elected to measure its residential mortgage loans held for sale at cost. Origination fees and costs are recognized in earnings at the time of origination. Loans are sold to FHLMC at par.

During the three months ended March 31, 2022, the Bank originated and sold $2.4 million in FHLMC mortgage loans. During the three months ended March 31, 2021, the Bank originated and sold $10.7 million in FHLMC loans.

Mortgage loans serviced for others are not included in the accompanying condensed consolidated statements of financial condition. The unpaid principal balances of mortgage loans serviced for others were $177.4 million at March 31, 2022 and $181.1 million at December 31, 2021. The decrease of $3.7 million (2.04%) during the three months ended March 31, 2022, was due to principal paydowns and payoffs during the period, which offset new loans.

We retain mortgage servicing rights on mortgage loans that we sell. Such rights represent the net positive cash flows generated from the servicing of such mortgage loans and we recognize such rights as assets on our statements of financial condition based on their estimated fair values. We receive servicing fees, less any subservicing costs, on the unpaid principal balances of such mortgage loans. Those fees are collected from the monthly payments made by the mortgagors or from the proceeds of the sale or foreclosure and liquidation of the underlying real property collateralizing the loans. At March 31, 2022 and December 31, 2021, mortgage servicing rights totaled $1.6 million each and are included in other assets in the accompanying condensed consolidated statements of financial condition. The Bank accounts for mortgage servicing rights at fair value with changes in fair value recorded as a part of service fees and charges in the condensed consolidated statements of income.

Loans

Outstanding loan balances are presented net of unearned income, deferred loan fees, and unamortized discount and premium totaling $3.0 million at March 31, 2022, and $3.2 million at December 31, 2021. As of March 31, 2022 and December 31, 2021, our 10 largest borrowing relationships in aggregate totaled $342.6 million, respectively, in commitments, or approximately 25.9% of our total gross loans. Loans subject to ASC Topic 310-30, *“Loans and Debt Securities Acquired with Deteriorated Credit Quality,”* are presented net of the related accretable yield.

The loan portfolio consisted of the following at:

	March 31, 2022		December 31, 2021	
	Amount	Percent	Amount	Percent
Commercial				
Commercial & industrial	$ 299,431	22.6%	$ 295,835	22.4%
Commercial mortgage	693,172	52.3%	699,269	52.9%
Commercial construction	23,546	1.8%	23,588	1.8%
Commercial agriculture	581	0.0%	592	0.0%
Total commercial	1,016,730	76.7%	1,019,284	77.1%
Consumer				
Residential mortgage	139,139	10.5%	135,377	10.2%
Home equity	2,211	0.2%	2,232	0.2%
Automobile	17,523	1.3%	18,220	1.4%
Other consumer loans[1]	149,620	11.3%	146,208	11.1%
Total consumer	308,493	23.3%	302,037	22.9%
Gross loans	1,325,223	100.0%	1,321,321	100.0%
Deferred loan (fees) costs, net	(2,968)		(3,223)	
Allowance for loan losses	(35,085)		(34,408)	
Loans, net	$ 1,287,170		$ 1,283,690	

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

Paycheck Protection Program

With the passage of the Paycheck Protection Program, or PPP, administered by the Small Business Administration, the Bank actively participated in assisting its customers with applications for resources through the program. PPP loans have either a two-year or a five-year term and earn interest at 1%. The Bank believes that the majority of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. In 2021 and 2022 the Bank approved and funded over $93.4 million and $56.6 million in gross PPP loans, respectively. At March 31, 2022, the outstanding gross principal balance of PPP loans was $17.6 million with $365 thousand in unearned fees remaining. At loan origination, the Company was paid a fee from the SBA ranging from 1% to 5% based on the loan size. The unearned fees are being accreted to interest income based on the contractual maturity.

On June 5, 2020, the Paycheck Protection Program Flexibility Act of 2020 (the “Flexibility Act”) was signed into law which changed key provisions of the PPP, including provisions relating to the maturity of PPP loans, the deferral of PPP loan payments, and the forgiveness of PPP loans. Under the Flexibility Act, as clarified by the SBA in an October 7, 2020 update, the maturity date for PPP loans funded before June 5, 2020 remained at two years from funding while the maturity date for PPP loans funded after June 5, 2020 was five years from funding. In addition, the Flexibility Act, increased the period during which PPP loan proceeds are to be used for purposes that would qualify the loan for forgiveness (the “covered period”) from 8 weeks to 24 weeks, at the borrower’s election, for PPP loans made prior to June 5, 2020, and set the covered period for loans made after June 5, 2020 at 24 weeks from funding. Under the Flexibility Act, PPP borrowers are not required to make any payments of principal or interest before the date on which SBA remits the loan forgiveness amount to the Company (or notifies the Company that no loan forgiveness is allowed) and, although PPP borrowers may submit an application for loan forgiveness at any time prior to the maturity date, if PPP borrowers do not submit a loan forgiveness application within 10 months after the end of their covered period, such borrowers will be required to begin paying principal and interest after that period. For loans originated under the SBA's PPP loan program, interest and principal payment on these loans were originally deferred for six months following the funding date, during which time interest would continue to accrue. The Flexibility Act extended the deferral period for borrower payments of principal, interest, and fees on all PPP loans to the date that the SBA remits the borrower’s loan forgiveness amount to the lender (or, if the borrower does not apply for loan forgiveness, ten months after the end of the borrower’s loan forgiveness covered period). The extension of the deferral period under the Flexibility Act automatically applied to all PPP loans.

As of May 5, 2022, a total of $141.3 million in PPP loans have been forgiven, of which $133.6 million were forgiven in 2022 and $7.7 million in 2021. It is the Bank’s understanding that loans funded through the PPP program are fully guaranteed by the U.S. government. Should those circumstances change, the Bank could be required to establish an additional allowance for loan loss through additional credit loss expense charged to earnings.

Allowance for Loan Losses

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

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. ASC 310-10 defines an impaired loan as one for which there is uncertainty concerning collection of all principal and interest per the original contractual terms of the loan. For those loans that are classified as impaired, an allowance is established when the discounted cash flow (or the collateral value or the observable market price) of the impaired loan is lower than the carrying value of the loan. The general component covers unimpaired loans, and is estimated using a loss migration analysis based on historical charge-off experience and expected loss, given the default probability derived from the Bank's internal risk rating process. The loss migration analysis tracks twelve rolling quarters of loan loss history and industry loss factors to determine historical losses by classification category for each loan type, except certain consumer loans. These calculated loss factors are then applied to outstanding loan balances for all non-impaired loans. Additionally, the allowance consist of internally developed qualitative factors based on interagency guidance which are used to supplement the risks that are not captured by the historical loss migration analysis. These qualitative factors that are determined utilizing external economic factors and internal assessments is applied to each homogeneous loan pool. We also conduct individual loan review analyses, as part of the allowance for loan loss allocation process, applying specific monitoring policies and procedures in analyzing the existing loan portfolio.

Beginning in 2020, management increased the loss attributes in a number of the qualitative factors to more appropriately capture the risks stemming from economic deterioration from COVID-19. The Company continually evaluates these factors and makes adjustments each quarter. During the three months ended March 31, 2022, management adjusted the economic risk factors to incorporate the current economic implications, which include reduced tourism and inflationary concerns.

Set forth below is a summary of the Bank's activity in the allowance for loan losses during the three months ended March 31, 2022, and 2021, and the year ended December 31, 2021:

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021	Year Ended December 31, 2021
Balance, beginning of period	$ 34,408	$ 34,805	$ 34,805
Charged off loans	(1,349)	(1,595)	(4,950)
Recoveries on loans previously charged off	601	598	2,403
Provision for loan losses	1,425	2,475	2,150
Balance, end of period	$ 35,085	$ 36,283	$ 34,408

Set forth below is information regarding loan balances and the related allowance for loan losses, by portfolio type, for the three months ended March 31, 2022, and 2021, and the year ended December 31, 2021, respectively.

	Commercial	Residential Mortgages	Consumer	Total
	(Dollars in thousands)			
Three Months Ended March 31, 2022				
Allowance for loan losses:				
Balance at beginning of period	$ 22,860	$ 2,304	$ 9,244	$ 34,408
Charge-offs	(190)	-	(1,159)	(1,349)
Recoveries	102	1	498	601
Provision	310	164	951	1,425
Balance at end of period	$ 23,082	$ 2,469	$ 9,534	$ 35,085
Allowance balance at end of period related to:				
Loans individually evaluated for impairment	$ 3,508	$ 39	$ 1,136	$ 4,683
Loans collectively evaluated for impairment	19,574	2,430	8,398	30,402
Ending balance	$ 23,082	$ 2,469	$ 9,534	$ 35,085
Loan balances at end of period:				
Loans individually evaluated for impairment	$ 10,973	$ 38,287	$ 1,350	$ 50,610
Loans collectively evaluated for impairment	1,005,757	103,063	165,793	1,274,613
Ending balance	$ 1,016,730	$ 141,350	$ 167,143	$ 1,325,223
Three Months Ended March 31, 2021				
Allowance for loan losses:				
Balance at beginning of period	$ 21,213	$ 1,990	$ 11,602	$ 34,805
Charge-offs	(77)	(4)	(1,514)	(1,595)
Recoveries	124	-	474	598
Provision	1,259	210	1,006	2,475
Ending balance	$ 22,519	$ 2,196	$ 11,568	$ 36,283
Allowance balance at end of period related to:				
Loans individually evaluated for impairment	$ 3,502	$ 1	$ 1,578	$ 5,081
Loans collectively evaluated for impairment	19,017	2,195	9,990	31,202
Ending balance	$ 22,519	$ 2,196	$ 11,568	$ 36,283
Loan balances at end of period:				
Loans individually evaluated for impairment	$ 60,538	$ 2,349	$ 1,716	$ 64,603
Loans collectively evaluated for impairment	1,053,915	127,159	182,930	1,364,004
Ending balance	$ 1,114,453	$ 129,508	$ 184,646	$ 1,428,607
Year Ended December 31, 2021				
Allowance for loan losses:				
Balance at beginning of year	$ 21,213	$ 1,990	$ 11,602	$ 34,805
Charge-offs	(115)	(99)	(4,736)	(4,950)
Recoveries	578	1	1,824	2,403
Provision	1,184	412	554	2,150
Ending balance	$ 22,860	$ 2,304	$ 9,244	$ 34,408
Allowance balance at end of year related to:				
Loans individually evaluated for impairment	$ 3,510	$ 50	$ 941	$ 4,501
Loans collectively evaluated for impairment	19,350	2,254	8,303	29,907
Ending balance	$ 22,860	$ 2,304	$ 9,244	$ 34,408
Loan balances at end of year:				
Loans individually evaluated for impairment	$ 48,459	$ 2,265	$ 1,059	$ 51,783
Loans collectively evaluated for impairment	970,825	135,343	163,370	1,269,538
Ending balance	$ 1,019,284	$ 137,608	$ 164,429	$ 1,321,321

Credit Quality

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

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Non-Accrual	90 Days and Greater Still Accruing	Total Past Due	Current	Total Loans Outstanding
March 31, 2022							
Commercial							
Commercial & industrial	$ 236	$ 4,053	$ 6,878	$ 125	$ 11,292	$ 288,139	$ 299,431
Commercial mortgage	4,978	2,279	4,372	764	12,393	680,779	693,172
Commercial construction	-	-	-	-	-	23,546	23,546
Commercial agriculture	-	-	-	-	-	581	581
Total commercial	5,214	6,332	11,250	889	23,685	993,045	1,016,730
Consumer							
Residential mortgage	4,838	1,940	250	12	7,040	132,099	139,139
Home equity	-	-	-	-	-	2,211	2,211
Automobile	365	162	-	88	615	16,908	17,523
Other consumer [1]	1,961	1,103	47	1,078	4,189	145,431	149,620
Total consumer	7,164	3,205	297	1,178	11,844	296,649	308,493
Total	$ 12,378	$ 9,537	$ 11,547	$ 2,067	$ 35,529	$1,289,694	$ 1,325,223
December 31, 2021							
Commercial							
Commercial & industrial	$ 56	$ 202	$ 7,338	$ 106	$ 7,702	$ 288,133	$ 295,835
Commercial mortgage	2,540	217	4,622	-	7,379	691,890	699,269
Commercial construction	-	-	-	-	-	23,588	23,588
Commercial agriculture	-	-	-	-	-	592	592
Total commercial	2,596	419	11,960	106	15,081	1,004,203	1,019,284
Consumer							
Residential mortgage	2,194	1,236	267	77	3,774	131,603	135,377
Home equity	-	-	-	-	-	2,232	2,232
Automobile	407	162	-	41	610	17,610	18,220
Other consumer [1]	2,037	1,024	69	866	3,996	142,212	146,208
Total consumer	4,638	2,422	336	984	8,380	293,657	302,037
Total	$ 7,234	$ 2,841	$ 12,296	$ 1,090	$ 23,461	$1,297,860	$ 1,321,321

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

Generally, the accrual of interest on a loan is discontinued when principal or interest payments become more than 90 days past due, unless management believes the loan is adequately collateralized and is in the process of collection, with the exception of automobile and other consumer loans which, rather than being placed on non-accrual status, are charged off once they become 120 days delinquent. When a loan is placed on non-accrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income. Non-accrual loans may be restored to accrual status when in receipt of six consecutive payments, and principal and interest become current and full repayment is expected.

The following table provides information as of March 31, 2022 and December 31, 2021, with respect to loans on non-accrual status, by portfolio type:

	March 31, 2022	December 31, 2021
	(Dollars in thousands)	
Non-accrual loans:		
Commercial		
Commercial & industrial	$ 7,312	$ 7,610
Commercial mortgage	6,548	8,148
Total commercial	13,860	15,758
Consumer		
Residential mortgage	$ 1,537	$ 1,660
Other consumer [1]	120	152
Total consumer	1,657	1,812
Total non-accrual loans	$ 15,517	$ 17,570

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

Credit Quality Indicators

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

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

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

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

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

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

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

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

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

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

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

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

	March 31, 2022	December 31, 2021
	(Dollars in thousands)	
Pass:		
Commercial & industrial	$ 269,544	$ 266,300
Commercial mortgage	628,078	642,835
Commercial construction	23,546	23,588
Commercial agriculture	581	592
Residential mortgage	137,126	133,176
Home equity	2,211	2,232
Automobile	17,435	18,179
Other consumer	148,698	145,190
Total pass loans	1,227,219	1,232,092
Special Mention:		
Commercial & industrial	10,521	9,760
Commercial mortgage	21,364	11,051
Residential mortgage	-	-
Total special mention loans	31,885	20,811
Substandard:		
Commercial & industrial	12,488	12,645
Commercial mortgage	43,088	44,661
Residential mortgage	605	613
Other consumer	-	2
Total substandard loans	56,181	57,921
Formula Classified:		
Residential mortgage	1,408	1,588
Automobile	88	41
Other consumer	922	1,016
Total formula classified loans	2,418	2,645
Doubtful:		
Commercial & industrial	6,878	7,130
Commercial mortgage	642	722
Total doubtful loans	7,520	7,852
Total outstanding loans, gross	$ 1,325,223	$ 1,321,321

Impaired Loans

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

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

Impairment is measured on a loan-by-loan basis for commercial and real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral (if the loan is collateral-dependent). Large groups of smaller-balance homogeneous loans, such as consumer loans, are collectively evaluated for impairment. Impairment reserves for these groups of consumer loans are determined using historical loss given default rates for similar loans.

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

	March 31, 2022	December 31, 2021
	(Dollars in thousands)	
Impaired loans:		
Restructured loans:		
Non-accruing restructured loans	$ 4,778	$ 6,083
Accruing restructured loans	32,500	32,595
Total restructured loans	37,278	38,678
Other impaired loans	13,332	13,105
Total impaired loans	$ 50,610	$ 51,783
Impaired loans less than 90 days delinquent and included in total impaired loans	$ 36,996	$ 38,398

The table below contains additional information with respect to impaired loans, by portfolio type, at March 31, 2022 and December 31, 2021:

	Recorded Investment	Unpaid Principal Balance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
March 31, 2022, With no related allowance recorded:				
Commercial & industrial	$ 10,713	$ 10,713	$ 10,713	$ 39
Commercial mortgage	36,104	36,431	36,104	167
Residential mortgage	903	903	903	1
Other consumer	-	-	-	-
Total impaired loans with no related allowance	$ 47,720	$ 48,047	$ 47,720	$ 207
March 31, 2022, With a related allowance recorded:				
Commercial & industrial	$ 325	$ 325	$ 325	$ 2
Commercial mortgage	107	123	107	-
Residential mortgage	1,172	1,182	1,172	-
Automobile	88	88	88	2
Other consumer	1,198	1,198	1,198	-
Total impaired loans with a related allowance	$ 2,890	$ 2,916	$ 2,890	$ 4
December 31, 2021, With no related allowance recorded:				
Commercial & industrial	$ 11,150	$ 11,150	$ 75,812	$ 56
Commercial mortgage	36,935	37,182	38,456	149
Residential mortgage	612	612	221	-
Other consumer	2	2	4	-
Total impaired loans with no related allowance	$ 48,699	$ 48,946	$ 114,493	$ 205
December 31, 2021, With a related allowance recorded:				
Commercial & industrial	$ 262	$ 262	$ 116	$ 2
Commercial mortgage	112	127	75	-
Residential mortgage	1,653	1,663	1,921	1
Automobile	41	41	29	1
Other consumer	1,016	1,016	1,253	8
Total impaired loans with a related allowance	$ 3,084	$ 3,109	$ 3,394	$ 12

Troubled Debt Restructurings

In accordance with FASB's Accounting Standards Update No. 2011-02, *"A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring"* (ASU No. 2011-02), the Bank had $37.3 million of troubled debt restructurings ("TDRs") as of March 31, 2022, down by $1.4 million from $38.7 million at December 31, 2021, primarily in commercial mortgage loans. The restructured loans recorded with the Bank have been modified for the purpose of alleviating temporary impairments to the borrower's financial condition. The modifications that the Bank has extended to borrowers have come in the form of a change in the repayment terms. The restructuring plan between the borrower and the Bank is designed to provide a bridge for cash flow shortfalls in the near term. As the borrower works through the near-term issues, in most cases, the original contractual terms will be reinstated.

The CARES Act provided guidance around the modification of loans as a result of the COVID-19 pandemic, which outlined, among other criteria, that short-term modifications made on a good faith basis to borrowers who were current as defined by the CARES Act prior to any relief, are not TDRs. This includes short-term (e.g. six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers are considered current under the CARES Act if they are less than 30 days past due on their contractual payments at the time a modification program is implemented.

Additional information regarding performing and nonperforming TDRs at March 31, 2022 and December 31, 2021 is set forth in the following table:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Principal Modifications	Post-Modification Outstanding Recorded Investment	Outstanding Balance March 31, 2022	Outstanding Balance December 31, 2021
Performing						
Residential mortgage	-	$ -	$ -	$ -	$ -	$ -
Commercial & industrial	10	3,974	-	3,974	3,601	3,696
Commercial mortgage	1	28,899	-	28,899	28,899	28,899
Consumer	-	-	-	-	-	-
Total performing	11	32,873	-	32,873	32,500	32,595
Nonperforming						
Commercial & industrial	2	275	-	275	127	142
Commercial mortgage	6	5,954	-	5,954	4,651	5,941
Consumer	-	-	-	-	-	-
Total nonperforming	8	6,229	-	6,229	4,778	6,083
Total Troubled Debt Restructurings (TDRs)	19	$ 39,102	$ -	$ 39,102	$ 37,278	$ 38,678

Principal modification includes principal forgiveness at the time of modification, contingent principal forgiveness granted over the life of the loan based on borrower performance.

In an effort to constructively work with borrowers affected by the COVID-19 pandemic, the Bank initiated a temporary program in March 2020 to allow for 90-day deferrals for residential mortgage and commercial loans upon request from the borrower, and a 90-day deferral for all consumer and automobile loans. The Bank did not identify these loans that were deferred and were over 30 days delinquent as TDRs. The Bank identified a specific reserve for consumer loans totaling $3.1 million at March 31, 2022. The Bank also increased its environmental factors for the reserve to account for the effects of the COVID-19 pandemic.

There were no defaults on troubled debt restructurings following the modification during the three months ended March 31, 2022 and 2021.

The Bank has two significant borrowing relationships in bankruptcy totaling $10.1 million at March 31, 2022. The Bank has calculated a specific reserve within the allowance for one of the borrowing relationships in bankruptcy in the amount of $3.5 million. In March 2022, a court ruling increased the availability of assets for one of the borrowing relationships in bankruptcy to satisfy its outstanding liabilities. The Bank believes it has sufficient collateral coverage to protect its current exposure in these matters, however due to the complexities of the bankruptcy cases and uncertainties surrounding ongoing negotiations, the ultimate outcomes may result in losses.

Note 6 – Commitments and Contingencies

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

Note 7 – Regulatory Capital Requirements

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

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

As of March 31, 2022, the Bank's capital ratios each exceeded the Federal Deposit Insurance Corporation's well capitalized standards under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum Total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the Bank's last regulatory examination that management believes have changed the Bank's category. The Bank received a large influx of deposits from the federal relief programs due to the COVID-19 pandemic, resulting in the growth of its balance sheet as compared to 2020. As of March 31, 2022, approximately $164.1 million in COVID related funds have yet to be disbursed. Although the Bank's average assets decreased at March 31, 2022 to $2.78 billion from $2.91 billion in December 31, 2021, the growth resulting from the receipt of COVID funds has put pressure on its ratio of Tier 1 capital to average assets. Management believes that the Bank has the capacity to absorb the growth in total assets, and the tools needed to move deposits off of its balance sheet through its Trust services to continue to be above the well capitalized standards under the regulatory framework for prompt corrective action.

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

	Actual		**For Capital Adequacy Purposes**		**To Be Well Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
At March 31, 2022:						
Total capital (to Risk Weighted Assets)	$ 225,236	15.038%	$ 119,819	8.000%	$ 149,773	10.000%
Tier 1 capital (to Risk Weighted Assets)	$ 171,365	11.442%	$ 89,864	6.000%	$ 119,819	8.000%
Tier 1 capital (to Average Assets)	$ 171,365	6.165%	$ 111,184	4.000%	$ 138,980	5.000%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	$ 161,582	10.788%	$ 67,398	4.500%	$ 97,353	6.500%
At December 31, 2021:						
Total capital (to Risk Weighted Assets)	$ 222,493	15.161%	$ 117,403	8.000%	$ 146,753	10.000%
Tier 1 capital (to Risk Weighted Assets)	$ 168,623	11.490%	$ 88,052	6.000%	$ 117,403	8.000%
Tier 1 capital (to Average Assets)	$ 168,623	5.792%	$ 116,461	4.000%	$ 145,577	5.000%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	$ 158,840	10.824%	$ 66,039	4.500%	$ 95,390	6.500%

Note 8 – Off-Balance-Sheet Activities

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

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

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

	March 31, 2022	December 31, 2021
Commitments to extend credit	$ 165,064	$ 162,569
Letters of credit:		
Standby letters of credit	$ 48,890	$ 43,239
Commercial letters of credit	2,048	2,366
Total	$ 50,938	$ 45,605

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

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

The Bank considers its standby and other letters of credit to be payment guarantees. At March 31, 2022, the maximum undiscounted future payments that the Bank could be required to make for all outstanding letters of credit were $50.9 million. All of these arrangements mature within one year. The Bank has recourse to recover from the customer any amounts paid under these guarantees. Most of the guarantees are fully collateralized; however, several are unsecured. The Bank had recorded $50 thousand in reserve liabilities associated with these guarantees at March 31, 2022.

Note 9 – Income Taxes

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

There were no valuation allowance at March 31, 2022 and December 31, 2021, respectively, because, in management's opinion, it is more likely than not that the total deferred tax asset of $22.2 million and $14.0 million, respectively, will be realized.

The difference between the effective income tax expense and the income tax expense computed at the Guam statutory rate of 21% was due to nontaxable interest income earned on loans to the Government of Guam.

In addition to filing a federal income tax return in Guam, the Bank files income tax returns in the CNMI and the State of California. The Bank is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2012.

Note 10 – Fair Value Measurements

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

Fair Value Hierarchy

In accordance with the guidance of ASC Topic 820, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

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

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

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

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

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
At March 31, 2022				
Available-for-sale Securities:				
U.S. treasury notes and bonds	$ -	$ -	$ -	$ -
U.S. government agency and government sponsored enterprise (GSE) debt securities	-	103,275	-	103,275
U.S. government agency pool securities	-	28,818	-	28,818
U.S. government agency or GSE	-	395,962	-	395,962
Total fair value of available-for-sale securities	-	528,055	-	528,055
Other assets:				
MSRs	-	-	1,580	1,580
Total fair value	$ -	$ 528,055	$ 1,580	$ 529,635
At December 31, 2021				
Available-for-sale Securities:				
U.S. treasury notes and bonds	$ -	$ -	$ -	$ -
U.S. government agency and government sponsored enterprise (GSE) debt securities	-	110,962	-	110,962
U.S. government agency pool securities	-	20,861	-	20,861
U.S. government agency or GSE	-	367,543	-	367,543
Total fair value of available-for-sale securities	-	499,366	-	499,366
Other assets:				
MSRs	-	-	1,581	1,581
Total fair value	$ -	$ 499,366	$ 1,581	$ 500,947

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

For the periods ended March 31, 2022 and December 31, 2021, the changes in Level 3 assets measured at fair value on a recurring basis are as follows:

	March 31, 2022	December 31, 2021
Beginning balance	$ 1,581	$ 1,683
Realized and unrealized net losses:		
Included in net income	(1)	(102)
Ending balance	$ 1,580	$ 1,581

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

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

	Estimated Fair Value	Valuation Technique	Unobservable Inputs	Range of Inputs	Weighted Average Rate
March 31, 2022					
Financial instrument:					
MSRs	$ 1,580	Discounted Cash Flow	Discount Rate	6.02% - 7.93%	7.20%
			Weighted Average Prepayment Rate (Public Securities Association)	100%	
December 31, 2021					
Financial instrument:					
MSRs	$ 1,581	Discounted Cash Flow	Discount Rate	6.02% - 7.93%	7.20%
			Weighted Average Prepayment Rate (Public Securities Association)	125%	

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

Nonrecurring Fair Value Measurements

Under certain circumstances, the Bank makes adjustments to fair value for assets and liabilities even though they are not measured at fair value on an ongoing basis. The Bank did not have any financial instruments carried on the consolidated statements of financial condition by caption and by level in fair value hierarchy for a nonrecurring change in fair value at March 31, 2022 and December 31, 2021, respectively.

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

Additionally, the Bank makes adjustments to nonfinancial assets and liabilities even though they are not measured at fair value on an ongoing basis. The Bank does not have nonfinancial assets or liabilities for which a nonrecurring change in fair value has been recorded during the periods ended March 31, 2022 and December 31, 2021.

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

Cash and Cash Equivalents

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

Interest-Bearing Deposits in Banks

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

Federal Home Loan Bank Stock

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

Investment Securities

When quoted prices are available in an active market, the Bank classifies the securities within Level 1 of the valuation hierarchy. Level 1 securities include U.S. Treasury notes and bonds. At March 31, 2022, the Company classified trading securities in Level 1.

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

Loans

For variable-rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, based upon interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable. Loans are classified in Level 3.

Mortgage Servicing Rights

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

Deposit Liabilities

The fair values disclosed for demand deposits (for example, interest and non-interest checking, passbook savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies current market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits. Deposit liabilities are classified in Level 3.

Short-Term Borrowings

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

Long-Term Borrowings

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

Accrued Interest

The carrying amount of accrued interest approximates fair value.

Off-Balance Sheet Commitments and Contingent Liabilities

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

Fair Value of Other Financial Instruments

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

		Estimated Fair Value		
	Carrying Amount	Level 1	Level 2	Level 3
		(Dollars in thousands)		
March 31, 2022				
Financial assets:				
Cash and cash equivalents	$ 448,437	$ 448,437	$ -	$ -
Restricted cash	150	150	-	-
Federal Home Loan Bank stock	3,318	-	3,318	-
Investment securities held-to-maturity	320,481	-	287,229	-
Loans, net	1,287,170	-	-	1,333,290
Total	$ 2,059,556	$ 448,587	$ 290,547	$ 1,333,290
Financial liabilities:				
Deposits	2,494,653	-	-	2,500,297
Total	$ 2,494,653	$ -	$ -	$ 2,500,297
December 31, 2021				
Financial assets:				
Cash and cash equivalents	$ 557,403	$ 557,403	$ -	$ -
Restricted cash	150	150	-	-
Federal Home Loan Bank stock	2,814	-	2,814	-
Investment securities held-to-maturity	312,294	-	310,372	-
Loans, net	1,283,690	-	-	1,330,529
Total	$ 2,156,351	$ 557,553	$ 313,186	$ 1,330,529
Financial liabilities:				
Deposits	$ 2,533,231	$ -	$ -	$ 2,527,806
Total	$ 2,533,231	$ -	$ -	$ 2,527,806

Note 11 – Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss), included in stockholders' equity, are as follows:

	March 31, 2022	December 31, 2021
Net unrealized (loss) gain on available-for-sale securities	$ (39,097)	$ (5,857)
Amounts reclassified from AOCI for (gain) on sale of investment securities available-for-sale included in net income	-	(272)
Tax effect	8,803	1,380
Unrealized holding (loss) gain on available-for-sale securities, net of tax	(30,294)	(4,749)
Gross unrealized holding loss on held-to-maturity securities	(11,972)	(15,864)
Amortization of unrealized holding loss on held-to-maturity during the period	215	3,892
Unrealized holding loss on held-to-maturity securities	(11,757)	(11,972)
Accumulated other comprehensive (loss) income	$ (42,051)	$ (16,721)

Note 12 – Leases

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

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

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

The Bank leases certain facilities from two separate entities in which two of its directors have separate ownership interests. Lease payments made to these entities during the three months ended March 31, 2022 and 2021, approximated $65 thousand and $62 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 March 31, 2022, minimum future rents to be received under non-cancelable operating sublease agreements were $31 thousand and $26 thousand for the periods ending December 31, 2022 and 2023, respectively.

The cash flow from operating leases included in the measurement of lease liabilities during the three months ended March 31, 2022 and 2021, were $749 thousand and $887 thousand, respectively.

The following table summarizes the lease-related assets and liabilities recorded as part of other assets and other liabilities, respectively, in our condensed consolidated statements of financial condition at March 31, 2022 and December 31, 2021:

	March 31, 2022	December 31, 2021
Assets		
Operating lease right-of-use assets	$ 20,423	$ 23,379
Total lease assets	$ 20,423	$ 23,379
Liabilities		
Current		
Operating	$ 1,495	$ 1,926
Noncurrent		
Operating	19,670	22,186
Total lease liabilities	$ 21,165	$ 24,112

The operating lease costs and variable lease costs were $797 thousand and $971 thousand during the three months ended March 31, 2022 and 2021, respectively.

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

	Operating Leases (a)	Total
2022	$ 1,733	$ 1,733
2023	2,022	2,022
2024	1,910	1,910
2025	1,778	1,778
2026	1,544	1,544
After 2026	33,218	33,218
Total lease payments	42,205	42,205
Less: Interest (b)	21,040	21,040
Present value of lease liabilities (c)	$ 21,165	$ 21,165

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 $19.0 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 $1.5 million for operating leases.

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

	March 31, 2022	December 31, 2021
Weighted-average remaining lease term (years)		
Operating leases	28.1	25.6
Weighted-average discount rate		
Operating leases	4.21%	4.15%

Note 13 – Subordinated Debt

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

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

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

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

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

Note 14 – Subsequent Events

In April 2022, the Company suspended the Employee Stock Purchase Plan indefinitely in connection with the Company’s plans to implement a 1-for-500 reverse stock split, which remains subject to the approval of stockholders and the receipt of regulatory approvals.

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

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

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

Overview

BankGuam Holding Company (the "Company") is a Guam corporation organized on October 29, 2010, to act as a holding company of Bank of Guam (the "Bank"), a 17-branch bank serving the communities in Guam, the Commonwealth of the Northern Mariana Islands ("CNMI"), the Federated States of Micronesia ("FSM"), the Republic of the Marshall Islands ("RMI"), the Republic of Palau ("ROP"), and San Francisco, California. On August 15, 2011, the Company acquired all of the outstanding common stock of the Bank in a holding company formation transaction.

In August 2015, the Company chartered a second subsidiary, BankGuam Investment Services ("BGIS"), in an effort to enhance the options and opportunities of our customers to build future income and wealth. BGIS is a registered investment company, primarily involved in providing investment advisory services and trading securities for its customers.

In May 2016, the Company entered into a Stock Purchase Agreement (the "Agreement") to acquire up to 70% of ASC Trust LLC, formerly ASC Trust Corporation, a Guam trust company. In July 2016, subsequent to the approval of the Federal Reserve Bank of San Francisco in June 2016, the first purchase of 25% of ASC Trust LLC was completed. In July 2019, the Company completed the second purchase of an additional 20% of ASC Trust LLC, bringing its ownership to 45%. As stated in *Note 4 – Investment Securities*, and with the approval of the Federal Reserve Bank of San Francisco, an additional 25% of ASC Trust LLC was purchased by the Company in July 2021. This transaction brought the Company's ownership of ASC Trust LLC to 70%, and completes the transactions contemplated by the Agreement. 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. ASC Trust LLC is primarily involved in administering 401(k) retirement plans and other employee benefit programs for its customers.

Other than holding the shares of the Bank, BGIS and ASC Trust LLC, the Company conducts no significant activities, although it is authorized, with the prior approval of its principal regulator, the Board of Governors of the Federal Reserve System, to engage in a variety of activities related to the business of banking. Currently, substantially all of the Company's operations are conducted and substantially all of its assets are owned by the Bank, which accounts for substantially all of our consolidated revenues, expenses and operating income. The Bank's headquarters is located in Hagåtña, Guam, and the Bank provides a variety of financial services to individuals, businesses and government entities through its branch network. The Bank's primary deposit products are demand deposits, savings and time certificates of deposit, and its primary lending products are consumer, commercial and real estate loans. The Bank also provides many other financial services to its customers. In 2021, the Bank permanently closed the Dededo, Harmon and Chalan Piao branches. The Bank has been adding digital channels to its product delivery system for several years. The COVID-19 pandemic accelerated the adoption of those digital channels by our customers, which was considered in our decision to close those branches.

The COVID-19 pandemic and resulting governmental responses impacted our operations in 2021 and 2022. See "Note 2 – Summary of Significant Accounting Policies – COVID-19" for discussion.

Summary of Operating Results

The following table provides unaudited comparative information with respect to our results of operations for the three months ended March 31, 2022 and 2021, respectively:

	Three Months Ended March 31,		
	2022 Amount	2021 Amount	% Change
Interest income	$ 20,989	$ 20,513	2.3%
Interest expense	508	353	43.9%
Net interest income, before provision for loan losses	20,481	20,160	1.6%
Provision for loan losses	1,425	2,475	-42.4%
Net interest income, after provision for loan losses	19,056	17,685	7.8%
Non-interest income	7,393	4,209	75.6%
Non-interest expense	22,120	17,870	23.8%
Income before income taxes	4,329	4,024	7.6%
Income tax expense	815	729	11.8%
Net income	$ 3,514	$ 3,295	6.6%
Earnings per common share (EPS):			
Basic and diluted EPS	$ 0.32	$ 0.33	

As the above table indicates, our net income increased in the three months ended March 31, 2022, as compared to the corresponding periods in 2021. In the three months ended March 31, 2022, we recorded net income after taxes of $3.5 million, an increase of $219 thousand (or 6.7%) as compared to the same period in 2021. The primary reasons for the increase were the $3.2 million increase in non-interest income, a $1.1 million decrease in provision for loan losses, and a $321 thousand increase in net interest income, partially offset by the $4.3 million increase in non-interest expense, and an $86 thousand increase in income tax expense. The increase in non-interest income is largely due the $3.8 million increase in service charges and fees, primarily due to the fee income from ASC Trust LLC, and the $303 thousand increase in merchant and cardholder net income, partially offset by the $564 thousand decrease in other income and $262 thousand decrease in gain on sale of investment securities. The increase in non-interest expense is due to the increase of $2.4 million in equipment and depreciation and the $1.8 million additional expenses related to ASC Trust LLC.

The following table shows the decrease in our net interest margin in the three months ended March 31, 2022, and it also indicates the impact that the increase in our net income had on our annualized returns on average assets and average equity. Our return on average equity decreased by 6.08% during the three months ended March 31, 2022, as compared to the corresponding period in 2021, and our return on average assets decreased by 3 basis points during the same comparative period, primarily due to the increase in average assets:

	Three Months Ended March 31,	
	2022	2021
Net interest margin	3.11%	3.48%
Return on average assets	0.51%	0.54%
Return on average equity	7.91%	7.68%

Critical Accounting Policies

The Company’s significant accounting policies are set forth in Note 2 in the Notes to the Company’s Annual Report on Form 10-K for 2021 filed with the SEC on March 28, 2022, and Note 2 of Item 1 in this report. Our unaudited condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) and general practices in the banking industry. Certain of those accounting policies are considered critical accounting policies because they require us to make assumptions and judgments regarding circumstances or trends that could affect the carrying values of our material assets, such as assumptions regarding economic conditions or trends that could impact our ability to fully collect our outstanding loans or ultimately realize the carrying values of certain of our other assets, such as securities that are available for sale. If adverse changes were to occur in the events, trends or other circumstances on which our assumptions or judgments have been based, or other unanticipated events were to happen that might affect our operating results, it could become necessary under GAAP for us to reduce the carrying values of the affected assets in our condensed consolidated statements of financial condition. In addition, because reductions in the carrying values of assets are sometimes effectuated by or require charges to income, such reductions also may have the effect of reducing our income.

Results of Operations

Net Interest Income

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

The following table sets forth our interest income, interest expense and net interest income, and our annualized net interest margin for the three months ended March 31, 2022 and 2021, respectively:

	Three Months Ended March 31,		
	2022	**2021**	**% Change**
Interest income	20,989	$ 20,513	2.32%
Interest expense	508	353	43.91%
Net interest income	20,481	$ 20,160	1.59%
Net interest margin	3.11%	3.48%	-0.37%

Net interest income increased by 1.59% for the three months ended March 31, 2022 as compared to the corresponding period in 2021.

For the three months ended March 31, 2022, net interest income increased by $321 thousand as compared to the same period in 2021. Total interest income increased by $476 thousand due to increases of $976 thousand in earnings on investment securities and $112 thousand from short term investments, partially offset by $612 thousand in interest income from loans during the three months ended March 31, 2022, compared to the previous year. The decrease in interest income from loans is largely due to the 150 basis points (1.50%) cut in the federal funds rate in March 2020. The reduction in our net interest margin was the result of a decrease of 0.35% in the yield on our average earning assets in the three months ended March 31, 2022, as compared to the corresponding period of 2021, the effect of which was partially offset by an increase in our average earning assets of 13.6% compared to the same comparative period.

On March 3, 2020, the Federal Open Market Committee (FOMC) reduced the target range for federal funds by 50 basis points to 1.00% - 1.25%. This rate was further reduced to a target range of 0% - 0.25% on March 16, 2020. The economy has since improved, and the FOMC increased the target range by 25bps to 0.25% - 0.50% on March 16, 2022, and 50bps to 0.75% - 1.00% on May 4, 2022. The increase in interest rates will have a positive impact to the Company's net interest income as loans and securities reprice.

Average Balances

Distribution, Rate and Yield

The following table sets forth information regarding our average balance sheet, annualized yields on interest-earning assets and interest rates on interest-bearing liabilities, the interest rate spread and the interest rate margin for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,					
	2022			2021		
	Average Balance	Interest Earned/Paid	Average Yield/Rate	Average Balance	Interest Earned/Paid	Average Yield/Rate
Interest earning assets:						
Short term investments[1]	$ 461,217	$ 179	0.16%	$ 333,876	$ 67	0.08%
Investment Securities[2]	850,497	3,175	1.49%	557,885	2,199	1.58%
Loans[3]	1,319,790	17,635	5.34%	1,424,496	18,247	5.12%
Total earning assets	2,631,504	20,989	3.19%	2,316,257	20,513	3.54%
Noninterest earning assets	149,540			133,015		
Total assets	$ 2,781,044			$ 2,449,272		
Interest-bearing liabilities:						
Interest-bearing checking accounts	$ 401,473	$ 10	0.01%	$ 320,382	$ 24	0.03%
Savings accounts	1,192,714	29	0.01%	1,080,395	79	0.03%
Certificates of deposit	28,991	4	0.06%	28,861	12	0.17%
Subordinated debt	34,411	465	5.41%	14,781	238	6.44%
Total interest-bearing liabilities	1,657,589	508	0.12%	1,444,419	353	0.10%
Non-interest bearing liabilities	945,715			833,203		
Total liabilities	2,603,304			2,277,622		
Stockholders' equity	177,740			171,650		
Total liabilities and stockholders' equity	$ 2,781,044			$ 2,449,272		
Net interest income		$ 20,481			$ 20,160	
Interest rate spread			3.07%			3.44%
Net interest margin			3.11%			3.48%

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

2 Includes all investment securities in the Available-for-Sale and the Held-to-Maturity classifications. The Bank did not own any tax exempt securities during 2022 and 2021.

3 Loans include the average balance of non-accrual loans. Loan interest income includes loan fees of $537 thousand and $1.2 million in the three months ended March 31, 2022, and 2021, respectively.

For the three months ended March 31, 2022, our total average earning assets increased by $315.2 million, as compared to the same period in 2021. The increase during the three months ended March 31, 2022, compared to the same period in 2021, is attributed to the $127.3 million increase in our average short term investments and a $292.6 million increase in our average investment securities, partially offset by a $104.7 million decrease in our average loan portfolio. Average noninterest earning assets increased by $16.5 million. In the three months ended March 31, 2022, average total interest-bearing liabilities increased by $213.2 million in comparison to the same period in 2021. In the three months ended March 31, 2022, the increase was comprised of the $112.3 million increase in average savings accounts, an $81.1 million increase in average interest-bearing checking accounts, a $19.6 million increase in subordinated debt, and a $130 thousand increase in average certificate of deposit accounts. The overall increase in average interest-bearing liabilities resulted from an increase in our deposit base, primarily in consumer savings, and government checking and savings accounts as result of the funds received by depositors from the CARES Act. This was supplemented by an increase of $112.5 million in average non-interest bearing liabilities during the three months ended March 31, 2022, compared to the same period in 2021, primarily in traditional checking accounts, moderated an overall increase of $325.7 million in average total liabilities. During the three months ended March 31, 2022, average stockholders' equity increased by $6.1 million (3.6%) in comparison to the year-earlier period.

Our interest rate spread decreased by 37 basis points (10.94%), and our net interest margin also decreased by 37 basis points (10.58%) in the three months ended March 31, 2022, as compared to the same period in 2021. During the three months ended March 31, 2022, the decrease in our interest rate spread is attributed to the 35 basis points (9.9%) decrease in the average yield on our interest earning assets, from 3.54% to 3.19%, and the increase in the average rate on our interest-bearing liabilities by 2 basis points from 0.10% to 0.12%. The decrease in our interest income is primarily due to the 150 basis point (1.50%) rate cut in March 2020 by the Federal Open Market Committee. This impacted our loan portfolio, investment securities, and short term deposits in other banks, including the Federal Reserve Bank of San Francisco.

The following table provides information regarding the changes in interest income and interest expense, attributable to changes in rates and changes in volumes, that contributed to the total change in net interest income for the three months ended March 31, 2022, in comparison to the three months ended March 31, 2021:

	Three Months Ended March 31, 2022 vs. 2021 (In thousands)		
	Net Change in Interest Income/Expense	Attributable to: Change in Rate	Attributable to: Change in Volume
Interest income:			
Short term investments	$ 112	$ 250	$ (138)
Investment securities	976	(465)	1,441
Loans	(612)	3,148	(3,760)
Total interest income	476	2,933	(2,457)
Interest expense:			
Interest-bearing checking accounts	(14)	(64)	50
Savings accounts	(50)	(211)	161
Certificates of deposit	(8)	(32)	24
Other borrowings	227	(153)	380
Total interest expense	155	(460)	615
Net interest income	$ 321	$ 3,393	$ (3,072)

Provision for Loan Losses

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

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

If management determines that it is necessary to increase the allowance for loan losses, a provision for loan losses is recorded. For the three months ended March 31, 2022, the Bank's provision for loan losses was $1.4 million, which was $1.1 million lower than the corresponding period of 2021. The decrease is primarily due to the reduction in the monthly provision for loan losses from $875 thousand to $475 thousand, which were due to the declining risk in the loan portfolio resulting from the decrease in net charge offs, the decrease in the delinquency ratio, and the decrease in non-accrual loans. In the three months ended March 31, 2022, management adjusted the economic risk factors to incorporate the current economic conditions, which includes fluctuations in tourism and unemployment due to the COVID-19 pandemic.

Management believes that the provision recorded was sufficient to offset the incremental risk of loss inherent in the gross loan portfolio of $1.33 billion at March 31, 2022, an increase of $3.9 million from December 31, 2021. The allowance for loan losses at March 31, 2022, was at $35.1 million or 2.65% of total gross loans outstanding as of the balance sheet date, an increase of $677 thousand from December 31, 2021. We recorded net loan charge-offs of $748 thousand for the three months ended March 31, 2022. See "Analysis of Allowance for Loan Losses" in the Financial Condition Section of Management's Discussion and Analysis of Financial Condition and Results of Operations for more detailed information.

Non-Interest Income

The table below represents the major components of non-interest income and the changes therein for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,			
	2022 Amount	2021 Amount	Amount Change	Percent Change
Non-interest income				
Service charges and fees	$ 5,443	$ 1,670	$ 3,773	225.9%
Gain on sale of investment securities	10	272	(262)	-96.3%
Income from merchant services, net	651	648	3	0.5%
Income from cardholders, net	553	253	300	118.6%
Trustee fees	86	152	(66)	-43.4%
Other income	650	1,214	(564)	-46.5%
Total non-interest income	$ 7,393	$ 4,209	$ 3,184	75.6%

For the three months ended March 31, 2022, non-interest income totaled $7.4 million, which represented an increase of $3.2 million (75.6%) as compared to the three months ended March 31, 2021. The increase during the three months ended March 31, 2022, is primarily attributed to the increases in income of $3.8 million from service charges and fees, and $300 thousand in net income from cardholders, partially offset by a $564 thousand decrease in other income, a $262 thousand decrease in gain on sale of investment securities, and a $66 thousand reduction from trustee fees. The increase in service charges and fees is primarily due to the $2.7 million in fees generated by ASC Trust activities and an increase in the Bank's service charges and fee income of $987 thousand.

Non-interest Expense

The table below represents the major components of non-interest expense and the changes for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,			
	2022 Amount	2021 Amount	Amount Change	Percent Change
Non-interest expense:				
Salaries and employee benefits	$ 9,225	$ 8,696	$ 529	6.1%
Occupancy	2,221	2,129	92	4.3%
Equipment and depreciation	5,321	2,941	2,380	80.9%
Insurance	457	489	(32)	-6.5%
Telecommunications	450	366	84	23.0%
FDIC insurance assessment	322	344	(22)	-6.4%
Professional services	803	565	238	42.1%
Contract services	448	621	(173)	-27.9%
Other real estate owned	13	14	(1)	-7.1%
Stationery and supplies	169	121	48	39.7%
Training and education	260	44	216	490.9%
General, administrative and other	2,431	1,540	891	57.9%
Total non-interest expense	$ 22,120	$ 17,870	$ 4,250	23.8%

For the three months ended March 31, 2022, non-interest expense totaled $22.1 million, which was an increase of $4.3 million (23.8%) as compared to the same period in 2021. The increase is attributed to the increases of $2.4 million in equipment and depreciation, $529 thousand in salaries and employee benefits, $238 thousand in professional services, $216 thousand in training and education, and $891 thousand in general, administrative and other, partially offset by a decrease of $173 thousand in contract services.

Income Tax Expense

For the three months ended March 31, 2022, the Bank recorded income tax expenses of $815 thousand, which was $86 thousand higher than the income tax expense recorded for the corresponding period in 2021.

Financial Condition

Assets

As of March 31, 2022, total assets were $2.73 billion, a decrease of 2.32% from the $2.79 billion at December 31, 2021. This $64.7 million decrease was comprised largely of the $115.4 million decrease in interest bearing deposits in banks, partially offset by the $36.9 million increase in our net investment securities portfolio, a $6.4 million increase in cash and due from banks, a $4.0 million increase in other assets, and a rise of $3.5 million in net loans. The decrease in net loans and the increase in total assets resulted in the proportion of net loans to total assets decreasing from 46.0% at December 31, 2021, to 47.2% at March 31, 2022. The reduction in assets was associated with the $38.6 million increase in total deposits, a $3.1 million decrease in other liabilities, a $25.3 million decrease in accumulated other comprehensive loss, due to the increase in market rates, partially offset by a $2.2 million increase in retained earnings.

Interest-Earning Assets

The following table sets forth the composition of our interest-earning assets at March 31, 2022 as compared to December 31, 2021:

	March 31, 2022	December 31, 2021	Variance
Interest-earning deposits with financial institutions (including restricted cash)	$ 405,487	$ 520,893	$ (115,406)
Federal Home Loan Bank stock, at cost	3,318	2,814	504
Investment securities available-for-sale	528,055	499,366	28,689
Investment securities held-to-maturity	320,481	312,294	8,187
Loans, gross	1,325,223	1,321,321	3,902
Total interest-earning assets	$ 2,582,564	$ 2,656,688	$ (74,124)

Loans

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

A summary of the balances of loans at March 31, 2022 and December 31, 2021, follows:

	March 31, 2022		December 31, 2021	
	Amount	Percent	Amount	Percent
Commercial				
Commercial & industrial	$ 299,431	22.6%	$ 295,835	22.4%
Commercial mortgage	693,172	52.3%	699,269	52.9%
Commercial construction	23,546	1.8%	23,588	1.8%
Commercial agriculture	581	0.0%	592	0.0%
Total commercial	1,016,730	76.7%	1,019,284	77.1%
Consumer				
Residential mortgage	139,139	10.5%	135,377	10.2%
Home equity	2,211	0.2%	2,232	0.2%
Automobile	17,523	1.3%	18,220	1.4%
Other consumer loans[1]	149,620	11.3%	146,208	11.1%
Total consumer	308,493	23.3%	302,037	22.9%
Gross loans	1,325,223	100.0%	1,321,321	100.0%
Deferred loan (fees) costs, net	(2,968)		(3,223)	
Allowance for loan losses	(35,085)		(34,408)	
Loans, net	$ 1,287,170		$ 1,283,690	

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

At March 31, 2022, total gross loans increased by $3.9 million, to $1.325 billion, from $1.321 billion at December 31, 2021. The increase in loans was attributed to a $6.5 million increase in consumer loans to $308.5 million at March 31, 2022, from $302.0 million at December 31, 2021. The underlying increase was primarily due to the increases of $3.8 million in residential mortgage loans, and $3.4 million in other consumer loans, partially offset by the decrease of $697 thousand in automobile. The increase in consumer loans was partially offset by the $2.6 million decrease in commercial loans to $1.017 billion at March 31, 2022, from $1.019 billion at December 31, 2021. The underlying decrease was primarily due to the decrease of $6.1 million in commercial mortgage loans, partially offset by a $3.6 million increase in commercial & industrial loans.

In recognition of the potential difficulties that may be faced by our commercial, real estate and consumer customers due to the COVID-19 pandemic, the Bank initiated a temporary program in March 2020 under which affected commercial and consumer customers that may have their loan payments deferred or otherwise adjusted for a period of up to 90 days. This temporary program ended on June 30, 2020. The Bank continues to process commercial and consumer deferral requests on a case-by-case basis.

With the passage of the Paycheck Protection Program, administered by the Small Business Administration, the Bank actively participated in assisting its customers with applications for resources through the program. PPP loans have either a two-year or five-year term and earn interest at 1%. The Bank believes that the majority of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. In 2020 and 2021, the Bank approved and funded over $93.4 million and $56.6 million in PPP loans, respectively. At March 31, 2022, the outstanding principal balance of PPP loans was at $17.6 million. As of May 5, 2021, a total of $141.3 million in PPP loans have been forgiven, of which $133.6 million were forgiven in 2021 and $7.7 million in 2020. It is the Bank's understanding that loans funded through the PPP program are fully guaranteed by the U.S. government. Should those circumstances change, the Bank could be required to establish an additional allowance for loan loss through additional credit loss expense charged to earnings.

At March 31, 2022, loans outstanding were comprised of approximately 69.70% in variable rate loans and 30.30% in fixed rate loans.

Since it first opened in 1972, the Bank has expanded its operations and its branch network, first in Guam, then in the other islands of our region and in San Francisco, California. In the interests of enhancing performance and stability through market and industry diversification, the Bank has increased its focus on growth in the San Francisco area in recent years, adding personnel with experience and expertise in the Bay Area. The following table provides figures for gross loans in the Bank's administrative regions for March 31, 2022 and December 31, 2021:

	March 31, 2022	December 31, 2021
Guam	$ 689,717	$ 684,435
Commonwealth of the Northern Mariana Islands	135,228	135,165
The Freely Associated States of Micronesia *	91,071	89,523
California	409,207	412,198
Total	$ 1,325,223	$ 1,321,321

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

As the table indicates, the Bank's total gross loans increased by 0.3% during the three months ended March 31, 2022. By way of comparison, loans in Guam increased by $5.3 million, or 0.8%, during the three months ended March 31, 2022. Loans in the Commonwealth of the Northern Mariana Islands increased by $63 thousand or 0.1%, and the Freely Associated States of Micronesia increased by $1.5 million, or 1.7%, during the same period. In the California region loans decreased by $3.0 million, or 0.7%, during the three months ended March 31, 2022.

Interest-Earning Deposits and Investment Securities

In the current lending and interest rate environment, and in order to maintain sufficient liquidity in the ordinary course of business, and to account for disbursement of the funds received from the CARES Act, the Bank held $405.3 million in unrestricted interest-earning deposits with financial institutions at March 31, 2022, a decrease of $115.4 million, or 22.2%, from the $520.7 million in such deposits at December 31, 2021. This significant decrease is the result of the disbursement of various funds received from the CARES Act, which were held in cash balances with the Federal Reserve Bank at the end of the reporting period. From December 31, 2021, to March 31, 2022, the Bank's combined investment portfolio increased by $37.0 million, or 4.6%, from $811.7 million to $848.7 million. The growth in the investment portfolio was comprised of a $28.9 million increase in available-for-sale securities, which increased by 5.8%, from $499.4 million to $528.2 million, and an $8.2 million increase in our holdings of held-to-maturity securities, which increased by 2.6%, from $312.3 million to $320.5 million. Management believes that the Bank maintains an adequate level of liquidity.

Nonperforming Loans and Other Nonperforming Assets

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

The following table contains information regarding our nonperforming assets as well as restructured loans as of March 31, 2022 and December 31, 2021:

	March 31, 2022	December 31, 2021
Non-accrual loans:		
Commercial & industrial	$ 7,312	$ 7,610
Commercial mortgage	6,548	8,148
Residential mortgage	1,537	1,660
Other consumer [1]	120	152
Total non-accrual loans	15,517	17,570
Loans past due 90 days and still accruing:		
Commercial & industrial	125	106
Commercial mortgage	764	-
Residential mortgage	12	77
Automobile	88	41
Other consumer[1]	1,078	866
Total loans past due 90 days and still accruing	2,067	1,090
Total nonperforming loans	17,584	18,660
Restructured loans:		
Accruing loans	$ 32,500	$ 32,595
Non-accruing loans (included in nonaccrual loans above)	4,778	6,083
Total restructured loans	$ 37,278	$ 38,678

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

The above table indicates that nonperforming loans decreased by $1.1 million during the three months ended March 31, 2022, which resulted from the decrease in total non-accrual loans by $2.1 million, from $17.6 million to $15.5 million. The decrease in total non-accrual loans were due to the decreases of $1.6 million in commercial mortgage, $298 thousand in commercial & industrial loans, and $123 thousand in residential mortgage loans. These decreases were partially offset by the $977 thousand increase in total loans past due 90 days and still accruing from $1.1 million to $2.1 million. The increases were $764 thousand in commercial mortgage loans, $212 thousand in other consumer loans, $47 thousand in automobile, and $19 thousand in commercial & industrial loans, partially offset by the decrease of $65 thousand in residential loans.

At March 31, 2022, the Bank’s largest nonperforming loans are five commercial mortgage loans totaling $6.1 million from five relationships of $3.22 million, $939 thousand, $795 thousand, $642 thousand and $467 thousand, respectively, and one commercial & industrial loan relationship totaling $6.9 million. These loans were placed on non-accrual due to deficiencies in the underlying cash flow to service the monthly loan payments and meet operating expenses. At this time, management believes that the collateral and the allocated allowance for loan losses is adequate to cover these loans; however, should property values deteriorate, additional write-downs or additional provisions may be necessary.

Analysis of Allowance for Loan Losses

The allowance for loan losses was $35.1 million, or 2.65% of outstanding gross loans, as of March 31, 2022, as compared to $34.4 million, or 2.60% of outstanding gross loans, at December 31, 2021.

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

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

- Management's evaluation of the collectability of the loan portfolio;
- Historical loss experience in the loan portfolio;
- Levels of and trends in delinquency, classified assets, non-performing and impaired loans;
- Effects of changes in underwriting standards and other changes in lending policies, procedures and practices;
- Experience, ability, and depth of lending management and other relevant staff;
- Local, regional, and national trends and conditions, including industry-specific conditions;
- The effect of changes in credit concentration; and
- External factors such as competition, legal and regulatory conditions, as well as typhoons, pandemics such as COVID-19 and other natural disasters.

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

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

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

	Commercial	Residential Mortgages	Consumer	Total
	(Dollars in thousands)			
Three Months Ended March 31, 2022				
Allowance for loan losses:				
Balance at beginning of period	$ 22,860	$ 2,304	$ 9,244	$ 34,408
Charge-offs	(190)	-	(1,159)	(1,349)
Recoveries	102	1	498	601
Provision	310	164	951	1,425
Balance at end of period	$ 23,082	$ 2,469	$ 9,534	$ 35,085
Allowance balance at end of period related to:				
Loans individually evaluated for impairment	$ 3,508	$ 39	$ 1,136	$ 4,683
Loans collectively evaluated for impairment	19,574	2,430	8,398	30,402
Ending balance	$ 23,082	$ 2,469	$ 9,534	$ 35,085
Loan balances at end of period:				
Loans individually evaluated for impairment	$ 10,973	$ 38,287	$ 1,350	$ 50,610
Loans collectively evaluated for impairment	1,005,757	103,063	165,793	1,274,613
Ending balance	$ 1,016,730	$ 141,350	$ 167,143	$ 1,325,223
Three Months Ended March 31, 2021				
Allowance for loan losses:				
Balance at beginning of period	$ 21,213	$ 1,990	$ 11,602	$ 34,805
Charge-offs	(77)	(4)	(1,514)	(1,595)
Recoveries	124	-	474	598
Provision	1,259	210	1,006	2,475
Ending balance	$ 22,519	$ 2,196	$ 11,568	$ 36,283
Allowance balance at end of period related to:				
Loans individually evaluated for impairment	$ 3,502	$ 1	$ 1,578	$ 5,081
Loans collectively evaluated for impairment	19,017	2,195	9,990	31,202
Ending balance	$ 22,519	$ 2,196	$ 11,568	$ 36,283
Loan balances at end of period:				
Loans individually evaluated for impairment	$ 60,538	$ 2,349	$ 1,716	$ 64,603
Loans collectively evaluated for impairment	1,053,915	127,159	182,930	1,364,004
Ending balance	$ 1,114,453	$ 129,508	$ 184,646	$ 1,428,607
Year Ended December 31, 2021				
Allowance for loan losses:				
Balance at beginning of year	$ 21,213	$ 1,990	$ 11,602	$ 34,805
Charge-offs	(115)	(99)	(4,736)	(4,950)
Recoveries	578	1	1,824	2,403
Provision	1,184	412	554	2,150
Ending balance	$ 22,860	$ 2,304	$ 9,244	$ 34,408
Allowance balance at end of year related to:				
Loans individually evaluated for impairment	$ 3,510	$ 50	$ 941	$ 4,501
Loans collectively evaluated for impairment	19,350	2,254	8,303	29,907
Ending balance	$ 22,860	$ 2,304	$ 9,244	$ 34,408
Loan balances at end of year:				
Loans individually evaluated for impairment	$ 48,459	$ 2,265	$ 1,059	$ 51,783
Loans collectively evaluated for impairment	970,825	135,343	163,370	1,269,538
Ending balance	$ 1,019,284	$ 137,608	$ 164,429	$ 1,321,321

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

The Bank has two significant borrowing relationships in bankruptcy totaling $10.1 million at March 31, 2022. The Bank has calculated a specific reserve within the allowance for one of the borrowing relationships in bankruptcy in the amount of $3.5 million. In March 2022, a court ruling increased the availability of assets for one of the borrowing relationships in bankruptcy to satisfy its outstanding liabilities. The Bank believes it has sufficient collateral coverage to protect its current exposure in these matters, however due to the complexities of the bankruptcy cases and uncertainties surrounding ongoing negotiations, the ultimate outcomes may result in losses.

Total Cash and Cash Equivalents

Total cash and cash equivalents were $448.4 million and $557.4 million at March 31, 2022 and December 31, 2021, respectively. The decrease is the result of the disbursement of various funds received from the CARES Act. This balance, which is comprised of cash and due from bank balances and interest-bearing deposits that we maintain at other financial institutions (including the Federal Reserve Bank of San Francisco, but excepting restricted cash), will vary depending on daily cash settlement activities, the amount of highly liquid assets needed based on known events such as the repayment of borrowings and scheduled withdrawals, and actual cash on hand in the Bank’s branches.

The following table sets forth the composition of our cash and cash equivalent balances at March 31, 2022 and December 31, 2021:

	March 31, 2022	December 31, 2021	Variance
Cash and due from banks	$ 43,100	$ 36,660	$ 6,440
Interest-bearing deposits with financial institutions	405,337	520,743	(115,406)
Total cash and cash equivalents	$ 448,437	$ 557,403	$ (108,966)

Investment Securities

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

At March 31, 2022, the carrying value of the investment securities portfolio (excluding ASC Trust LLC stock and Federal Home Loan Bank stock) totaled $848.5 million, which represents a $36.8 million increase from the portfolio balance of $811.7 million at December 31, 2021. The table below sets forth the amortized cost and fair value of our investment securities portfolio, with gross unrealized gains and losses, at March 31, 2022 and December 31, 2021:

	March 31, 2022			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Securities Available-for-Sale				
U.S. government agency and government sponsored enterprise (GSE) debt securities	$ 114,969	$ -	$ (11,694)	$ 103,275
U.S. government agency pool securities	29,066	12	(260)	28,818
U.S. government agency or GSE residential mortgage-backed securities	423,117	-	(27,155)	395,962
Total	$ 567,152	$ 12	$ (39,109)	$ 528,055
Securities Held-to-Maturity				
U.S. government agency and government sponsored enterprise (GSE) debt securities	$ 276,468	$ -	$ (30,684)	$ 245,784
U.S. government agency pool securities	2,386	6	(64)	2,328
U.S. government agency or GSE residential mortgage-backed securities	41,627	35	(2,545)	39,117
Total	$ 320,481	$ 41	$ (33,293)	$ 287,229

	December 31, 2021			
	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	$ 114,969	$ -	$ (4,007)	$ 110,962
U.S. government agency pool securities	21,106	2	(247)	20,861
U.S. government agency or GSE residential mortgage-backed securities	369,419	1,957	(3,833)	367,543
Total	$ 505,494	$ 1,959	$ (8,087)	$ 499,366
Securities Held-to-Maturity				
U.S. government agency and government sponsored enterprise (GSE) debt securities	$ 276,188	$ -	$ (1,621)	$ 274,567
U.S. government agency pool securities	3,028	8	(45)	2,991
U.S. government agency or GSE residential mortgage-backed securities	33,078	105	(369)	32,814
Total	$ 312,294	$ 113	$ (2,035)	$ 310,372

At March 31, 2022 and December 31, 2021, investment securities with a carrying value of $682.9 million and $558.8 million, respectively, were pledged to secure various government deposits and other public requirements.

The amortized cost and fair value of investment securities by contractual maturity at March 31, 2022 and December 31, 2021, follows:

	March 31, 2022			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$ 26	$ 26	$ -	$ -
Due after one but within five years	6,954	6,916	1,709	1,691
Due after five but within ten years	158,847	146,421	61,833	56,368
Due after ten years	401,325	374,692	256,939	229,170
Total	$ 567,152	$ 528,055	$ 320,481	$ 287,229

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

Temporarily Impaired Securities

The following table shows the gross unrealized losses and fair value of investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position at March 31, 2022 and December 31, 2021:

	March 31, 2022					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value
Securities Available for Sale						
U.S. government agency and government sponsored enterprise (GSE) debt securities	$ -	$ -	$ (11,694)	$ 103,275	$ (11,694)	$ 103,275
U.S. government agency pool securities	(170)	15,443	(90)	10,055	(260)	25,498
U.S. government agency or GSE residential mortgage-backed securities	(26,475)	389,126	(680)	6,836	(27,155)	395,962
Total	$ (26,645)	$ 404,569	$ (12,464)	$ 120,166	$ (39,109)	$ 524,735
Securities Held to Maturity						
US government agency and sponsored Agencies (GSE) debt securities	$ (15,566)	$ 106,613	$ (15,118)	$ 139,171	$ (30,684)	$ 245,784
U.S. government agency pool securities	(52)	1,303	(12)	106	(64)	1,409
U.S. government agency or GSE residential mortgage-backed securities	(2,514)	28,677	(31)	281	(2,545)	28,958
Total	$ (18,132)	$ 136,593	$ (15,161)	$ 139,558	$ (33,293)	$ 276,151

	December 31, 2021					
	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	$ (2,824)	$ 82,145	$ (1,183)	$ 28,817	$ (4,007)	$ 110,962
U.S. government agency pool securities	(71)	5,127	(176)	14,743	(247)	19,870
U.S. government agency or GSE residential mortgage-backed securities	(3,833)	290,573	-	-	(3,833)	290,573
Total	$ (6,728)	$ 377,845	$ (1,359)	$ 43,560	$ (8,087)	$ 421,405
Securities Held to Maturity						
U.S. government agency and government sponsored enterprise (GSE) debt securities	$ (1,395)	$ 159,840	$ (226)	$ 114,726	$ (1,621)	$ 274,566
U.S. government agency pool securities	(37)	1,507	(8)	403	(45)	1,910
U.S. government agency or GSE residential mortgage-backed securities	(362)	28,498	(7)	529	(369)	29,027
Total	$ (1,794)	$ 189,845	$ (241)	$ 115,658	$ (2,035)	$ 305,503

The Company does not believe that any of the investment securities that were in an unrealized loss position as of March 31, 2022, which included a total of 221 securities, were other-than-temporarily impaired. Specifically, the 221 securities were comprised of 34 Small Business Administration Pool securities, 26 agency securities issued by Federal Home Loan Bank (FHLB), 33 mortgaged-backed securities and 19 agency securities issued by Federal Home Loan Mortgage Corporation (FHLMC), 71 mortgaged-backed securities and 1 agency security issued by Federal National Mortgage Association (FNMA), 19 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 interest rates relative to when the investment securities were purchased, and not due to changes in the credit quality of the investment securities. The Bank does not intend to sell the investment securities that are in an unrealized loss position and it is not likely that, except as needed to fund our liquidity position, the Bank will be required to sell the investment securities before recovery of their amortized cost bases, which may be at maturity.

Deposits

At March 31, 2022, total deposit liabilities decreased by $38.6 million from $2.53 billion at December 31, 2021. Non-interest bearing deposits decreased by $99.2 million, to $882.3 million at March 31, 2022, compared to $981.5 million at December 31, 2021, and interest bearing deposits increased by $60.6 million, to $1.61 billion at March 31, 2022, from $1.55 billion at December 31, 2021. The 1.52% decrease in total deposits was primarily due to the disbursement of funds from various COVID-19 federal relief programs.

The following table sets forth the composition of our interest-bearing deposit portfolio with the balances and average interest rates at March 31, 2022 and December 31, 2021, respectively:

	March 31, 2022		December 31, 2021	
	Balance	Average rate	Balance	Average rate
Interest-bearing checking accounts	$ 401,835	0.01%	$ 401,753	0.03%
Savings accounts	1,185,632	0.01%	1,123,499	0.03%
Certificates of deposit	24,870	0.06%	26,442	0.12%
Total interest-bearing deposits	$ 1,612,337	0.01%	$ 1,551,694	0.03%

As mentioned earlier, the Bank has expanded its operations and its branch network since it first opened in 1972, first in Guam, then in the other islands of our region and in San Francisco, California. As time has passed, the Bank has gathered market share in each of the islands. In recent years, in order to diversify its geographic market, the Bank has increased its focus on growth in the California region. The following table provides figures for deposits in the Bank's administrative regions at March 31, 2022 and December 31, 2021:

	March 31, 2022	December 31, 2021
Guam	$ 1,417,580	$ 1,386,314
Commonwealth of the Northern Mariana Islands	475,630	529,750
The Freely Associated States of Micronesia	551,325	557,444
California	50,118	59,723
Total	$ 2,494,653	$ 2,533,231

During the three months ended March 31, 2022, the Bank's deposits decreased by $38.6 million (1.5%) to $2.49 billion compared to December 31, 2021. During this period the decrease in our deposits were in our CNMI branches by $54.1 million, California region by $9.6 million, and FAS branches by $6.1 million. These decreases were partially offset by the increase in our Guam branches by $31.3 million.

Borrowed Funds

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

On June 29, 2021, the Company issued $20.0 million of its 4.75% Fixed-to-Floating Rate Subordinated Notes, due July 1, 2031 (the "2031 Notes"). The 2031 Notes are intended to qualify as Tier 2 capital for regulatory capital purposes for the Company. 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 SOFR plus 413 basis points. On July 6, 2021, with the approval of the Federal Reserve Bank of San Francisco, the Company used $6.2 million of the proceeds from the 2031 Notes to acquire an additional 25% of the stock of ASC Trust LLC at the third and final closing pursuant to the 2016 Stock Purchase Agreement between the Company and David J. John. The Company intends to use the remainder of the proceeds from the 2031 Notes for general corporate purposes.

On June 27, 2019, the Company issued $15.0 million of its 6.35% Fixed-to-Floating Rate Subordinated Notes, due June 30, 2029 (the "2029 Notes"). The 2029 Notes are intended to qualify as Tier 2 capital for regulatory capital purposes for the Company. The 2029 Notes have a ten-year term and initially bear interest at a fixed annual rate of 6.35%. Beginning June 30, 2024, the interest rate will reset quarterly to the then-current three-month LIBOR plus 466 basis points. On July 1, 2019, with the approval of the Federal Reserve Bank of San Francisco, the Company used $4.1 million of the proceeds from the 2029 Notes to acquire an additional 20% of the stock of ASC Trust LLC at the second closing pursuant to the 2016 Stock Purchase Agreement between the Company and David J. John. On July 5, 2019, $10.0 million of the balance of the proceeds from the 2029 Notes was also used to purchase ten (10) shares of Series B Common Stock from the Bank, with a par value of $1.0 million per share, to support the Bank's strategic growth.

At March 31, 2022 and at December 31, 2021, the Company had no short-term borrowings.

Liquidity

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

At March 31, 2022, our liquid assets, which include cash and due from banks, interest-earning deposits with financial institutions (excluding restricted cash), and investment securities available-for-sale totaled $976.5 million, down $80.3 million from $1.06 billion at December 31, 2021. This decrease is comprised of a $115.4 million decrease in interest bearing deposits in banks, partially offset by a $28.7 million increase in investment securities available-for-sale, and a $6.4 million increase in cash and due from banks.

Management believes we have sufficient cash to meet the demands of the distribution of funds under the CARES Act. However, we will monitor our vault cash on a daily basis, and if the need arises we will acquire additional cash by drawing down our deposits with other financial institutions, including the Federal Bank of San Francisco.

Contractual Obligations

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

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

	Operating Leases (a)	**Total**
2022	$ 1,733	$ 1,733
2023	2,022	2,022
2024	1,910	1,910
2025	1,778	1,778
2026	1,544	1,544
After 2026	33,218	33,218
Total lease payments	42,205	42,205
Less: Interest (b)	21,040	21,040
Present value of lease liabilities (c)	$ 21,165	$ 21,165

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 $19.0 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 $1.5 million for operating leases.

The Bank leases certain facilities from two separate entities in which two of its directors have separate ownership interests. Lease payments made to these entities during the three months ended March 31, 2022 and 2021, approximated $65 thousand and $62 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 March 31, 2022, minimum future rents to be received under non-cancelable operating sublease agreements were $31 thousand, and $26 thousand for the periods ending December 31, 2022, and 2023, respectively.

A summary of rental activities for the three months ended March 31, 2022, respectively, is as follows:

	Three Months Ended March 31,	
	2022	2021
Rent expense	$ 968	$ 1,025
Total rent expense	$ 968	$ 1,025

Off Balance Sheet Arrangements

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

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

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

	March 31, 2022	December 31, 2021
Commitments to extend credit	$ 165,064	$ 162,569
Letters of credit:		
Standby letters of credit	$ 48,890	$ 43,239
Commercial letters of credit	2,048	2,366
Total	$ 50,938	$ 45,605

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

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

The Bank considers its standby and commercial letters of credit to be guarantees. At March 31, 2022, the maximum undiscounted future payments that the Bank could be required to make was $50.9 million. Almost all of these arrangements mature within one year. The Bank generally has recourse to recover from the customer any amounts paid under these guarantees. Most of the guarantees are fully collateralized; however, several that are extended to the Bank's most creditworthy customers are unsecured. The Bank has recorded $50 thousand in reserve liabilities associated with commitments to extend credit and letters of credit at March 31, 2022.

Mortgage loans serviced for others are not included in the accompanying condensed consolidated statements of financial condition. The unpaid principal balances of mortgage loans serviced for others were $177.4 million and $181.1 million at March 31, 2022 and December 31, 2021, respectively. At March 31, 2022, and December 31, 2021, the Bank's mortgage servicing rights each totaled $1.6 million.

Capital Resources

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

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

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

The Company's required and actual capital amounts and ratios as of March 31, 2022 and December 31, 2021, were as follows:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
At March 31, 2022:						
Total capital (to Risk Weighted Assets)	$ 225,236	15.038%	$ 119,819	8.000%	$ 149,773	10.000%
Tier 1 capital (to Risk Weighted Assets)	$ 171,365	11.442%	$ 89,864	6.000%	$ 119,819	8.000%
Tier 1 capital (to Average Assets)	$ 171,365	6.165%	$ 111,184	4.000%	$ 138,980	5.000%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	$ 161,582	10.788%	$ 67,398	4.500%	$ 97,353	6.500%
At December 31, 2021:						
Total capital (to Risk Weighted Assets)	$ 222,493	15.161%	$ 117,403	8.000%	$ 146,753	10.000%
Tier 1 capital (to Risk Weighted Assets)	$ 168,623	11.490%	$ 88,052	6.000%	$ 117,403	8.000%
Tier 1 capital (to Average Assets)	$ 168,623	5.792%	$ 116,461	4.000%	$ 145,577	5.000%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	$ 158,840	10.824%	$ 66,039	4.500%	$ 95,390	6.500%

Since the formation of BankGuam Holding Company in 2011, our assets have grown by 147.2% ($1.6 billion), while our stockholders' equity has increased by 77.7 % ($69.0 million, including $83.9 million in retained earnings). The growth in equity has contributed to help keep the capital ratios to be well above the well capitalized standards.

The Bank received a large influx of deposits from the federal relief programs due to the COVID-19 pandemic, resulting in the growth of its balance sheet as compared to 2020. As of March 31, 2022, approximately $164.1 million in COVID related funds have yet to be disbursed. Although the Bank's average assets decreased at March 31, 2022 to $2.78 billion from $2.91 billion in December 31, 2021, the growth resulting from the receipt of COVID funds has put pressure on its ratio of Tier 1 capital to average assets. Management believes that the Bank has the capacity to absorb the growth in total assets, and the tools needed to move deposits off its balance through its Trust services to continue to be above the well capitalized standards under the regulatory framework for prompt corrective action.

Reverse Stock Split

On April 12, 2022, the Company's Board of Directors approved a 1-for-500 reverse stock split of the Company's common stock, which remains subject to shareholder approval and the receipt of regulatory approvals. If the reverse stock split is effected, shareholders of the Company who own fewer than 500 shares of the Company's common stock will receive a cash payment in lieu of a fraction of a share, and will no longer be shareholders of the Company. Shareholders holding 500 or more shares of the Company's common stock will remain shareholders after the reverse stock split, and will also be entitled to receive a cash payment in lieu of receiving a fraction of a share. The Board of Directors determined that $14.75 per share outstanding prior to the reverse stock split would be a fair price to pay for shares that will be canceled in lieu of issuing a fraction of a share in connection with the reverse stock split. The Board of Directors has reserved the right to abandon the reverse stock split at any time if it believes the reverse stock split is no longer in the Company's best interests. If effected, the Company estimates that the aggregate amount of cash that would be payable to shareholders in lieu of fractional shares as a result of the reverse stock split would be approximately $8.8 million, which would be paid by the Company out of cash on hand.

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, to replace the Company's 2001 Non-Statutory Stock Option Plan. This plan was subsequently adopted by the Company after the reorganization. The 2011 Plan is open to all employees of the Company and its subsidiaries 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 stock is granted to eligible employees during a quarterly offer period that is established from time to time by the Board of Directors of the Company. Eligible employees cannot accrue the right to purchase more than $25 thousand worth of stock at the fair market value at the beginning of each offer period. Eligible employees also may not purchase more than one thousand five hundred (1,500) shares of stock in any one offer period. The shares are purchased at 85% of the fair market price of the stock on the enrollment date.

In April 2022, the Company suspended the Employee Stock Purchase Plan in connection with the Company's plans to implement a 1-for-500 reverse stock split, which remains subject to the approval of stockholders and the receipt of regulatory approvals.

Contingency Planning and Cybersecurity

The Bank has developed a comprehensive business continuity plan to manage disruptions that affect customers or internal processes, whether caused by man-made or natural events. In modern banking, technology has taken on an increasingly important role, and the Bank also has a technology recovery component incorporated into the business continuity plan that provides procedures for recovering from a technology failure. The technology recovery procedures are tested and implemented from time to time. The recovery time objectives for the Bank's major technological processes range from eight hours to 80 hours, with the goal of enabling the Bank to maintain or resume operations with a minimum impact on its customers. As the results of testing are analyzed and as technology continues to advance, improvements are made in the Bank's processes and procedures as the plan evolves, although there can be no assurance that business disruption or operational losses will not occur.

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

Item 4. Controls and Procedures

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

As required by Rules 13a-15(e) and 15d-15(e) under the Exchange Act, in connection with the filing of this Quarterly Report on Form 10-Q, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2022. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2022, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's Rules and forms and is accumulated and communicated to management, including our Chief Executive and Chief Financial Officers, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended March 31, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibit No.	Exhibit
31.01	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.02	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32.01	Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

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

BANKGUAM HOLDING COMPANY

Date: May 12, 2022	By: /s/ JOAQUIN P.L.G. COOK Joaquin P.L.G. Cook, President and Chief Executive Officer
Date: May 12, 2022	By: /s/ SYMON A. MADRAZO Symon A. Madrazo, Senior Vice President and Chief Financial Officer

Exhibit 31.01

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

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

1. I have reviewed this Quarterly Report on Form 10-Q of BankGuam Holding Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 12, 2022

/s/ JOAQUIN P.L.G. COOK
Joaquin P.L.G. Cook
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.02

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

I, Symon A. Madrazo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BankGuam Holding Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 12, 2022

/s/ SYMON A. MADRAZO
Symon A. Madrazo
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.01

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

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

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

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of BankGuam Holding Company.

Date: May 12, 2022

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

Date: May 12, 2022

By: /s/ SYMON A. MADRAZO
Symon A. Madrazo
Senior Vice President and Chief Financial Officer