Bank of Guam

2005

ANNUAL REPORT

CONTENTS

FINANCIAL HIGHLIGHTS

[$ in thousands, except share data]

At December 31st	2005	2004	Change in Amount	Change in %	2003
Total assets	$ 794,728	$ 749,885	$ 44,843	6.0%	$ 704,628
Total deposits	$ 709,079	$ 668,657	$ 40,422	6.0%	$ 623,121
Net loans	$ 401,130	$ 385,989	$ 15,141	3.9%	$ 358,048
Reserve for loan losses	$ 8,655	$ 8,666	$ (11)	-0.1%	$ 7,807
Investment securities	$ 294,468	$ 236,465	$ 58,003	24.5%	$ 247,741
Common stockholders' equity	$ 69,635	$ 66,924	$ 2,711	4.1%	$ 64,851
Net income (loss)	$ 7,133	$ 6,505	$ 628	9.7%	$ (17,280)
Cash dividends declared					
Common stock	$ 4,287	$ 4,280	$ 7	0.2%	$ 4,274
PER SHARE					
Net income (loss) per common share - basic	$ 0.83	$ 0.76	$ 0.07	9.2%	$ (2.02)
Net income (loss) per common share - diluted	$ 0.81	$ 0.74	$ 0.07	9.5%	$ (1.97)
Cash dividends declared: common stock	$ 0.50	$ 0.50	$ -	0.0%	$ 0.50
Book value per common share					
(9,973,977 shares issued/8,580,216 shares outstanding)	$ 8.12	$ 7.81	$ 0.31	4.0%	$ 7.58

CASH DIVIDENDS DECLARED PER QUARTER	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Total/Yr.
2005 Common Stock	$ 0.125	$ 0.125	$ 0.125	$ 0.125	$ 0.50
2004 Common Stock	$ 0.125	$ 0.125	$ 0.125	$ 0.125	$ 0.50

CORPORATE INFORMATION

ANNUAL MEETING
The 2006 annual meeting of stockholders will be held at 7:00PM on Monday, May 1, 2006, in the Bank's Hagåtña Branch in its Headquarters Building.

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Tel: (671) 477-7829

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Arriola, Cowan & Arriola
P.O. Box X
Hagåtña, Guam 96932
Tel: (671) 477-9731

STOCKS
The shares of the Bank were voluntarily delisted from the Archipelago Exchange in August 2004. They are now traded privately among individual stockholders and investors. The stock prices of such trades vary with each transaction and are negotiated between each purchaser and seller.

The Bank of New York is the Registrar, Stock Transfer and Dividend Disbursing Agent for Bank of Guam's common stock, with duties that include: stock transfers, dividend payments, address changes and lost certificate replacements.

The Bank of New York Company, Inc.
One Wall Street • New York, NY 10286
Tel: (212) 495-1784
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OTHER FINANCIAL SERVICES
Bank of Guam Trust Services*
Headquarters Building • 6th Floor
111 Chalan Santo Papa
Hagåtña, Guam 96910
Tel: (671) 472-5743 • Fax: (671) 472-5527

Bank of Guam Financial Services*/PrimeVest®
Headquarters Building • 6th Floor
111 Chalan Santo Papa
Hagåtña, Guam 96910
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MEMBER
Federal Deposit Insurance Corporation
American Bankers Association
Guam Bankers Association
California Bankers Association
Western States Bankcard Association
Saipan Bankers Association

GOVERNMENT SUPERVISION
Federal Deposit Insurance Corporation
Guam Banking Commission
California Superintendent of Banks
Commonwealth of the Northern Mariana Islands
Department of Commerce
Federated States of Micronesia Banking Board
Republic of Palau Financial Institutions Commission
Republic of the Marshall Islands Banking Commission

*Investment, trust and insurance services offered by Bank of Guam are (1) not insured by the Federal Deposit Insurance Corporation, any government agency, or any other deposit insurance program; (2) not deposits with, obligations of, or guaranteed by Bank of Guam; and (3) subject to investment risk, including possible loss of the principal amount invested.

MESSAGE TO STOCKHOLDERS

Hafa Adai and Greetings from Bank of Guam!

As you may know, the most notable event affecting our Bank in 2005 was the passing of our President and Chairman of the Board, Anthony A. Leon Guerrero. Tony's departure was truly a loss for the Bank, just as it was for his family and the community. We will all miss his creativity and his personality, but his pervasive influence on Bank of Guam will live on.

One of the lasting accomplishments that Tony made for the Bank was the formation of an excellent management team. Despite his absence during his extended illness, Tony's senior management group carried the Bank forward, growing both our resources and our profitability in an increasingly complex banking environment. I believe that we all owe a debt of gratitude to our Bank of Guam management team – they have successfully brought our organization through some very difficult times and kept the Bank on a very solid footing in preparation for the recent acceleration in the economies of our regional market.

With regard to the Bank's performance, it has become abundantly clear that Guam's economy and the other economies of the region are improving. In Guam, we are seeing a strong recovery in visitor arrivals, resurgence in military activity and a rebound in real estate prices. We are also seeing modest growth in payroll employment with continuing relative price stability. As a direct result of these factors, our deposit base grew last year by $40.4 million (6.0%), to $709.1 million. As a more favorable business environment returns, we are also seeing a decline in loan delinquencies and higher credit quality among new loan applications. This has given us the confidence and level of comfort to increase our loan portfolio, which grew by $15.1 million (3.8%) during 2005, ending the year at $409.8 million. While we continue to be very conservative in terms of the risk to which we are exposed, we have also continued to seek those opportunities that allow us to profit.

A recovering economy certainly helped to improve our results during the year, raising our net after-tax profit by 9.7%, to $7.1 million, but there are other factors supporting improved performance, too. We have diversified our investment and loan portfolios, including loan participations with banks in the States. This diversification reduces the risk that we face, while simultaneously increasing the yields that we extract from our earning assets. We have also continued to implement some of the most sophisticated technologies in the banking industry today, and will be the first in the 12th Federal Reserve District to fully activate check clearing and item processing through the electronic transmission of document images. Soon, we hope to be the central point for check clearing in Guam and throughout the region, providing additional revenue opportunities at a modest cost.

As you would expect, Bank of Guam's capitalization remains very strong. By every measure, we are "well capitalized" by regulatory standards, maintaining capitalization ratios that were greater than 150% of those required for the highest rating. Even so, we are also able to distribute generous dividends to you, our stockholders, because of a long-standing com-

FRONT & CENTER: Lourdes (Lou) A. Leon Guerrero (President & Chair of the Board; LEFT TO RIGHT: Francisco M. Atalig (VP/Chief Financial Officer), Jocelyn B. Miyashita (VP/Credit Administrator), Jacqueline A. Marati (VP/Human Resources & Marketing Administrator), William D. Leon Guerrero (Executive Vice President/Chief Operating Officer), and Josephine L. Mariano (VP/Branch & Central Operations Administrator); BACK ROW/LEFT TO RIGHT: Ernest P. Villaverde (VP/Information Management Systems Administrator), Danilo M. Rapadas (VP/Legal Counsel & Compliance Officer), and Joseph P. Bradley (VP/Trust and Economic & Market Statistics Officer).

mitment to which we still adhere: we seek a balance between income and capital gains for our stockholders, and still pay a $0.50 annual dividend to each individual share, for a total of $4.3 million last year. This is another measure of our continuing success.

In keeping with the sense of balance in our business, we never neglect a significant element of the Bank of Guam philosophy: As always, we are closely involved with the communities that we serve. Our support for the University of Guam Professional MBA program includes the opening of our training facilities to present the curriculum, and we enroll two of our mid-level managers in every session. After all, it has always been our Bank's objective to develop an educated labor force for our own benefit and the benefit of the entire community. In 2005, we were the highest contributor to the American Cancer Society's annual "Relay for Life." We provide facilities and staff for the island's Junior Achievement program. We provide space and accounting expertise to assist in the review and assessment of the International Reading Association's annual program. We also grant financial and accounting support to the annual Liberation Day fundraising activities. Probably most important of all, we send our most qualified employees to teach younger children to save and older youth how to obtain and maintain a favorable credit rating as part of a national American Bankers Association program.

On the subject of employees and teaching, it is important to note that we have integrated a comprehensive training program into the Bank's budget. While many firms concentrate on giving their personnel the skills necessary to do their jobs, Bank of Guam goes well beyond that. As part of our business philosophy, we provide our staff the opportunity to expand their capabilities beyond their day-to-day tasks. We have devoted more than $200 thousand annually to giving our employees advanced skills and knowledge in banking and in related areas that will serve them in their career paths within the Bank or in any other pursuit that they choose. This system of personal enrichment and job enhancement is yet another aspect of the overall benefits package that Bank of Guam provides to its employees, another part of what is perhaps the best benefits system offered by any employer in the region. Although we may lose some of that investment as a few of our employees move to other firms, it allows us to retain some of the best personnel available anywhere in the banking industry.

I hope that this message has given you further insight into the internal workings of our Bank, our performance and the way that we do business. I also hope that I have been able to impress upon you that Bank of Guam is still the innovative and progressive organization that you have come to expect over the past 34 years, and that we intend to carry on with the fundamental approach to business that my father established so many years ago.

Growing up in the Jesus S. Leon Guerrero family, I was exposed to the Bank's philosophy on a regular basis. Taking over at the helm of the Bank as President and Chair of the Board, I bring with me extensive experience from other leadership roles, both in the health care industry and as a member of the Guam Legislature for five terms. I also know the Bank thoroughly; I have spent more than ten years as a member of the Board of Directors, where I have gained a detailed perspective on our continuing strategy and the operations of every aspect of the business. I want to assure you that I will continue the legacy established by my father and Tony, and that I am prepared to move Bank of Guam to greater heights.

I want to thank you for your continued confidence in the Bank, its management and staff, and the work that we do. Without you, our stockholders, our decades of success would be a hollow victory. Without you and your support for our goals, none of our efforts would be worthwhile.

Si yu`us ma`as`e,

Lou Leon Guerrero

Lourdes (Lou) A. Leon Guerrero
PRESIDENT & CHAIR OF THE BOARD

In Memoriam…

"I have fought a good fight. I have finished my course.
I have kept the faith. How beautiful life was to me…"

Anthony A. Leon Guerrero

President and
Chairman of the Board
June 19, 1952 to October 9, 2005

It's not the destination… It's the journey!

In Memoriam...

Felino B. Amistad
Founding Board Member
June 1, 1920 to May 18, 2005

Alexander J. Aflague
March 10, 1926 to January 8, 2005

Jeanne M. Reksid-San Nicolas
February 12, 1967 to October 19, 2005

Derence W. Jack
November 17, 1973 to October 31, 2005

Sumina S. Sonis
April 17, 1972 to October 11, 2005

STRONGER *Together* Our Employees

2005

2005 was a life-changing year for the Bank of Guam family. Our sadness at the passing of our President and Chairman of the Board, Tony Leon Guerrero was deepened by the deaths of some of our most memorable employees and a founding Board member. Felino Amistad, a founding Board member passed away on May 18th. Alex Aflague, a long time Bank of Guam employee known for his dashing white attire and dancing abilities died on January 8th. Jeanne Reksid-San Nicolas, only 37 years old and with the Bank for 17 years, succumbed to cancer after a long illness. We received news of the death of Derence Jack of our Saipan branch, who was killed in Iraq. And finally, Sumina Sonis from our Chuuk branch died giving birth.

The strength of our culture and deeply-held traditions have helped each and every one of us to grieve together, to cry together and to pray together. As each of these deaths touched us, just a little bit of our hearts left with each passing. And as the news of each loss was received, the inevitability of our mortality became more real, and the value of time even more urgent.

And so we dedicate this 2005 Annual Report to our employees and their families, without whom this organization could not have become the Bankon Ifit it is.

Welcome Home salute by the Guam International Airport on the arrival of the late Anthony A. Leon Guerrero.

STRONGER *Together*

OUR EMPLOYEES AND THEIR FAMILIES...

"Healthy for Life" is a Bank of Guam program which emphasizes the importance of nutrition and physical fitness. The photos on this page are from an Employee 5K Run/Walk, which is a quarterly event under this program. Awards at the 5K include most par-ticipation from a branch or department, and most spirited.

The Bank of Guam hosts numerous social events celebrating employees and their families, from the traditional Easter Egg Hunt (ABOVE) to our annual Christmas Party (LEFT & DIRECTLY BELOW). Socializing with each other, as well as with our families, is important to strengthening our Bank of Guam family.

(ABOVE & BELOW) Customer service is a critical component in the Bank's ongoing effort to live "The People's Bank" motto.

(RIGHT) Palau Branch employees get together for a group photo with Wayne Santos, far left, Vice President & Branch Manager.

STRONGER *Together*

OUR EMPLOYEES AT WORK...

(LEFT) Weekly meetings are an important element of regular communications among Bank staff and officers.

(RIGHT) Chuuk Branch team, in their unique island uniform, pose with Joanne Akinaga (second from right), Branch Manager.

(BELOW) As part of our ongoing employee recognition program, 5-Year Service Award Winners

(ABOVE, RIGHT) Dina San Nicolas, AVP/Branch Manager (in red) proudly shows off her Mangilao Branch staffers.

STRONGER *Together*

OUR EMPLOYEES IN THE COMMUNITY...

(LEFT&BELOW)Dozens of Bank of Guam employees regularly volunteer for the Make-A-Wish Foundation's Kites for Wishes Festival, assisting in ticket sales and logistics.

(ABOVE LEFT) The Pacific Islands Club International 5K/10K and Half Marathon event featured employees cheering runners and staffing a water station for international and local racers.

(ABOVE) Bank of Guam Officers act as mentors in the Big Brothers Big Sisters of Guam project to team role models with young adults.

(BELOW) Area high school student winners contribute to the 2006 Bank of Guam Calendar by competing for cash prizes and a chance for the selected photos to be featured in the 12,000 copies printed by the Bank and given to customers.

(ABOVE) 2005 Relay for Life, the largest community fundraiser for the American Cancer Society, saw Bank of Guam leading all corporate teams in its cash donation to this cause.

INDEPENDENT AUDITORS' REPORT

Deloitte.

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To the Board of Directors and Shareholders
of the Bank of Guam:

We have audited the accompanying consolidated statements of condition of Bank of Guam and its subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income (loss), comprehensive income (loss), changes in stockholder's equity and cash flows for each of the three years ended December 31, 2005. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bank of Guam and its subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 17, 2006

Member of
Deloitte Touche Tohmatsu

[In thousands, except par value]

CONSOLIDATED STATEMENTS OF CONDITION

	December 31, 2005	December 31, 2004
Assets		
Cash and due from banks	$ 30,991	$ 40,816
Federal funds sold	17,400	31,950
Interest bearing deposits with banks	7,201	2,202
Total cash and cash equivalents	55,592	74,968
Interest bearing deposits with banks	-	6,000
Investment securities available for sale	200,416	117,610
Investment securities held to maturity	91,854	116,647
Federal Home Loan Bank stock, at cost	2,198	2,208
Loans, net of allowance for loan losses	401,130	385,989
Accrued interest receivable	3,546	3,378
Premises and equipment, net	24,540	24,837
Goodwill	783	783
Other assets	14,669	17,465
	$ 794,728	$ 749,885
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$ 194,262	$ 192,468
Interest bearing	514,817	476,189
Total deposits	709,079	668,657
Accrued interest payable	1,091	524
FHLB advance	10,000	10,000
Long-term borrowing	-	2,000
Other liabilities	4,923	1,780
Total liabilities	725,093	682,961
Commitments and contingencies		
Stockholders' equity:		
Common stock $0.2083 par value; 48,000 shares authorized; 9,974 and 9,959 shares issued and 8,580 and 8,566 shares outstanding at 2005 and 2004, respectively	2,079	2,076
Additional paid-in capital	14,154	14,073
Retained earnings	70,603	67,757
Accumulated other comprehensive loss	(1,870)	(1,651)
	84,966	82,255
Common stock in treasury, at cost (1,394 shares)	(15,331)	(15,331)
Total stockholders' equity	69,635	66,924
	$ 794,728	$ 749,885

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

[In thousands, except per share amounts]

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	Years Ended December 31,		
	2005	2004	2003
Interest income:			
Loans	$ 31,374	$ 28,052	$ 28,557
Investment securities	9,573	7,734	5,800
Federal funds sold	782	269	231
Deposits with banks	209	87	153
Total interest income	41,938	36,142	34,741
Interest expense:			
Time deposits	3,406	1,534	1,380
Savings deposits	2,384	2,049	2,433
Other borrowed funds	458	481	763
Total interest expense	6,248	4,064	4,576
Net interest income	35,690	32,078	30,165
Provisions for loan losses	1,841	2,700	3,150
Net interest income, after provision for loan losses	33,849	29,378	27,015
Non-interest income:			
Service charges and fees	4,605	4,353	4,302
Other income	5,295	5,827	5,937
Total non-interest income	9,900	10,180	10,239
Non-interest expenses:			
Salaries and employee benefits	13,618	13,208	12,997
Occupancy	5,080	4,422	4,477
Furniture and equipment	4,305	3,798	3,354
General, administrative and other	10,188	8,726	11,545
Total non-interest expenses	33,191	30,154	32,373
Income before income taxes	10,558	9,404	4,881
Income tax expense	3,425	2,899	22,161
Net income (loss)	$ 7,133	$ 6,505	$ (17,280)
Earnings (loss) per share:			
Basic	$ 0.83	$ 0.76	$ (2.02)
Diluted	$ 0.81	$ 0.74	$ (1.97)

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

[In thousands]

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,		
	2005	2004	2003
Net income (loss)	$ 7,133	$ 6,505	$ (17,280)
Other comprehensive loss, net of tax effects:			
Unrealized holding loss on available-for-sale securities arising during the period	(336)	(355)	(1,890)
Reclassification for gains realized on available-for-sale securities during the period	-	120	41
Amortization of unrealized holding loss on held-to-maturity securities during the period	117	18	-
Total other comprehensive loss	(219)	(217)	(1,849)
Comprehensive income (loss)	$ 6,914	$ 6,288	$ (19,129)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Years Ended December 31,		
	2005	2004	2003
Common stock:			
Balance at beginning of year (9,959, 9,947 and 9,933 shares, respectively)	$ 2,076	$ 2,073	$ 2,070
Common stock issued to employees (15, 12 and 14 shares issued, respectively)	3	3	3
Balance at end of year (9,974, 9,959 and 9,947 shares, respectively)	2,079	2,076	2,073
Additional paid-in capital:			
Balance at beginning of year	14,073	14,011	13,942
Common stock issued to employees	81	62	69
Balance at end of year	14,154	14,073	14,011
Common stock in treasury (1,394 shares)	(15,331)	(15,331)	(15,331)
Accumulated other comprehensive (loss) income:			
Balance at beginning of year	(1,651)	(1,434)	415
Change in unrealized loss on securities available for sale, net of reclassification adjustment and tax effects	(336)	(235)	(1,849)
Change in unrealized loss on securities held to maturity, net of reclassification adjustment and tax effects	117	18	-
Balance at end of year	(1,870)	(1,651)	(1,434)
Retained earnings:			
Balance at beginning of year	67,757	65,532	87,086
Net income (loss)	7,133	6,505	(17,280)
Cash dividends declared	(4,287)	(4,280)	(4,274)
Balance at end of year	70,603	67,757	65,532
Total stockholders' equity	$ 69,635	$ 66,924	$ 64,851

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

[In thousands]

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2005	2004	2003
Cash flows from operating activities:			
Net income (loss)	$ 7,133	$ 6,505	$ (17,280)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Provision for loan losses	1,841	2,700	3,150
Depreciation and amortization	3,325	3,078	3,068
Accretion (amortization) of fees, discounts and premiums	(2,865)	621	1,625
Writedown and loss on sales of foreclosed assets	833	657	955
Gain from mortgage servicing rights	(720)	-	-
Loss on insurance settlement	52	-	-
Realized gain on sale of available-for-sale securities	-	(120)	(128)
Loss (gain) on disposal of premises and equipment	224	(14)	(5)
Write-off of tax assets due to tax settlement	-	-	4,471
Net change in:			
Accrued interest receivable	(168)	198	(380)
Other assets	1,842	(771)	(695)
Accrued interest payable	567	32	(79)
Other liabilities	3,143	(384)	689
Net cash provided by (used in) operating activities	15,207	12,502	(4,609)
Cash flows from investing activities:			
Net change in interest bearing deposits with banks	6,000	(850)	(5,150)
Purchases of securities available for sale	(441,945)	(200,100)	(443,335)
Proceeds from sales of securities available for sale	-	20,667	90,013
Maturities, prepayments and calls of securities available for sale	361,956	195,302	263,570
Purchases of securities held to maturity	-	(10,181)	-
Maturities, prepayments and calls of securities held to maturity	24,508	4,298	-
Proceeds from FHLB stock redeemed	10	460	7
Loan originations and principal collections, net	(23,715)	(35,829)	(15,411)
Proceeds from sales of loans	7,195	9,207	20,829
Proceeds from sales of foreclosed real estate	73	1,615	237
Additions to foreclosed real estates	(321)	(1,504)	-
Additions to premises and equipment	(2,563)	(1,697)	(668)
Proceeds from sale of premises and equipment	-	25	53
Net cash used in investing activities	(68,802)	(18,587)	(89,855)
Cash flows from financing activities:			
Net increase in deposits	40,422	45,536	38,072
Payment of subordinated debt	(2,000)	(2,000)	(2,000)
Payment of FHLB advances	(5,000)	(5,000)	(5,000)
Proceeds from FHLB advances	5,000	5,000	-
Proceeds from issuance of common stock	84	65	72
Dividends paid	(4,287)	(4,280)	(4,274)
Net cash provided by financing activities	34,219	39,321	26,870
Net change in cash and cash equivalents	(19,376)	33,236	(67,594)
Cash and cash equivalents at beginning of year	74,968	41,732	109,326
Cash and cash equivalents at end of year	$ 55,592	$ 74,968	$ 41,732
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$ 5,681	$ 4,032	$ 4,655
Income taxes	566	3,529	16,299
Supplemental schedule of noncash investing and financing activities:			
Foreclosed assets transferred from loans, net	$ 154	$ 295	$ 1,487
Transfer of foreclosed assets to loans	(616)	(4,314)	(1,385)
Transfer of fixed assets to insurance receivable	-	-	(234)
Transfer of insurance receivable to fixed assets	(689)	-	-
Transfer of securities available for sale to held to maturity	-	110,813	-

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003

Note 1 - Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Bank of Guam (the Bank) and its wholly-owned subsidiaries, BankGuam Properties, Inc. and BankGuam Insurance Underwriters, Ltd. All significant intercompany and interbranch balances and transactions have been eliminated in consolidation.

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

Business

The Bank provides a variety of financial services to individuals, small businesses and governments through its branches. The Bank's headquarters is located in Hagatna, Guam and it operates branches located on 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 and the USA. The Bank currently has twelve branches in Guam, three in the CNMI, two in the FSM, one in the RMI, one in Palau, and one in San Francisco. Its primary deposit products are demand deposits, savings and term certificate accounts and its primary lending products are consumer, commercial and real estate loans.

Risks and Uncertainties

In the normal course of its business, the Bank encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Bank is subject to interest rate risk to the degree that its interest-bearing liabilities mature or re-price at different speeds, or on a different basis, than its interest-earning assets. Incorporated into interest rate risk is prepayment risk. Prepayment risk is the risk associated with the prepayment of assets, and the write-off of premiums associated with those assets, if any, should interest rates fall significantly. Credit risk is the risk of default, primarily in the Bank's loan portfolio that results from the borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of securities, the value of collateral underlying loans receivable and valuation of real estate owned. Credit and market risks can be affected by a concentration of business in the Pacific Rim.

The Bank is subject to the regulations of various government agencies. These regulations may change significantly from period to period. Such regulations can also restrict the growth of the Bank as a result of capital requirements. The Bank also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions. Such changes may result from the regulators' judgments based on information available to them at the time of their examination.

Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the periods presented. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, and the valuation of real estate owned.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, federal funds sold, and interest bearing deposits with banks, all of which mature within ninety days. The Bank is required by the Federal Reserve System to maintain non-interest earning cash reserves against certain of their deposit accounts. At December 31, 2005 and 2004, the required combined reserves totaled approximately $12,845 and $12,505, respectively.

The Bank was required to maintain non-interest bearing compensating balances with Bank of the West in consideration for the federal funds purchased and Letters of Credit facilities with the institution. The average balance required to be maintained for such purposes in 2004 was $250. The line expired in March 2005 and was not renewed.

Interest Bearing Deposits with Banks

Interest-bearing deposits in banks mature within one year and are carried at cost.

Investment Securities

The Bank accounts for investment securities based on their classification as trading, available-for-sale or held-to-maturity. Securities are classified in accordance with management's intention regarding their retention. Accounting for each group of securities follows the requirements of Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* Investments in the trading category are carried at fair value with unrealized gains and losses recorded in earnings. Investments in the available-for-sale category are recorded at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Gains and losses on the sale of investment securities are recorded on the trade date and are determined using the specific identification method. Investments in the held-to-maturity category are recorded at amortized cost. For investments classified as held-to-maturity, premiums and discounts are initially recorded as part of the investment securities' balance, and are amortized or accreted, respectively, to interest income on the straight-line method, which approximates the interest yield method, over the period to maturity (call dates, if earlier, with respect to premiums) of the related securities.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In evaluating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in income using the straight-line method over the contractual life of the loans. Differences between this method and the interest method are not significant and do not otherwise materially affect the accompanying consolidated financial statements.

Loans are placed on a nonaccrual status when principal and interest is past due on a contractual basis 90 days or more and the loan is not fully collateralized or when, in the opinion of management, principal and interest is not likely to be paid in accordance with its terms. At the time the loan is placed on a nonaccrual basis, interest previously recorded but not collected is reversed against current income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured, or the loan is sufficiently secured and is in the process of collection.

The Bank accounts for impaired loans in accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan.* SFAS No. 114 requires that impaired loans be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded balance of the loan, the impairment is recorded through a valuation allowance included in the allowance for loan losses. The Bank considers a loan to be impaired when, based on current information and events, it is probable the Bank will be unable to collect all amounts due (principal and interest) according to the contractual terms.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level adequate to provide for losses that can reasonably be anticipated. The allowance for loan losses is increased by provisions charged to earnings. Loan losses or charge-offs are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The provision for loan losses is based on management's evaluation of the adequacy of the allowance for loan losses. Such evaluation encompasses consideration of past loss experience and other factors, including change in composition and volume of the loan portfolio, the relationship of the allowance to the portfolio and other economic conditions. The allowance is based on estimates and ultimate losses may differ from current estimates.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credits and standby letters of credit. Such financial instruments are recorded when they are funded.

Loans Held for Sale and Mortgage Servicing Rights

Mortgage loans originated and intended for sale in the secondary market are carried at cost, which approximates market value. Gains and losses are recognized upon the sale of loans.

Under SFAS No. 140, servicing assets are recognized as separate assets when rights are acquired through the sale of these loans. Capitalized servicing rights are amortized into non-interest income in proportion to, and over the period of, the estimated future net serving life of the underlying loans. Impairment of mortgage servicing rights is assessed on the fair value of those rights. At December 31, 2005, the Bank recognized servicing assets of $720, based on estimated present value of net future cash flows, discounted by a rate composed of two components: a risk-free rate plus a risk premium. The risk-free rate selected is the yield on ten year US Federal Government bonds of term similar to the future mean term of the outstanding servicing portfolio. Servicing rights were not material in prior periods.

Premises and Equipment

Premises and equipment are reported at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line method over the

[In thousands, except per share data]

(Note 1: Summary of Significant Accounting Policies, Continued...)
...Premises and Equipment, Continued

estimated useful lives of the related assets. Depreciation expense has been computed principally using estimated lives of 15 to 40 years for premises and 5 to 10 years for furniture and equipment. Leasehold improvements are amortized ratably over the shorter of the respective lease term or the estimated useful lives of the improvements.

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

Foreclosed Assets

Properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of the carrying amount of the loan or the fair value of the property reduced by estimated selling costs. Write-downs of the asset at, or prior to, the date of foreclosure are charged to the allowance for losses on loans. Subsequent write-down, income and expense incurred in connection with holding such assets, and gains and losses realized from the sales of such assets are included in other income and expenses.

Goodwill

Goodwill is deemed to have an indefinite life and is not amortized but is tested at least annually for impairment in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets.*

Treasury Stock

Shares of common stock that are repurchased by the Bank are recorded as "common stock in treasury", are recorded as a reduction of shareholders' equity and are recorded under the cost method of accounting.

Income Taxes

Income taxes represent taxes recognized under laws of the Government of Guam, which generally conform to U.S. income tax laws. Foreign income taxes result from payments of taxes with effective rates ranging from 2% to 4% of gross income of the Commonwealth of the Northern Mariana Islands, the FSM, the RMI and Palau to their respective government jurisdictions. U.S. Federal and California income taxes have been reflected as foreign taxes for financial reporting purposes.

The Bank accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes.* Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Dividends Declared

At its discretion, the Bank declares dividends to its stockholders of record as of the declaration date. The Bank declared and paid dividends of $0.125 per each share of common stock outstanding for each of the quarters in 2005 and 2004.

Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated statement of condition, such items, along with net income, are components of comprehensive income.

Earnings Per Common Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank relate solely to outstanding stock options, and are determined using the treasury stock method.

Earnings Per Common Share, Continued

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

	2005	2004	2003
Average number of common shares outstanding	8,573	8,558	8,545
Effect of dilutive options	204	242	231
Average number of common shares outstanding used to calculate diluted earnings per common share	8,777	8,880	8,776

[In thousands, except per share data]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003

Note 2 - Investment Securities

The Bank did not have a held-to-maturity or trading portfolio as of December 31, 2003. On October 31, 2004, the Bank transferred certain U.S. Government agencies and sponsored agencies debt securities as well as mortgage-backed securities available-for-sale into the held-to-maturity category. The Bank intends to and has the ability to hold these securities to maturity.

Paragraph 15 of SFAS 115 sets forth accounting requirements of transfers of securities between categories. For a debt security transferred into the held-to-maturity category from the available-for-sale category, the unrealized holding gain or loss at the date of the transfer shall continue to be reported in a separate component of stockholders' equity but shall be amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount. On October 31, 2004, the unrealized holding loss associated with securities transferred into the held-to-maturity category approximated $1,904.

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

	2005			
Securities Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury obligations	$ 105,504	$ -	$ 310	$ 105,194
U.S. Government agencies and sponsored agencies debt securities	96,046	1	825	95,222
	$ 201,550	$ 1	$ 1,135	$ 200,416
Securities Held to Maturity				
U.S. Government agencies and sponsored agencies mortgage-backed securities	$ 91,854	$ 1	$ 2,912	$ 88,943

	2004			
Securities Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury obligations	$ 46,902	$ -	$ 227	$ 46,675
U.S. Government agencies and sponsored agencies debt securities	71,260	-	397	70,863
Other securities	72	-	-	72
	$ 118,234	$ -	$ 624	$ 117,610
Securities Held to Maturity				
U.S. Government agencies and sponsored agencies mortgage-backed securities	$ 116,647	$ 15	$ 739	$ 115,923

At December 31, 2005 and 2004, investment securities with a carrying value of $166,329 and $142,711, respectively, were pledged to secure various Government deposits and other public requirements.

[In thousands, except per share data]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003

(Note 2: Investment Securities, Continued...)

The amortized cost and fair value of investment securities by contractual maturity at December 31, 2005, follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$ 164,120	$ 163,960	$ -	$ -
Due after one but within five years	37,430	36,456	-	-
	201,550	200,416	-	-
Mortgage-backed securities	-	-	91,854	88,943
	$ 201,550	$ 200,416	$ 91,854	$ 88,943

For the years ended December 31, 2004 and 2003, proceeds from sales of available-for-sale securities amounted to $20,667 and $90,013, respectively. Net realized gains amounted to $120 and $128, respectively. No sale of available-for-sale securities occurred during the year ended December 31, 2005.

Information pertaining to securities with gross unrealized losses at December 31, 2005, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
Securities Available for Sale	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
U.S. Treasury obligations	$ 51	$ 90,017	$ 259	$ 6,826
U.S. Government agencies and sponsored agencies debt securities	17	44,741	808	40,518
	$ 68	$ 134,758	$ 1,067	$ 47,344
Securities Held to Maturity				
U.S. Government agencies and sponsored agencies mortgage-backed securities	$ 727	$ 24,043	$ 2,185	$ 64,577

Management evaluates securities for other-than-temporary impairment on an annual basis, and more frequently when economic or market concerns warrant such evaluation. At December 31, 2005, the unrealized losses associated with U.S. Treasury securities, government agency debentures, U.S. sponsored-agency debentures and mortgage-backed securities are not considered to be other-than-temporary because their unrealized losses are related to changes in interest rates and do not affect the expected cash flows of the underlying collateral or issuer. The Bank has the intent and ability to hold the debt securities for a period of time sufficient to allow for any anticipated recovery in fair value.

[In thousands, except per share data]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003

Note 3 - Loans

A summary of the balances of loans at December 31, 2005 and 2004 follows:

	2005	2004
Commercial	$ 245,236	$ 220,474
Consumer	79,865	86,103
Real estate	76,718	80,611
Government	7,365	8,250
Other	1,792	357
Gross loans	410,976	395,795
Less: net deferred loan fees	1,191	1,140
Less: allowance for loan losses	8,655	8,666
Net loans	$ 401,130	$ 385,989

At December 31, 2005 and 2004, loans to directors and executive officers of the Bank amounted to $16,682 and $16,863, respectively. These loans were extended in the normal course of business and at prevailing interest rates.

Mortgage loans serviced for others are not included in the accompanying consolidated statements of condition. The unpaid principal balances of mortgage loans serviced for others were $149,006 and $158,614 at December 31, 2005 and 2004, respectively. On December 31, 2005, the Bank recorded mortgage servicing rights at their fair value of $720.

At December 31, 2005, loans outstanding were comprised of 79% variable rate loans and 21% fixed rate loans.

A summary of the changes in the allowance for loan losses for years ended December 31, 2005, 2004 and 2003, follows:

	2005	2004	2003
Balance at beginning of year	$ 8,666	$ 7,807	$ 7,508
Provision for loan losses	1,841	2,700	3,150
Loans charged-off	(2,966)	(2,637)	(3,718)
Recoveries of loans previously charged-off	1,114	796	867
Balance at end of year	$ 8,655	$ 8,666	$ 7,807

The following is a summary of information pertaining to impaired loans:

	2005	2004
Total impaired loans, all with a valuation allowance	$ 8,518	$ 9,118
Valuation allowance related to impaired loans	$ 1,979	$ 1,947
Total non-accrual loans	$ 8,521	$ 9,756
Total loans past-due ninety days or more and still accruing	$ 1,142	$ 1,000

	2005	2004	2003
Average investment in impaired loans	$ 8,818	$ 9,536	$ 16,335
Interest income recognized on impaired loans	$ 162	$ 185	$ 123
Interest income recognized on a cash basis on impaired loans	$ 162	$ 185	$ 123

[In thousands, except per share data]

Notes to Consolidated Financial Statements

December 31, 2005, 2004 and 2003

Note 4 - Premises and Equipment

A summary of premises and equipment at December 31, 2005 and 2004 follows:

	2005	2004
Buildings	$ 28,380	$ 27,767
Furniture and equipment	25,119	23,793
Automobiles and mobile facilities	929	850
Leasehold improvements	3,579	3,567
	58,007	55,977
Less accumulated depreciation	34,710	32,576
	23,297	23,401
Construction-in-progress	1,243	1,436
	$ 24,540	$ 24,837

For the years ended December 31, 2005, 2004 and 2003, depreciation expense amounted to $3,325, $3,078 and $3,068, respectively.

Note 5 - Other Assets

A summary of other assets at December 31, 2005 and 2004 follows:

	2005	2004
Foreclosed assets, net	$ 4,370	$ 5,417
Prepaid expenses	4,649	4,545
Deferred tax asset	2,567	2,664
Insurance claims	637	2,591
Mortgage servicing rights	720	-
Prepaid income tax	23	19
Other	1,703	2,229
	$ 14,669	$ 17,465

Foreclosed assets are presented net of an allowance for losses. A summary of the changes in foreclosed assets is as follows:

	2005	2004
Balance at beginning of year	$ 5,417	$ 10,204
Additions	474	1,807
Sales	(688)	(5,937)
	5,203	6,074
Writedowns/loss on sale, net	(957)	(606)
Change in valuation allowances	124	(51)
Balance at end of year	$ 4,370	$ 5,417

[In thousands, except per share data]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003

(Note 5: Other Assets, Continued...)

A summary of foreclosed asset operations, which are included in non-interest expenses, for the years ended December 31, 2005, 2004 and 2003, is as follows:

	2005	2004	2003
Real estate operations, net	$ 188	$ 543	$ 477
Loss (gain) on the sale of the foreclosed assets	29	189	(32)
Writedowns	928	417	842
Change in valuation allowances	(124)	51	145
Net losses from other real estate operations	$ 1,021	$ 1,200	$ 1,432

Note 6 - Deposits

A summary of deposits at December 31, 2005 and 2004 follows:

	2005	2004
Non-interest bearing deposits	$ 194,262	$ 192,468
Interest bearing deposits:		
Demand deposits	81,044	79,954
Regular savings	215,334	215,201
Time deposits:		
$100,000 or more	133,278	103,300
Less than $100,000	21,905	21,182
Other interest bearing deposits	63,256	56,552
	514,817	476,189
Total	$ 709,079	$ 668,657

At December 31, 2005, the scheduled maturities of time deposits are as follows:

Year ending December 31,	
2006	$ 150,874
2007	1,460
2008	934
2009	955
2010	490
Thereafter	470
	$ 155,183

[In thousands, except per share data]

Note 7 - Borrowings

Federal Home Loan Bank (FHLB) Advances

The Bank has a credit line with FHLB equal to 10% of total assets. At December 31, 2005 and 2004, the Bank had outstanding advances against this credit line under Blanket Agreements for Advances and Security Agreements (the Agreements) of $10,000. The Agreements enable the Bank to borrow funds from the FHLB to fund mortgage loan programs and to satisfy certain other funding needs. The weighted average rate of interest applicable to the advance was 3.95% and 4.23% at December 31, 2005 and 2004, respectively. The advances outstanding at December 31, 2005 are due to mature by October 2007, with principal repayments scheduled to be $5,000 due in June 2006 and October 2007. The value of first lien one-to-four unit mortgage loans and first lien multifamily loans pledged under the Agreements must be maintained at not less than 120% and 125%, respectively, of the advances outstanding.

Long-Term Debt

In prior years, the Bank had exchanged all outstanding shares of its 11% Cumulative Perpetual Preferred Stock, Series A, and its 9.8% Cumulative Perpetual Preferred Stock, Series B, for $10,000 of subordinated debt. The indenture provided for the payment of interest each quarter at the rate of LIBOR plus 0.375%. Principal repayments during 2005 and 2004 were scheduled in quarterly installments of $500. At December 31, 2005 and 2004, the outstanding balance of the subordinate debt amounted to $0 and $2,000, respectively.

Overnight Fed Fund Lines

At December 31, 2005 and 2004, the Bank had $23,000 and $20,000, respectively, in federal funds lines of credit available with its correspondent banks. At December 31, 2005 and 2004, there were no outstanding borrowings against any of these lines.

Note 8 - Income Taxes

The income tax provision includes the following components:

	2005	2004	2003
Government of Guam income taxes:			
Current	$ 2,863	$ 3,038	$ 19,163
Deferred	210	(415)	2,729
Foreign income taxes (including U.S. income taxes)	352	276	269
Total income tax expense	$ 3,425	$ 2,899	$ 22,161

The components of deferred income taxes are as follows:

	2005	2004	2003
Mortgage servicing rights	$ 245	$ -	$ -
Depreciation, accelerated for tax purposes	98	98	98
Loan loss provision	3	(291)	(102)
Deferred loan origination fees	(17)	(10)	19
Deferred rent obligation	(35)	-	-
Foreclosed assets valuation	(84)	(212)	344
Foreign tax credit carry-forward	-	-	1,115
NOL carry-forward	-	-	1,264
Other, net	-	-	(9)
Deferred tax (benefit) provision	$ 210	$ (415)	$ 2,729

[In thousands, except per share data]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003

(Note 8: Income Taxes, Continued...)

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

	2005	2004	2003
Deferred tax assets:			
Allowance for loan losses	$ 2,943	$ 2.946	$ 2,655
Foreclosed assets	(1)	(85)	(297)
Net unrealized loss on securities available for sale	385	212	738
Net unrealized loss on securities held to maturity	578	638	-
Loan origination fees	405	388	378
Deferred rent obligation	35	-	-
Total deferred tax asset	4,345	4,099	3,474
Deferred tax liability:			
Depreciation	(1,533)	(1,435)	(1,337)
Mortgage servicing rights	(245)	-	-
Total deferred tax liability	(1,778)	(1,435)	(1,337)
Net deferred tax asset	$ 2,567	$ 2,664	$ 2,137

No valuation allowance has been provided to reduce the deferred tax asset because, in management's opinion, it is more likely than not that the entire amount will be realized.

Reconciliation between income tax expense computed at the Guam statutory rate and the effective income tax rates is summarized as follows:

	2005	2004	2003
Statutory Guam income tax rate	34%	34%	34%
Tax settlement agreement	-	-	428
Nontaxable interest income	(2)	(3)	(8)
Effective tax rate	32%	31%	454%

The Bank included net interest income earned on U.S. Treasury and other U.S. Government Obligations as nontaxable income in and prior to 2001. The Bank had received a Final Notice of Deficiency ("90 Day Letter") for tax years 1992 through 1994 from the Guam Department of Revenue and Taxation (the Department) asserting that interest income earned on U.S. Treasury and other U.S. Government Obligations is subject to tax. In September 2003, the Bank and the Department entered into a settlement agreement under which the Bank paid $15,000 and agreed to forego certain recorded deferred tax assets and prepaid income taxes. The settlement resulted in an income tax provision of $19,471 recorded during the year ended December 31, 2003. The settlement agreement effectively closed all tax years through 2001. Legal fees relating to this tax settlement that were incurred by the Bank during the year ended December 31, 2003 amounted to $2,268 and are recorded within general, administrative and other expenses. Nontaxable interest income in 2005, 2004 and 2003 is related to interest income earned on loans to the Government of Guam.

[In thousands, except per share data]

Note 9 - Employee Benefit Plans

Stock Purchase Plan

The Bank has a stock purchase plan that covers substantially all employees meeting the minimum service requirements. Under the plan, qualified employees are allowed to participate in the purchase of designated shares of the Bank's common stock at 85% of fair market value at date of exercise. A maximum of 1,947 shares are authorized for issuance. As of December 31, 2005, 1,394 rights to purchase shares have been granted to employees. Rights to purchase shares are exercisable for a ten-year period from the date of grant. For the years ended December 31, 2005, 2004 and 2003, shares totaling 15, 12 and 14, respectively, were issued under the plan at average prices per share of $5.88, $5.29 and $5.24, respectively.

Executive Employment Agreements

The Executive Vice President is employed under an agreement terminating May 31, 2008. Under the agreement, he receives a specified base salary, which is adjusted annually for changes in the U.S. Consumer Price Index plus an incentive bonus. The late President's and the Executive Vice President's bonuses are based on profitability, also within the defined limit, subject to adjustments based on the Bank meeting certain performance criteria.

Under agreements with the Bank, the designated survivors of two late Chairmen are receiving a bonus based on the level of qualified assets or profitability, within a defined limit, through 2007 and 2010, respectively.

Under a Phantom Stock unit and stock option plan, the Executive Vice President may elect to receive up to $100 each in Phantom Stock units in lieu of an equal amount of incentive bonus as computed in his employment agreements. These nonvoting Phantom Stock units may be held for receipt of dividends equal to the dividend rate of the Bank's common stock or may be redeemed at a price equal to the market value of the Bank's common stock. In addition, for each Phantom Stock unit received, the executive employee receives options to purchase three shares of the Bank's common stock at a price equal to the market value of the stock at the date the options are granted. The redemption of the Phantom Stock or the exercise of the options will result in the forfeiture by the executive employee of any rights under the other. At December 31, 2005 and 2004, there were no Phantom Stock units outstanding under the plan.

Employee Retirement Savings Plan

The Bank has a 401(k) Plan whereby substantially all employees, with at least one year of continuous service, are eligible to participate in the Plan. The Bank makes matching contributions equal to 50 percent of the first 6 percent of an employee's compensation contributed to the Plan. Matching contributions vest to the employee over a five-year period of service. For the years ended December 31, 2005, 2004 and 2003, expense attributable to the Plan amounted to $166, $164 and $159, respectively.

Note 10 - Lease Commitments

The Bank utilizes facilities, equipment and land under various operating leases with terms ranging from 1 to 99 years. Some of these leases include scheduled rent increases.

At December 31, 2005, annual lease commitments under the above noncancelable operating leases were as follows:

Year ending December 31,	
2006	$ 1,775
2007	1,357
2008	1,324
2009	1,211
2010	980
Thereafter	23,571
	$ 30,218

The Bank leases certain facilities from two separate entities in which two of its directors have separate ownership interests. Lease payments made to these entities during the years ended December 31, 2005, 2004 and 2003 were approximately $305, $299 and $287, respectively.

[In thousands, except per share data]

(*Note 10: Lease Commitments, Continued...*)

Additionally, the Bank leases office space to third parties, with terms ranging from 3 to 5 years with option periods ranging up to 15 years. At December 31, 2005, minimum future rents to be received under noncancelable operating sublease agreements were as follows:

Year ending December 31,	
2006	$ 267
2007	232
2008	184
2009	47
	$ 730

A summary of the rental activities for the years ended December 31, 2005, 2004 and 2003, is as follows:

	2005	**2004**	**2003**
Rent expense	$ 2,119	$ 1,889	$ 2,000
Less: sublease rentals	339	322	331
	$ 1,780	$ 1,567	$ 1,669

Note 11 - Fair Value of Financial Instruments

Financial instruments are defined as cash, evidence of an ownership interest in an entity or a contract that both impose contractual obligations and rights to exchange cash and/or other financial instruments on the parties to the transaction. The following methods and assumptions were used by the Bank in estimating the fair value of each class of financial instruments.

Cash and Cash Equivalents

The carrying amount of cash and short-term instruments approximates fair value.

Interest Bearing Deposits with Banks

The carrying amount of interest bearing deposits with banks approximates fair value.

Investment Securities

Fair values of investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities. The carrying value of Federal Home Loan Bank stock approximates fair value.

Loans

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

Deposits

The fair values disclosed for demand deposits (e.g., 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 (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal Home Loan Bank Advances

The fair value of these advances approximates their carrying amounts as the rate of interest re-prices according to the FHLB quoted rates of borrowing for advances with similar terms.

Long-Term Borrowings

The fair value of long-term debt was estimated from dealer

[In thousands, except per share data]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003

(*Note 11: Fair Value of Financial Instruments, Continued...*)
...Long-Term Borrowings, Continued

quotes on debt with similar terms.

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 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 and the wide diversity of fee structures.

The estimated fair values of the Bank's financial instruments are as follows:

	2005		2004	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 55,592	$ 55,592	$ 74,968	$ 74,968
Interest bearing deposits with banks	$ -	$ -	$ 6,000	$ 6,000
Investment securities available for sale	$ 200,416	$ 200,416	$ 117,610	$ 117,610
Investment securites held to maturity	$ 91,854	$ 88,953	$ 116,647	$ 115,923
Federal Home Loan Bank stock	$ 2,198	$ 2,198	$ 2,208	$ 2,208
Loans, net of allowance	$ 401,130	$ 402,870	$ 385,989	$ 389,419
Accrued interest receivable	$ 3,546	$ 3,546	$ 3,378	$ 3,378
Financial liabilities:				
Deposits	$ 709,079	$ 709,285	$ 668,657	$ 668,813
Accrued interest payable	$ 1,091	$ 1,091	$ 524	$ 524
Federal Home Loan Bank advances	$ 10,000	$ 10,000	$ 10,000	$ 10,000
Long-term debt	$ -	$ -	$ 2,000	$ 2,000

Note 12 - Minimum Regulatory Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total 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). Management believes, as of December 31, 2005 and 2004, that the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2005, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. (*Note 12: Minimum Regulatory Capital*

[In thousands, except per share data]

Requirements, Continued...)

There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2005 and 2004 are also presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2005:						
Total capital (to Risk Weighted Assets)	$ 76,399	16.82%	$ 36,331	8.00%	$ 45,413	10.00%
Tier 1 capital (to Risk Weighted Assets)	$ 70,722	15.57%	$ 18,161	4.00%	$ 27,248	6.00%
Tier 1 capital (to Average Assets)	$ 70,722	8.99%	$ 31,482	4.00%	$ 39,352	5.00%
As of December 31, 2004:						
Total capital (to Risk Weighted Assets)	$ 75,396	16.82%	$ 35,864	8.00%	$ 44,830	10.00%
Tier 1 capital (to Risk Weighted Assets)	$ 67,792	15.12%	$ 17,932	4.00%	$ 26,898	6.00%
Tier 1 capital (to Average Assets)	$ 67,792	8.85%	$ 30,634	4.00%	$ 38,293	5.00%

The Bank repurchased 1,394 shares of common stock in October 2001 in accordance with the terms of a litigation settlement. Pursuant to the approval terms of the Bank's primary regulatory agency, the shares must be reissued within five years. The Bank is currently in discussions with the regulatory agency to dispose of the shares within the required timeframe other than through the entire reissuance of the shares.

Note 13 - Off-Balance Sheet Activities

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

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

A summary of financial instruments with off-balance-sheet risk at December 31, 2004 and 2003 is as follows:

	2005	2004
Commitments to extend credit	$ 85,074	$ 91,085
Letters of credit:		
Standby letters of credit	$ 15,511	$ 5,557
Other letters of credit	1,740	2,172
	$ 17,251	$ 7,729

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003

(Note 13: Off-Balance Sheet Activities, Continued...)

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 shipment of merchandise from a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. Management does not anticipate any material losses as a result of these transactions.

Note 14 - Guarantees

For the purpose of FIN 45 a guarantee is a contract in which the guarantor would be required to pay the guaranteed party based on changes in underlying asset, liability, or equity security of the guaranteed party based on a third party's failure to perform under an obligating guarantee (performance guarantee). The Bank has determined that its standby letters-of-credit and financial guarantees are guarantees within the meaning of FIN 45.

Standby letters-of-credit and financial guarantees are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party in borrowing arrangements.

At December 31, 2005, the maximum undiscounted future payments that the Bank could be required to make was $15,511. 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 are unsecured. The Bank had not recorded any liabilities associated with these guarantees at December 31, 2005.

Note 15 - Insurance Settlement

In December 2002, a major typhoon struck Guam causing significant damage to the Bank's premises and equipment. During the year ended December 31, 2003, the Bank expensed approximately $400 of associated typhoon expenses, which approximated the deductible amounts for typhoon coverage under its policy. During the year ended December 31, 2005, the parties reached a final settlement of $3,123 of which $2,486 has been received. The remaining balance of $637 is included in other assets as of December 31, 2005. The settlement resulted in a loss of $52 which is included in general, administrative and other expense in the accompanying consolidated statement of income.

[$ in tables in thousands]

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

During the past year the combined effect of the strong recovery in tourist arrivals, the resurgence in military activity and a rebound in the real estate market produced positive growth in Guam's economy, as well as the other economies of the region. As a direct result of these factors, the Bank's financial performance this past year continued to reinforce its ability to build on its solid footings and deliver strong profitability.

The Bank closed the year with record levels in both total resources and total liabilities, contributed by the sustained growth in its loan, investment and deposit portfolios. At December 31, 2005, the Bank's total resources reached $794.7 million, up $44.8 million (or 6.0%) from $749.9 million in 2004, attributed to the $42.5 million increase in total investments, $15.1 million increase in total loans, and $40.4 million increase in total deposits (SEE PAGE 35).

	2005	2004	$ Change	% Change
Assets				
Cash and Due from Banks	$ 30,991	$ 40,816	$ (9,997)	(24.5%)
Federal Funds Sold	17,400	31,950	(14,550)	(45.5%)
Interest Bearing Deposits with Banks	7,201	2,202	4,999	227.0%
Total Cash and Cash Equivalents	55,592	74,968	(19,548)	(26.1%)
Interest Bearing Deposits with Banks	--	6,000	(6,000)	(100.0%)
Investment Securities Available-For-Sale	200,416	117,610	82,806)	70.4%
Investment Securities Held-To-Maturity	91,854	116,647	(24,793)	(21.3%)
Federal Home Loan Bank Stock, at Cost	2,198	2,208	(10)	(0.5%)
Loans, Net of Allowance for Loan Losses	401,130	385,989	15,141	3.9%
Accrued Interest Receivable	3,546	3,378	168	5.0%
Premises and Equipment, net	24,540	24,837	(297)	(1.2%)
Goodwill	783	783	--	0.0%
Other Assets	14,669	17,465	(2,624)	(15.0%)
Total Assets	$ 794,728	$ 749,885	$ 44,843	6.0%

Fueled by cautious monetary policy in the U.S. economy, short-term interest rates continued its upward trend during 2005, increasing by as much as 200 basis points to close the year with a target federal funds rate of 4.25%. This increase, coupled with the growth in our loan and investment portfolios contributed to the $5.8 million (or 16.0%) increase in total interest income. Total interest expense likewise increased by $2.2 million (or 53.7%) during the year as we re-priced our savings and time deposit products to continue our long-standing practice of providing our customers with premium return on their accounts. On a net basis, the $5.8 million growth in total interest revenues, coupled with the reduction in loan loss provision expense by $0.9 million contributed to the $4.5 million (or 15.2%) increase in Net Interest Income.

During 2005, the Bank's core businesses continued to deliver a strong profit performance, closing the year with Net Profits after tax of $7.1 million, up $0.6 million (or 9.7%) from $6.5 million in 2004. This strong profit performance contributed $2.7 million or 4.1% (net of dividends paid) to common stockholders' equity, which closed the year at $69.6 million, up from $66.9 million in 2004.

	2005	2004	$ Change	% Change
Assets				
Total Interest Income	$ 41,938	$ 36,142	$ 5,796	16.0%
Total Interest Expense	6,248	4,064	2,184	53.7%
Net Interest Income	35,690	32,078	3,612	11.3%
Provision for Loan Losses	1,841	2,700	(859)	(31.8%)
Net Interest Income after Provision	33,849	29,378	4,471	15.2%
Total Non-Interest Income	9,900	10,180	(280)	(2.8%)
Total Non-Interest Expense	33,191	30,154	3,037	10.1%
Income Before Income Taxes	10,558	9,404	1,154	12.3%
Income Tax Expense	3,425	2,899	526	18.1%
Net Income	$ 7,133	$ 6,505	$ 628	9.7%

[$ in tables in thousands]

As a result of the Bank's sustained growth in both its profitability and capital base in 2005, the Bank also continued its long-standing practice of declaring regular quarterly dividends during the year of $0.1250 per share. For the full year of 2005, the Bank paid $4.3 million in dividends to its common stockholders.

Loans and Deposits

While economic conditions in our region have improved substantially in comparison to prior years, the Bank has remained focused on its asset quality and continued to maintain its high level of underwriting standards and practices. This stance enabled the Bank to further reduce the average level of impaired loans to $8.8 million in 2005, down $0.7 million from $9.5 million in 2004. This favorable trend allowed the Bank to aggressively market its loan programs in Guam and the CNMI, as well as increase its loan participation with various U.S. West Coast Banks (primarily in California) to diversify its credit risk. At year-end 2005, total (gross) loans stood at $409.8 million (including $25.9 million in loan participations), up $15.1 million (or 3.8%) from $394.7 million in 2004. Commercial loans, inclusive of loan participations, registered the largest increase, up $24.7 million (or 11.2%) from $220.5 million in 2004 to close the year at $245.2 million. Conversely, our consumer and real estate loan portfolios declined during the year, with consumer loans closing the year at $79.9 million, down $6.2 million (or 10.7%) from $86.1 million last year. Real estate loans closed the year at $76.7 million, down $3.9 million (or 4.8%) from $80.6 million in 2004. Likewise, government loans decreased to $7.4 million in 2005, down $0.9 million (or 10.7%) from $8.3 million in 2004.

	2005	2004	$ Change	% Change
Loans				
Commercial Loans	$ 245,236	$ 220,474	$ 24,762	11.2%
Real Estate Loans	76,718	80,611	(3,893)	(4.8%)
Consumer & Credit Card Loans	79,865	86,103	(6,238)	(7.2%)
Government Loans	7,365	8,250	(885)	(10.7%)
Other Loans	1,792	357	1,435	402.0%
Gross Loans	410,976	395,795	15,1817	3.8%
Deferred Loan Fees	(1,191)	(1,140)	51	4.5%
Allowance for Loan Losses	(8,655)	(8,666)	(11)	(0.1%)
Net Loans	$ 401,130	$ 385,989	$ 15,141	3.9%

While the Bank's aggressive marketing and sales efforts have generated positive growth in loans, our effective collection efforts ensured that net loan losses in 2005 were kept relatively flat to 2004 levels at $1.8 million.

	2005	2004	$ Change	% Change
Loan Losses				
Gross Loan Losses	$ 2,966	$ 2,637	$ 329	12.5%
Recoveries of Prior Years' Losses	1,114	796	318	39.9%
Net Loan Losses	$ 1,852	$ 1,841	$ 11	0.6%

On the liabilities side, the Bank's deposit base registered significant growth, closing the year at $709.1 million, up $40.4 million (6.0%) from $668.7 million in 2004. Time deposits, the lead product in terms of absolute dollar and percentage increase, reached $155.2 million, up $30.7 million (or 24.7%) from $124.5 million, followed by other interest-bearing deposits totaling $63.3 million, up $6.7 million (or 11.9%) from $56.6 million last year. Demand deposits (interest bearing and non-interest bearing combined) totaled $275.3 million, up $2.9 million (or 1.1%) from $272.4 million, while savings deposits increased nominally by $0.1 million to close the year at $215.3 million, up from $215.2 million in 2004.

Overall positive growth in deposits has effectively decreased our loan-to-deposit ratio to 56.6% in 2005, down from 59.0% last year.

	2005	2004	$ Change	% Change
Deposits				
Non-Interest Bearing Deposits	$ 194,262	$ 192,468	$ 1,794	0.9%
Interest Bearing Deposits:				
Interest Bearing Demand	81,044	79,954	1,090	1.4%
Regular Savings	215,334	215,201	133	0.1%
Time Deposits:				
$100,000 or more	133,278	103,300	29,978	29.0%
Less than $100,000	21,905	21,182	723	3.4%

[$ in tables in thousands]

	2005	2004	$ Change	% Change
Deposits (continued)				
Other Interest Bearing Deposits	63,256	56,552	6,704	11.9%
Total Interest Bearing Deposits	514,817	476,189	38,628	8.1%
Total Deposits	$ 709,079	$ 668,657	$ 40,422	6.0%

Liquidity and Investment Portfolio

The Bank's investment portfolio, which is comprised of U.S. Government agency and treasury securities, federal funds sold, and time deposits at other banks increased by $42.5 million (or 15.5%) to close the year at $316.9 million, up from $274.4 million in 2004. This increase was primarily attributed to the $58.0 million (or 24.8%) net increase in investment securities, which at year end stood at $292.3 million, up from $234.3 million. The increase in investment securities was however partially offset by a combined drop in Federal Funds sold and time deposit at other banks totaling $13.5 million. Federal Funds sold at year end totaled $17.4 million, down $14.6 million (or 45.5%) from $32.0 million in 2004, while time deposits at other Banks closed the year at $7.2 million, down from $8.2 million in 2004. The overall increase in our investment portfolio, coupled with the increase in short-term interest rates during the year, has contributed positively to both total interest revenues and portfolio yields. Our total interest income on investments during the year was $10.6 million, up $2.5 million (or 30.9%) from $8.1 million, and the overall yield on the portfolio rose to 3.41% from 2.78% last year.

	2005	2004	$ Change	% Change
Investments				
Federal Funds Sold	$ 17,400	$ 31,950	$ (14,550)	(45.5%)
TCDs at Other Banks	7,201	8,202	(1,001)	(12.2%)
Investment Securities-AFS	200,416	117,610	82,806	70.4%
Investment Securities-HTM	91,854	116,647	(24,793)	(21.3%)
Total Investment Portfolio	$ 316,871	$ 274,409	$ 42,462	15.5%

As required by accounting regulations, the Bank accounts for and classifies its investment securities as "Available-for-Sale," "Held-to-Maturity" and "Trading," based on management's intention regarding their retention. In following through with its intention to hold its investments to maturity, and at the same time providing for its short-term liquidity requirements, the Bank maintains $91.9 million of its investments in U.S. government agencies, sponsored agencies' debt securities, and mortgage-backed securities as "Held-to-Maturity". The Bank intends and has the ability to hold these securities to their contractual maturity. The Bank does not engage in trading of securities, and therefore does not hold any of its securities in the "Trading" classification.

Net Interest Income

During 2005, the combined effects of higher short-term interest rates, growth in our loan and investment portfolios, and the reduction in loan loss provisions, contributed $4.5 million to Net Interest Income of $33.8 million, up 15.2% from $29.4 million in 2004. This increase is largely attributed to the growth in total interest income, which totaled $41.9 million, up $5.8 million (or 16.0%) from $36.1 million in 2004, derived from the $3.3 million increase in interest and fees on loans, coupled with the $2.5 million increase in interest income on our investment portfolio. Interest and fees on loans for the year totaled $31.4 million, up from $28.1 million in 2004, while interest income on investments totaled $10.6 million, up from $8.1 million. With the increase in short-term interest rates during the year, the Bank's interest expense on its deposit portfolio also increased, as the Bank raised rates on its time and savings deposit products to maintain its competitive advantage. Accordingly, total interest expense for the year totaled $6.2 million, up $2.2 million (or 53.7%) from $4.1 million in 2004.

	2005	2004	$ Change	% Change
Interest Income:				
Loans	$ 31,374	$ 28,052	$ 3,322	11.8%
Investment Securities	9,573	7,734	1,839	23.8%
Federal Funds Sold	782	269	513	190.7%
Deposits with Other Banks	209	87	122	140.2%
Total Interest Income	$ 41,938	$ 36,142	$ 5,796	16.0%

[$ in tables in thousands]

	2005	2004	$ Change	% Change
Interest Expense:				
Time Deposits	$ 3,406	$ 1,534	$ 1,872	122.0%
Demand and Savings	2,384	2,049	335	16.3%
Other Borrowed Funds	458	481	(23)	(4.8%)
Total Interest Expense	6,248	4,064	2,184	53.7%
Net Interest Income Before Provision for Loan Losses	$ 35,690	$ 32,078	$ 3,612	11.3%
Loan Loss Provision	$ 1,841	$ 2,700	$ (859)	(31.8%)
Net Interest Income	$ 33,849	$ 29,378	$ 4,471	15.2%

Overall, the Bank's net interest margin for 2005 increased 22 basis points to 5.04%, from 4.82% in 2004.

Other Operating Income and Expenses

Other operating income, which is derived from fees and commissions, service charges and other non-interest income, totaled $9.9 million in 2005, down $0.3 million from the $10.2 million recorded in 2004. While the Bank continued to successfully market its internet banking and cash management services, which contributed $0.3 million in non-interest income, up from $0.2 million the previous year, and likewise continue to derive consistent fee income of $2.9 million from its credit card merchant services, these were more than offset by the $0.3 million drop in food stamp fee income due to the discontinuance of the food stamp coupon distribution services, the $0.3 million drop in insurance commissions (largely due to the drop in credit life insurance policies written), and $0.1 million drop in wire transfer service fees.

On the other side of the equation, total other operating expenses in 2005 increased by $3.0 million (or 10.1%) to $33.2 million from $30.2 million in 2004. This increase in expenses was largely attributed to the $0.4 million increase in legal expenses primarily related to a legal settlement in Saipan, CNMI, $0.3 million increase in other operating losses; $0.3 million increase in contract services expenses, and a $0.1 million increase in armored car and courier services expense. In addition, the increase in power utility rates throughout the region resulted in an overall increase in our utilities expense by $0.2 million during the year, while our computer equipment maintenance and support expenses rose by $0.5 million as we implemented the planned upgrade of our ATM's as well as our host computer and telecommunications platforms.

Capital Resources

Under current FDIC regulations, the Bank must maintain a 5.0% tier-1 capital to average assets ratio and tier-1 capital to risk-weighted assets ratio of 6.0% in order to be classified as "well capitalized". Additionally, the Bank's total capital to risk-weighted assets ratio must equal or exceed 10.0% to meet the standard for that classification. At December 31, 2005, the Bank's total capital stood at $76.4 million, up $1.0 million from $75.4 million in 2004. This increase in total capital is primarily attributed to the $2.8 million increase in retained earnings, which closed the year at $70.6 million, up from $67.8 million last year. This increase was partially offset by the $2.0 million decrease in subordinated debt outstanding, which was paid in full at the end of the year. The Bank's capital ratios at December 31, 2005, continue to exceed all of the minimum regulatory capital adequacy requirements, and allowed the Bank to remain classified as "well capitalized" for regulatory purposes.

	2005	Minimum to be Adequately Capitalized	Minimum to be Well Capitalized
Capital Adequacy			
Total Capital	$ 75,399		
to Risk Weighted Assets	16.82%	8.00%	10.00%
Tier 1 Capital	$ 70,722		
to Risk Weighted Assets	15.57%	4.00%	6.00%
Tier 1 Capital	$ 70,722		
to Average Assets	8.99%	4.00%	5.00%

Off-Balance Sheet Arrangements

In the ordinary course of business, the Bank enters into agreements to extend credit to its customers, comprised of commitments to extend credit (loan commitments) and letters of credit. These arrangements are subject to the same credit criteria as the on-balance sheet loans of the Bank and expose the Bank to a potential risk of credit loss represented by the contractual amounts of the agreements. However, because some of these agreements may expire without being exercised, the Bank's need for cash to fund these may be less than the full amounts arranged. Commitments to extend credit decreased by $6.0 million to $85.1 million at the end of 2005, down from $91.1 million at the end of 2004. Total letters of credit outstanding during 2005 increased by $9.5 million to $17.3 million, up from $7.7 million in 2004. The Bank does not anticipate any material losses associated with these off-balance arrangements.

[$ in tables in thousands]

	2005	2004	$ Change	% Change
Off-Balance Sheet Items				
Commitments to Extend Credit	$ 85,074	$ 91,085	$ (6,011)	(6.6%)
Letters of Credit:				
Standby Letters of Credit	$ 15,511	$ 5,557	$ 9,954	178.1%
Other Letters of Credit	1,740	2,172	(1,310)	(19.9%)
Total Letters of Credit	$ 17,251	$ 7,729	$ 9,522	123.2%

Impact of Inflation and Changing Prices

The Bank's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without consideration of changes in the relative purchasing power of money over time due to inflation. The impact of inflation can be found in the increased cost of the Bank's operations. Nearly all of our assets and liabilities are financial, unlike most industrial companies. As a result, the Bank's performance is directly impacted by changes in interest rates, which are indirectly influenced by inflation and inflationary expectations. Our ability to match the financial assets to the financial liabilities in our asset/liability management tends to minimize the effect of a change of interest rates on our performance.

Forward-Looking Statements

When used in this filing and in future filings by the Bank with the Federal Deposit Insurance Corporation, in our press releases or other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties, including but not limited to changes in economic conditions in our market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in our market area and competition, all or any of which could cause actual results to differ materially from historical earnings and from those presently anticipated or projected.

The Bank wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and advises readers that various factors, including regional, national and international economic conditions, substantial changes in the levels of market interest rates, credit and other risks of lending and investment activities, competition and regulatory factors, could affect our financial performance and could cause our actual results for future periods to differ materially from those anticipated or projected.

The Bank does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events of circumstances after the date of such statements.

[[$ in thousands, except share data, unaudited]

SUMMARY OF FINANCIAL CONDITION

	As of December 31,				
	2005	2004	2003	2002	2001
Assets:					
Cash and due from banks	$ 30,991	$ 40,816	$ 33,465	$ 39,207	$ 39,347
Interest-bearing deposits in other banks	7,201	8,202	5,587	33,519	5,151
Federal funds sold	17,400	31,950	7,830	36,600	1,720
Investment securities	294,468	236,465	247,741	161,342	169,250
Loans	409,785	394,655	365,855	374,226	406,579
Less allowance for possible loan losses	8,655	8,666	7,807	7,508	10,176
Net loans	401,130	385,989	358,048	366,718	396,403
Bank premises and equipment	24,540	24,837	26,229	28,911	31,094
Accrued interest receivables and other assets	18,998	21,626	25,728	29,980	25,600
Total assets	$794,728	$749,885	$704,628	$696,277	$668,565
Liabilities and Stockholders' Equity:					
Deposits:					
Non-interest bearing	$194,262	$192,468	$166,245	$162,301	$134,480
Interest bearing	514,817	476,189	456,876	422,748	426,730
Total deposits	709,079	668,657	623,121	585,049	561,210
Accrued interest payables and other liabilities	6,014	2,304	2,656	2,046	2,158
Federal Home Loan Bank advances	10,000	10,000	10,000	15,000	10,000
Long-term debt	–	2,000	4,000	6,000	8,000
Total liabilities	725,093	682,961	639,777	608,095	581,368
Stockholders' Equity:					
Capital stock of $0.2083 par value Authorized 48,000,000 shares at 9,973,977 shares issued/8,580,216 shares outstanding in 2005 and 9,959,395 shares issued/8,565,634 shares outstanding in 2004	2,079	2,076	2,073	2,070	2,067
Capital surplus	14,154	14,073	14,011	13,942	13,867
Treasury stock (1,393,761 shares)	(15,331)	(15,331)	(15,331)	(15,331)	(15,331)
Retained earnings	70,603	67,757	65,532	87,086	86,433
Accumulated other comprehensive (loss) income	(1,870)	(1,651)	(1,434)	415	161
Total stockholders' equity	69,635	66,924	64,851	88,182	87,197
Total liabilities and stockholders' equity	$794,728	$749,885	$704,628	$696,277	$668,565

[$ in thousands, except share data, unaudited]

SUMMARY OF OPERATIONS

	Years ended December 31,				
	2005	2004	2003	2002	2001
Interest income:					
Interest and fees on loans	$ 31,374	$ 28,052	28,557	$ 31,257	$ 39,237
Interest on deposits in other banks	209	87	153	200	241
Interest on investment securities	9,573	7,734	5,800	4,046	8,138
Interest on federal funds sold	782	269	231	343	651
Total interest income	41,938	36,142	34,741	35,846	48,267
Interest expense:					
Time deposits	3,406	1,534	1,380	2,184	7,409
Savings deposits	2,384	2,049	2,433	3,565	7,113
Other borrowed funds	458	481	763	743	1,178
Total interest expense	6,248	4,064	4,576	6,492	15,700
Net interest income	35,690	32,078	30,165	29,354	32,567
Provision for loan losses	1,841	2,700	3,150	4,439	3,571
Net interest income after provision for loan losses	33,849	29,378	27,015	24,915	28,996
Other operating income:					
Service charges and fees	4,605	4,353	4,302	4,582	4,202
Investment securities gains (losses), net	–	120	128	538	34
Other income	5,295	5,707	5,809	5,864	5,098
Total other operating income	9,900	10,180	10,239	10,984	9,334
Other operating expenses:					
Salaries and employee benefits	13,618	13,208	12,997	13,366	14,604
Net occupancy	5,080	4,422	4,477	4,284	4,240
Furniture and equipment	4,305	3,798	3,354	3,201	3,144
General, administrative and other expenses	10,188	8,726	11,545	9,543	9,465
Total other operating expenses	33,191	30,154	32,373	30,394	31,453
Income before income taxes	10,558	9,404	4,881	5,505	6,877
Provision (benefit) for income taxes	3,425	2,899	22,161	585	(264)
Net income (loss)	$ 7,133	$ 6,505	$(17,280)	$ 4,920	$ 7,141
Net income (loss) per share					
Basic earnings (loss) per common share	$ 0.83	$ 0.76	$ (2.02)	$ 0.58	$ 0.74
Diluted earnings (loss) per common share	$ 0.81	$ 0.74	$ (1.97)	$ 0.55	$ 0.72

[[$ in thousands, except share data, unaudited]

SUMMARY OF AVERAGE BALANCES AND INTEREST RATES

	2005		2004	
	Avg. Balance	**Avg. Rate**	**Avg. Balance**	**Avg. Rate**
Earning Assets:				
Due from Banks - Time	$ 7,379	3.22%	$ 6,853	1.81%
Securities:				
U.S. Government Securities	279,634	3.57%	244,077	3.38%
Other Securities	47	4.77%	19,590	4.79%
Total Securities	279,681	3.57%	263,667	3.49%
Federal Funds Sold	23,674	3.25%	20,998	1.47%
Loans:				
Commercial, Industrial & Government	233,568	7.08%	210,951	6.13%
Real Estate	78,163	6.39%	80,633	6.32%
Consumer	84,352	10.25%	83,074	10.47%
Total Loans	396,083	7.62%	374,658	7.13%
Total Earning Assets	706,817	5.82%	666,176	5.46%
Non-Earning Assets:				
Cash and Due from Banks - Demand	27,740		31,017	
Bank Premises and Equipment	24,849		25,843	
Other Real Estate Owned	4,770		8,617	
Other Assets	20,127		19,179	
Allowance for Loan Losses	(9,258)		(8,556)	
Total Assets	$ 775,045		$ 742,276	
Liabilities and Stockholders' Equity:				
Interest Paying Liabilities - Deposits				
Demand and Savings	$ 300,294	0.62%	$ 299,074	0.56%
Time Certificates	198,625	2.04%	184,867	1.09%
Total Time and Savings Deposits	498,919	1.19%	483,941	0.76%
Other Borrowed Funds	10,000	4.12%	10,000	4.21%
Subordinated Debt	1,250	1.80%	3,231	1.80%
Total Interest Paying Liabilities	510,169	1.25%	497,172	0.84%
Non-Interest Paying Liabilities and Equity				
Demand Deposits	191,377		174,688	
Other Liabilities	5,273		4,396	
Stockholders' Equity	68,226		66,020	
Total Liabilities and Stockholders' Equity	$ 775,045		$ 742,276	
Rate Differential		4.58%		4.62%

[$ in thousands, except share data, unaudited]

2003		2002		2001	
Avg. Balance	**Avg. Rate**	**Avg. Balance**	**Avg. Rate**	**Avg. Balance**	**Avg. Rate**
$ 14,481	1.06%	$ 19,423	1.86%	$ 5,572	4.33%
226,657	2.22%	184,962	2.56%	177,643	4.94%
22,270	3.45%	345	7.12%	406	4.68%
248,927	2.33%	185,307	2.56%	178,049	4.94%
18,925	1.22%	24,183	1.62%	16,573	3.93%
217,264	6.26%	211,454	6.32%	258,805	8.31%
84,491	7.39%	85,753	7.10%	93,404	8.18%
76,431	11.39%	82,360	11.49%	83,915	12.02%
378,186	7.55%	379,567	7.61%	436,124	9.00%
660,519	5.26%	608,480	5.86%	636,318	7.69%
28,007		28,873		28,527	
28,964		29,676		31,843	
11,262		12,456		6,209	
23,157		19,245		24,148	
(8,305)		(8,133)		(9,701)	
$ 743,604		$ 690,597		$ 717,344	
$ 276,821	0.71%	$ 250,324	1.23%	$ 214,893	2.48%
187,888	0.98%	167,381	1.50%	231,985	3.97%
464,709	0.82%	417,705	1.34%	446,878	3.25%
14,253	4.72%	15,000	4.67%	15,628	4.61%
5,337	1.68%	6,500	2.30%	9,554	3.33%
484,299	0.94%	439,205	1.47%	472,060	3.33%
171,293		158,832		132,166	
3,507		3,331		11,193	
84,505		89,229		101,925	
$ 743,604		$ 690,597		$ 717,344	
	4.31%		4.19%		4.36%

SENIOR MANAGEMENT, HEADQUARTERS AND BRANCH OFFICIALS

Lourdes A. Leon Guerrero
PRESIDENT AND CHAIR OF THE BOARD

William D. Leon Guerrero
EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER

Francisco M. Atalig
VICE PRESIDENT/CHIEF FINANCIAL OFFICER

Jocelyn B. Miyashita
VICE PRESIDENT/CREDIT ADMINISTRATOR

Josephine L. Mariano
VICE PRESIDENT/BRANCH AND CENTRAL OPERATIONS ADMINISTRATOR

Danilo M. Rapadas
VICE PRESIDENT/LEGAL COUNSEL AND COMPLIANCE OFFICER

Jacqueline A. Marati
VICE PRESIDENT/HUMAN RESOURCES AND MARKETING ADMINISTRATOR

Ernest P. Villaverde
VICE PRESIDENT/INFORMATION MANAGEMENT SYSTEMS ADMINISTRATOR

Joseph P. Bradley
VICE PRESIDENT/TRUST AND ECONOMIC AND MARKET STATISTICS OFFICER

Josephine L. Blas
VICE PRESIDENT/GENERAL AUDITOR

Craig R. Wade
VICE PRESIDENT/CORPORATE BANKING GROUP MANAGER

Mike W. Naholowaa
VICE PRESIDENT/CREDIT OFFICER

Daniel F. Anderson
VICE PRESIDENT/CREDIT OFFICER

Luke M. Elliott
VICE PRESIDENT/ELECTRONIC DATA PROCESSING MANAGER

Ann M. Roth
VICE PRESIDENT/FINANCIAL SERVICES OFFICER

Lori C. Sablan
VICE PRESIDENT/CHIEF FINANCIAL OFFICE ACCOUNTING MANAGER

Von A. Lester
ASSISTANT VICE PRESIDENT/PRODUCT AND INFORMATION MANAGEMENT SYSTEMS MANAGER

Dawn M. Erwin
ASSISTANT VICE PRESIDENT/BUSINESS SERVICES DIVISION MANAGER

Tina D. Bernardo
ASSISTANT VICE PRESIDENT/HUMAN RESOURCES STAFF DEVELOPMENT OFFICER

J. John P. Ibanez
VICE PRESIDENT/LOAN ADJUSTMENT MANAGER

Benjamin C. Pablo
ASSISTANT VICE PRESIDENT/REAL ESTATE DEPARTMENT MANAGER

Janice R. Chargualaf
ASSISTANT VICE PRESIDENT/CONSUMER LOAN MANAGER

Amoretta P. Carlson
ASSISTANT VICE PRESIDENT/TRUST DEPARTMENT MANAGER

Carmelita M. Cruz
ASSISTANT VICE PRESIDENT/LOAN SUPPORT MANAGER

Jenais L. Guerrero
ASSISTANT VICE PRESIDENT/MARKETING MANAGER

Branch and Facility Managers

Christine D. Benavente
VICE PRESIDENT/CENTRAL-SOUTHERN REGIONAL MANAGER AND HAGÅTÑA BRANCH MANAGER

Renee A. Cahinhinan
ASSISTANT VICE PRESIDENT/SANTA CRUZ BRANCH MANAGER

Richard G. Camacho
ASSISTANT VICE PRESIDENT/TAMUNING BRANCH MANAGER

Dina A. San Nicolas
ASSISTANT VICE PRESIDENT/MANGILAO BRANCH MANAGER

Rose A. Reyes
ASSISTANT CASHIER/MALESSO BRANCH MANAGER

Julie A. Gogue
ASSISTANT CASHIER/NAVAL STATION BRANCH MANAGER

Keven F. Camacho
VICE PRESIDENT/NORTHERN REGIONAL MANAGER AND UPPER TUMON BRANCH MANAGER

David J. Arriola
ASSISTANT VICE PRESIDENT/TUMON BAY BRANCH MANAGER

Katherine Blas-Muna
ASSISTANT VICE PRESIDENT/HARMON BRANCH MANAGER

Romeo A. Angel
VICE PRESIDENT/DEDEDO BRANCH MANAGER

Elaine J. Lizama
ASSISTANT VICE PRESIDENT/YIGO BRANCH MANAGER

Liane S. Martinez
ASSISTANT CASHIER/ANDERSEN AFB BRANCH MANAGER

Merced M. Tomokane
VICE PRESIDENT/CNMI REGIONAL MANAGER AND SAIPAN BRANCH MANAGER

Marilyn L. Mendiola
ASSISTANT CASHIER/TINIAN OPERATIONS OFFICER

Sayuri Mai
ASSISTANT CASHIER/SAIPAN PRICE-COSTCO IN-STORE FACILITY MANAGER

Jeffrey V. Diaz
ASSISTANT CASHIER/SAN ANTONIO FACILITY MANAGER

Larry A. Phillip
ASSISTANT VICE PRESIDENT/ROTA BRANCH MANAGER

Vida B. Ricafrente
ASSISTANT VICE PRESIDENT/POHNPEI BRANCH MANAGER

Joanne H. Akinaga
ASSISTANT VICE PRESIDENT/CHUUK BRANCH MANAGER

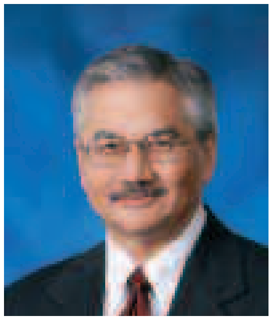
Wayne S.N. Santos
VICE PRESIDENT/PALAU BRANCH MANAGER

Antonia S.A. Redy
ASSISTANT VICE PRESIDENT/MAJURO BRANCH MANAGER

Shirley N. Quitugua
VICE PRESIDENT/SAN FRANCISCO BRANCH MANAGER

Board of Directors

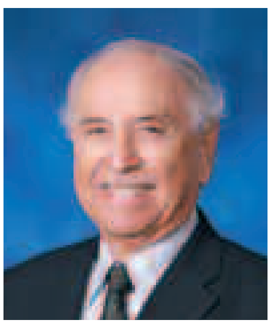
Lourdes A. Leon Guerrero
- Bank of Guam President and Chair of the Board
- Chair, Executive Committee and Loan Committee
- Senator, 23rd, 24th, 26th, 27th and 28th Guam Legislature
- Member, Guam Nurses Association



William D. Leon Guerrero
- Bank of Guam Vice Chairman of the Board
- Vice Chairman, Executive Committee & Loan Committee
- Bank of Guam Executive Vice President and Chief Operating Officer
- Member, Guam Banking Board

Roger P. Crouthamel
- Bank of Guam Board Secretary
- Chairman, Stock Option Committee & Adhoc Committee
- Vice Chairman, Trust Committee
- Attorney at Law
- Director, Transpacific Travel dba Travel Pacificana
- Director, Guam Fast Foods dba Kentucky Fried Chicken
- Director and Vice President, Sports Concepts, Inc.

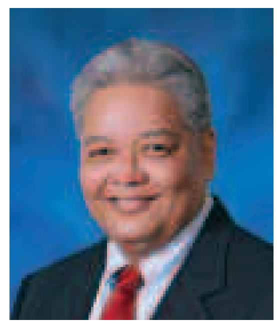
Joe T. San Agustin
- Bank of Guam Board Treasurer and Assistant Secretary
- Chairman, Audit Committee, Nominating Committee and Transition Committee
- Speaker, 20th- 22nd Guam Legislature
- Senator, 14th - 23rd Guam Legislature
- Instructor, University of Guam
- Chairman, Government of Guam Retirement Fund



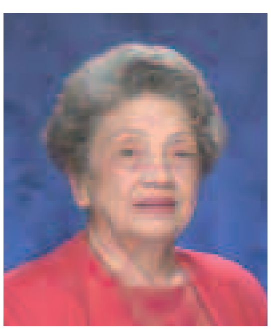
Ralph G. Sablan, M.D.
- Private Practice: Dermatology
- U.S. Navy Captain, Retired
- Former President, Guam Medical Society

Pedro P. Ada, Jr.
- Chairman, Ada's Trust and Investment, Inc.
- Chairman of the Board, Nanbo Insurance Ltd.
- University of Guam Honorary Doctorate of Law
- Member, President's Council of University of St. Thomas

Luis G. Camacho, D.D.S., M.S.
- President, Camacho, Inc.
- Past President, Guam Dental Society
- Past Member, Guam Board of Dental Examiners
- Orthodontist, Retired



Martin D. Leon Guerrero
- Chairman, Trust Committee
- Vice Chairman, Audit Committee
- President and Chairman, The Fifth Wheel Inc.
- President, Ignacia Corporation



Eugenia A. Leon Guerrero
- Trustee, Jesus S. Leon Guerrero Trust
- Charter Member, Guam Memorial Hospital Volunteers Association
- Member, Catholic Daughters of America

Frances LG. Borja
- President, Carmen Safeway Enterprises, Inc.

Joey Crisostomo
- President, CarsPlus LLC
- President/Owner, CyclesPlus LLC

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CHARTERED MARCH 13, 1972
HAGÅTÑA, GUAM

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