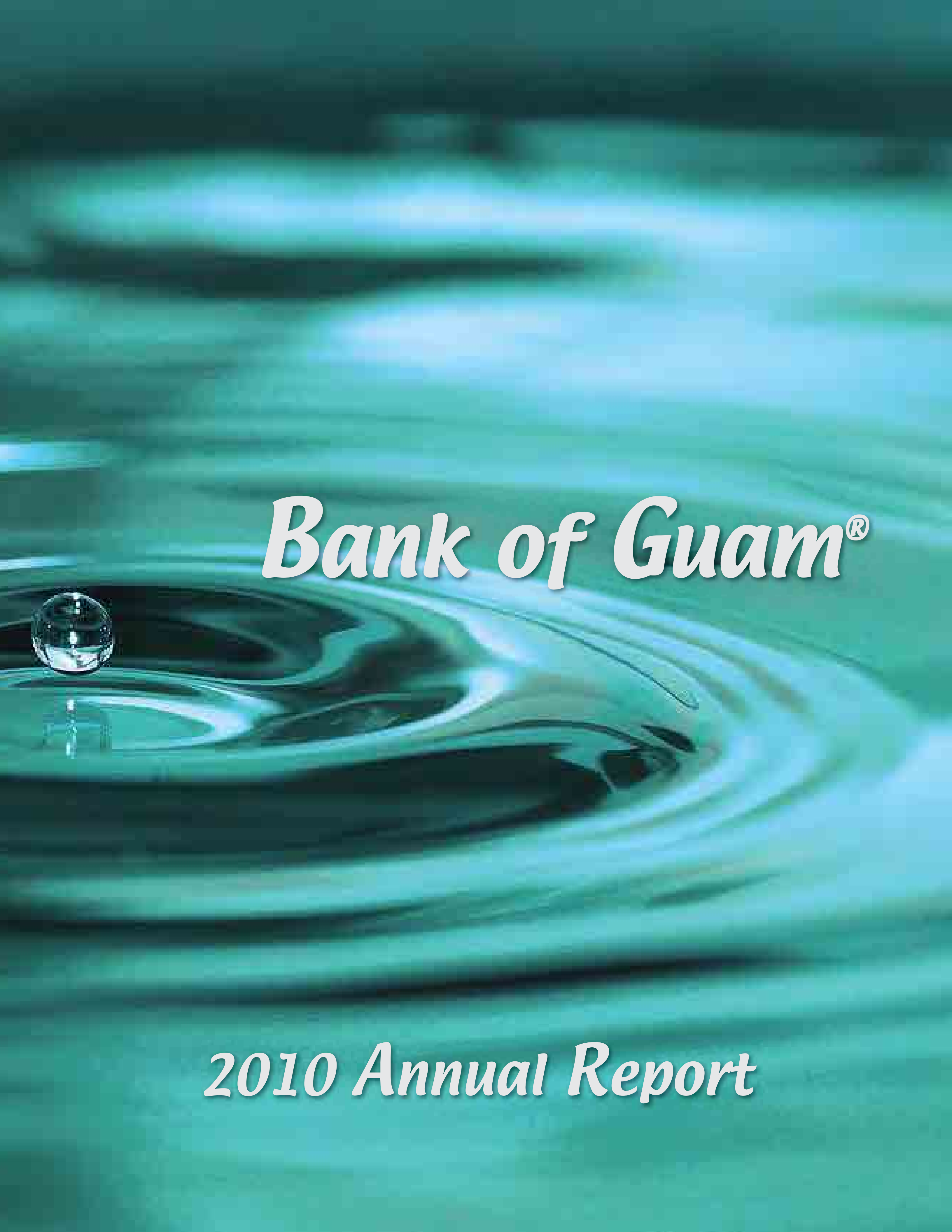


Bank of Guam®

2010 Annual Report

CORPORATE INFORMATION

ANNUAL MEETING
The 2011 annual meeting of stockholders will be held at 7:00 P.M. on Monday, May 2, 2011, in the Bank's Hagåtña Branch in its Headquarters Building.

BANK OF GUAM® HEADQUARTERS
111 Chalan Santo Papa
Hagåtña, Guam 96910
Tel: (671) 472-5300 • Fax: (671) 477-5454
www.bankofguam.com

INDEPENDENT ACCOUNTANTS
Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, Guam 96913-3911
Tel: (671) 646-3884 • Fax: (671) 649-4932
www.deloitte.com

TAX CONSULTANT
Robert J. Steffy, C.P.A.
210 Archbishop Flores Street • Suite 100
Hagåtña, Guam 96910
Tel: (671) 477-7829 • Fax: (671) 477-7845

GENERAL COUNSEL
Arriola, Cowan & Arriola
259 Martyr Street • Suite 201
Hagåtña, Guam 96910
Tel: (671) 477-9731 • Fax: (671) 477-9734

STOCKS
Computershare Trust Company, N.A. ("Computershare") 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.

Computershare Trust Company, N.A.
for written requests, please write to:
Computershare Shareholder Services
PO Box 43078 • Providence, RI 02940-3078
for written requests, by overnight delivery:
Computershare Shareholder Services
250 Royall Street
Canton, MA 02021
Tel: (888) 835-5678 (U.S., Canada, Puerto Rico & Guam)
Tel: (312) 360-5193 (non U.S.)
www.computershare.com/investor

The shares of the Bank are now traded privately among individual stockholders, investors, and in the over-the-counter market. The stock prices of such trades vary with each transaction.

OTHER FINANCIAL SERVICES
Bank of Guam® Trust Services*
Headquarters Building • 7th Floor
111 Chalan Santo Papa
Hagåtña, Guam 96910
Tel: (671) 472-5713 • Fax: (671) 472-5527

BG Wealth Management Services*/Money Concepts, Inc.®
Headquarters Building • 6th Floor
111 Chalan Santo Papa
Hagåtña, Guam 96910
Tel: (671) 472-5490 • Fax: (671) 472-1580

BankGuam Insurance Underwriters, Ltd.*
Headquarters Building • 1st Floor
111 Chalan Santo Papa
Hagåtña, Guam 96910
Tel: (671) 479-2262/65/67 • Fax: (671) 479-2266

MEMBER
Federal Deposit Insurance Corporation
American Bankers Association
Guam Bankers Association
California Bankers Association
Western Independent Bankers Association
Western States Card Services
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.

CONTENTS

FINANCIAL HIGHLIGHTS

[$ in thousands, except per share data]

At December 31st	2010	2009	Change in Amount	Change in %	2008
Total assets	$ 990,601	$ 940,572	$ 50,029	5.3%	$ 858,277
Total deposits	$ 889,275	$ 811,894	$ 77,381	9.5%	$ 739,663
Net loans	$ 611,139	$ 550,297	$ 60,842	11.1%	$ 515,168
Reserve for loan losses	$ 9,408	$ 8,895	$ 513	5.8%	$ 9,943
Investment securities	$ 221,876	$ 278,891	$ (57,015)	(20.4%)	$ 211,537
Common Stockholders' equity	$ 84,352	$ 80,895	$ 3,457	4.3%	$ 81,014
Net income	$ 7,092	$ 5,501	$ 1,591	28.9%	$ 6,209
Cash dividends declared: common stock	$ 4,349	$ 4,328	$ 21	0.5%	$ 4,312
PER SHARE					
Net income per share - basic	$ 0.81	$ 0.63	$ 0.18	28.6%	$ 0.72
Net income per share - diluted	$ 0.79	$ 0.62	$ 0.17	27.4%	$ 0.70
Cash dividends declared: common stock	$ 0.50	$ 0.50	$ -	0.0%	$ 0.50
Book value per common share (8,746,292 shares issued/8,714,116 shares outstanding)	$ 9.68	$ 9.33	$ 0.35	3.8%	$ 9.38

CASH DIVIDENDS DECLARED PER QUARTER	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Total/Yr.
2010 Stock	$ 0.125	$ 0.125	$ 0.125	$ 0.125	$ 0.500
2009 Stock	$ 0.125	$ 0.125	$ 0.125	$ 0.125	$ 0.500

MESSAGE TO STOCKHOLDERS

Buenas yan Hafa Adai! Another year has passed, and we continue to live in exciting times. While it sometimes feels like everything is moving slowly, when I look back I see that change has continued at a very rapid pace. A year ago, the world economy was just starting to recover from the worst recession in generations. Today, although that recovery is continuing, it is much more gradual and fragile than most people expected. There have been threats of sovereign default, especially in Europe, along with increasing tensions in the Middle East and between North and South Korea, which have fueled ongoing volatility in financial markets. In contrast to the industrialized nations, the economies of less-developed and industrializing nations have resumed their rapid growth and, combined with a massive expansion of the U.S. money supply, have been forcing the prices of resources and raw materials upward, leading to concerns that inflation may start pushing interest rates up again. This is the global environment in which Bank of Guam® operated during 2010.

In Guam last year, we saw a fairly rapid recovery in visitor arrivals, with a corresponding increase in spending. Over the course of the year, deposits in our local market increased by $29.6 million (6.0%). Economic performance in the Northern Mariana Islands lagged because of difficulties in the tourism industry there and uncertainties surrounding immigration. In the other islands in our market area, economic activity was relatively flat, but total deposits for the Bank in all markets combined grew by $77.4 million (9.5%).

As the economy improved, so did general credit quality, and our net loan portfolio expanded by $60.8 million (11.1%), to $611.1 million. One of the fundamental reasons that Bank of Guam® was originally founded was to support the growth and development of the economies throughout our region. In line with this, our commercial loans rose by $22.9 million (6.6%) last year to $368.6 million; the vast majority of these loans are to small businesses, which are the primary source of employment throughout the Pacific. Continuing our strong commitment to the people of the communities we serve, our consumer loans grew by more than $10.4 million (10.2%) in 2010, closing the year at $112.5 million. Real estate loans that we keep on our books rose by $2.5 million (2.9%) to $88.8 million, and the real estate loans that we service for others, such as the Federal Home Loan Mortgage Corporation, increased by $14.3 million (8.9%) to $173.5 million. Bank of Guam® also continued to support the public sector during 2010, as government loans increased by $24.2 (101.7%) to $47.9 million. Even with this substantial loan growth, stronger economic conditions allowed us to maintain our traditionally conservative underwriting criteria.

Based on the growth of our loans and deposits during 2010, our Bank's total assets increased by $50.0 million (5.3%) to close the year at $990.6 million. At several times during the year we exceeded that "magic" number – $1 billion – by a few million dollars during the normal course of business, and we expect to surmount that hurdle permanently in 2011. One of the ways that we financed our loan increases last year was through rising deposits, but we were also able to convert a portion of our investments into higher yielding loans. Our investment securities decreased by $57.0 million (20.4%) to $221.9 million. In the process of liquidating a portion of our investments, we were able to shorten the maturity and reduce the duration of our portfolio and to increase our cash equivalent holdings so that we are better prepared to take advantage of an anticipated increase in market interest rates and securities yields; we were also able to take $2.6 million in capital gains on those sales.

Despite the continuation of historically low market interest rates and the resulting squeeze on the Bank's interest margins, Bank of Guam® was able to earn net after tax income of $7.1 million in 2010, an increase of $1.6 million (28.9%) from the previous year. This profitability allowed us to continue paying regular quarterly dividends and to add $3.5 million (4.3%) to stockholders' equity, bringing total equity to $84.4 million. Our rate of return on equity in 2010 of 8.5%, compared to our peer group's ROE of 4.5%, was up from 6.7% a year earlier; our rate of return on assets was 0.72%, up from 0.57% in 2009 and compared to our peer group's ROA of 0.50% in 2010.

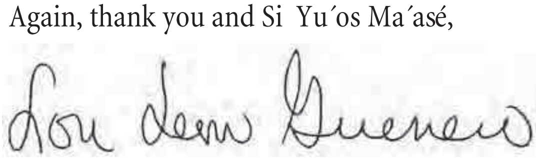
Bank of Guam's commitments to the people of the Pacific islands extends far beyond our home island. After 27 years in operation in Pohnpei in the Federated States of Micronesia, we had outgrown our branch facility there. In September, we relocated to a new building of our own design, so that, including the Kosrae and Yap branches opened in late 2009, we opened three new branches in the FSM within a 12-month period of time.

Our commitments also extend far beyond the business of banking. Bank of Guam® officers and staff are engaged in dozens of community service projects and organizations, and we have been sponsoring an annual Run for the Red 5K run/walk for the past several years, raising funds for donation to the American Red Cross. All of the Bank's Guam-based employees also participate in raising funds for the annual Relay for Life, sponsored by the American Cancer Society, and I am proud to tell you that we have been the highest contributor in Guam, and well as one of the highest throughout the Western Region, for the past several years. In 2010, we raised more than $47 thousand for this worthy cause. These events, along with our sponsorship of sports teams and our annual free health screenings, help to support our employees in a healthy working environment.

This year, I believe that our region (and most especially Guam) is on the verge of substantial and sustainable economic recovery and growth. In Guam, many of the hurdles have been overcome and the military buildup appears to be gaining traction with the issuance of several construction contracts and the commencement of many essential infrastructure projects. While there are still some lingering concerns regarding cultural and environmental preservation, both the Department of Defense and the local community are trying to find mutually acceptable solutions. I am hopeful that the signs of a revival in tourism for the Northern Mariana Islands come to fruition soon. I view the setbacks recently experienced in Palau as being temporary, and I have full confidence that the leaders and the people of that nation will quickly overcome the obstacles that they face. The economy of the Federated States of Micronesia is progressing slowly but surely, and I anticipate that to continue. The Republic of the Marshall Islands is also doing relatively well, and the Bank has also witnessed an improving economy there. As it has been for nearly 40 years, Bank of Guam® is here to support and accelerate the economic prosperity of these islands. As the cover this year represents, what started as a small drop in an enormous ocean has grown by waves to have a much larger impact in the western Pacific. We help individuals and families directly through consumer and housing loans, but we also help entire communities indirectly with our commercial lending and the other services that we offer to help small business thrive.

When all is said and done, though, we would not be able to accomplish all of the things that we do without the continuing confidence and support of our stockholders. You are the ones who have provided us with the resources that are necessary to carry out our mission, and on behalf of the Bank's management and staff I express our gratitude for everything that you do for us. Because of that, we never lose sight of the debt of allegiance that we owe to you, and everything that we do is dedicated to meeting our obligations to you. I hope you will agree that we have performed well in that duty and I assure you that we will continue our efforts in the future.

Again, thank you and Si Yu´os Ma´asé,



Lourdes (Lou) A. Leon Guerrero
PRESIDENT, CEO AND CHAIR OF THE BOARD

Corporate highlights

Bank of Guam® was recognized as the Small Business Administration's (SBA) *Lender of the Year for 2010.*

This honor is given to the bank that lends the most amount of money to small businesses. Once a small business itself, Bank of Guam® is profoundly honored to receive this award, and is humbled to accept this recognition of our assistance on behalf of all our small business clients who work to make their aspiration a reality.

The 2010 Loan Officer of the Year was also awarded to a Bank of Guam® employee. Esther B. Reyes (Assistant Cashier/Credit Officer) led all other credit officers in underwriting the highest number of small business loans in Guam during 2010.

(ABOVE, LEFT TO RIGHT, FRONT) Lou Leon Guerrero (Bank of Guam® President/Board Chair), Reanna R. Cruz (Assistant Vice President/Credit Officer), Esther B. Reyes (Assistant Cashier/Credit Officer), Elizabeth Echols (SBA Region 9 Administrator), Jess Knox (SBA Associate Administrator, Office of Field Operations), Keven F. Camacho (Vice President/Chief Lending Officer). (BACK) Joyce B. Miyashita (Senior Vice President/Chief Credit Officer), Kalistus Rengiil (Vice President/Credit Manager, Corporate Banking Group) and Ken Lujan (SBA Guam Manager)

Bank of Guam® is proud to be a part of the annual recognition of small business owners, advocates and supporters. In the last five years, the Bank has produced 16 winners.

In 2007, Bank of Guam® nominees won in five of the SBA categories. Lucy Alcorn (GFS Group President and Chief Executive Officer) Small Business Person of the Year; Mike Naholowaa (Bank of Guam® Vice President) Financial Services Champion of the Year; Mariquita "Tita" Leon Guerrero (Tita's Bakery, Owner) Home-Based Business Champion of the Year; Thomas Perez, Gregory Perez, Joseph Perez, Frank Perez & John Perez, (Perez Bros., Inc. Principals) Jeffrey Butland Family-Owned Small Business of the Year; and Lourdes A. Leon Guerrero (Bank of Guam® President and Board Chair) Women in Business Champion of the Year.

(ABOVE, LEFT TO RIGHT) Frank Perez, Joseph Perez, John Perez (all from Perez Bros., Inc.), Lou Leon Guerrero (Bank of Guam® President & Board Chair), Tita Leon Guerrero (Owner, Tita's Bakery), Lucy Alcorn (GFS Group President & CEO), Tom Perez, Greg Perez (Perez Bros., Inc.) and Ken Lujan (SBA Guam Manager). (BACK) Mike Naholowaa (Bank of Guam® Vice President/Credit Officer) and Michael Ady (M-80 Systems).

2008

(ABOVE LEFT, LEFT TO RIGHT) Lou Leon Guerrero (Bank of Guam® President & Board Chair), Senator Tina Muna Barnes, Ann Marie Muna (AM Insurance President & General Manager) and Guam Delegate Madeleine Z. Bordallo. (ABOVE RIGHT) Laling Pangelinan (center with leis) surrounded by her family, friends and Bank of Guam® supporters.

In 2008, Bank of Guam® winners were Ann Marie Muna (AM Insurance President/General Manager) Women in Business Champion of the Year, and Dolores Pangelinan (Special Events by Les Papillon Owner/Buyer) Home-Based Business Champion of the Year.

In 2009, Bank of Guam® nominees won in four categories: James Honda (Guam Transport and Warehouse President) Small Business Exporter of the Year; Paul Tobiason (Recycling Association of Guam President) Home-Based Business Champion of the Year; Craig Wade (Bank of Guam® Vice President) Financial Services Champion; and Emilio Uy (National Office Supply Vice President/Executive General Manager) Small Business Person of the Year.

2009

(ABOVE, LEFT TO RIGHT) Kebrina Duenas (Bank of Guam® Marketing Officer), Lou Leon Guerrero (Bank of Guam® President & Board Chair), James Honda (Guam Transport and Warehouse President), Paul Tobiason (Recycling Association of Guam President), Emilio Uy (National Office Supply Vice President/Executive General Manager), Craig Wade (Bank of Guam® Vice President), Joey Crisostomo (Cars Plus President) and Jackie Marati (Bank of Guam® Senior Vice President).

2010

Keven Camacho (Bank of Guam® Vice President)

In 2010, Bank of Guam® nominees won in two categories: Keven Camacho (Bank of Guam Vice President) Financial Services Champion of the Year, and Shana Guzman Pangelinan (International Distributors, Inc. President) Jeffrey Butland Family-Owned Small Business of the Year and first ever Regional Champion in this category from Guam.

Shana Guzman Pangelinan (International Distributors, Inc. President) and Guam Delegate Madeleine Z. Bordallo

2011

Monica Guzman
(Galaide Group LLC
Chief Executive Officer & Managing Partner)

Vicente Ada
(Founder, Ada's Mortuary, Inc.)

Reanna Cruz
(Bank of Guam® Assistant Vice President)

In 2011, three Bank of Guam® nominees won in the following categories: Monica Guzman (Galaide Group LLC Chief Executive Officer & Managing Partner) Women in Business Champion of the Year; Vicente Ada (Ada's Mortuary, Inc. Founder) Jeffrey Butland Family-Owned Small Business of the Year; and Reanna Cruz (Bank of Guam® Assistant Vice President) Financial Services Champion of the Year.

NEW POHNPEI BRANCH GRAND OPENING

(LEFT TO RIGHT) Ihlen Joseph (Chief of State, Pohnpei State Government), Father Julio Angkel (officiating priest), Vida Ricafrente (Bank of Guam® Vice President/Pohnpei Branch Manager), Lou Leon Guerrero (Bank of Guam® President & Board Chair), Iso Nahniken Salvador Iriarte of Nett (traditional leader), Agnes Etscheit of Etscheit Enterprises and Anako John, Liken of U (wife of the Nahnmwarki of U, traditional chief).

Bank of Guam® has had a branch in Pohnpei for 27 years, which was formerly the home for the then-American Savings and Loan branch. In 2010, the Bank constructed a brand new facility to house our Pohnpei branch, which opened September 13, 2010.

AMERICAN CANCER SOCIETY RELAY FOR LIFE

(LEFT TO RIGHT) Glenda Pangelinan (American Cancer Society(ACS) Guam Chapter) John Ray Taitano (ACS Guam Community Manager & Development), Cora Yanger-Bejado (ACS Guam Chapter), Kebrina Duenas (Bank of Guam® Marketing Officer & Employee Organization President and Relay Team Captain), John Sarmiento (Bank of Guam® Tamuning Branch Manager & Employee Organization Secretary and Relay Team Co-Captain), Lou Leon Guerrero (Bank of Guam® President & Board Chair), Joey Lopez (ACS Honorary Board Member) and Theresa Obispo (Bank of Guam® HR Administrator)

Bank of Guam® has historically been the top money raiser for the Annual Guam American Cancer Society Relay for Life, topping $47,000 in 2010, the highest ever in Guam. In the last two years, Bank of Guam® has placed among the top 10 individual fundraising entities for our Region, which includes Hawaii, California and Nevada.

Deloitte.

Deloitte & Touche LLP
361 S. Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: 1-671-646-3884
Fax: 1-671-649-4932
www.deloitte.com

Independent Auditors' Report

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

We have audited the accompanying consolidated statements of condition of the Bank of Guam and subsidiaries (the “Bank”) as of December 31, 2010 and 2009, and the related consolidated statements of income, comprehensive income, changes in stockholders’ equity and cash flows for each of the three years ended December 31, 2010. 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 Bank'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 present fairly, in all material respects, the financial position of the Bank of Guam and subsidiaries as of December 31, 2010 and 2009 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 23, 2011

Member of
Deloitte Touche Tohmatsu Limited

[In thousands, except par value]

CONSOLIDATED STATEMENTS OF CONDITION

	December 31, 2010	December 31, 2009
Assets		
Cash and due from banks	$ 32,102	$ 25,748
Federal funds sold	10,000	-
Interest bearing deposits in banks	59,376	20,588
Total cash and cash equivalents	101,478	46,336
Interest bearing deposits in banks	1,150	6,150
Investment securities available for sale	191,312	238,198
Investment securities held to maturity	28,366	38,495
Federal Home Loan Bank stock, at cost	2,198	2,198
Loans, net of allowance for loan losses (2010: $9,408 and 2009: $8,895)	611,139	550,297
Accrued interest receivable	6,723	5,457
Premises and equipment, net	18,713	20,639
Goodwill	783	783
Other assets	28,739	32,019
	$ 990,601	$ 940,572
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$ 232,956	$ 213,292
Interest bearing	656,319	598,602
Total deposits	889,275	811,894
Accrued interest payable	233	418
Federal funds purchased	-	10,000
FHLB advances	15,000	35,000
Other liabilities	1,741	2,365
Total liabilities	906,249	859,677
Commitments and contingencies		
Stockholders' equity:		
Common stock $0.2083 par value; 48,000 shares authorized; 8,747 and 8,702 shares issued and 8,715 and 8,670 shares outstanding at 2010 and 2009, respectively	1,830	1,820
Additional paid-in capital	13,683	13,357
Retained earnings	70,532	67,789
Accumulated other comprehensive loss	(1,403)	(1,781)
	84,642	81,185
Common stock in treasury, at cost (32 shares)	(290)	(290)
Total stockholders' equity	84,352	80,895
	$ 990,601	$ 940,572

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

[In thousands, except per share amounts]

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2010	2009	2008
Interest income:			
Loans	$ 43,206	$ 40,572	$ 37,413
Investment securities	5,605	8,529	11,568
Federal funds sold	13	46	636
Deposits with banks	593	477	404
Total interest income	49,417	49,624	50,021
Interest expense:			
Time deposits	656	1,692	4,640
Savings deposits	4,796	6,228	4,022
Other borrowed funds	576	1,105	1,181
Total interest expense	6,028	9,025	9,843
Net interest income	43,389	40,599	40,178
Provision for loan losses	3,125	2,550	2,400
Net interest income, after provision for loan losses	40,264	38,049	37,778
Non-interest income:			
Service charges and fees	3,894	4,265	3,854
Other income	8,351	7,889	6,864
Total non-interest income	12,245	12,154	10,718
Non-interest expenses:			
Salaries and employee benefits	19,577	18,839	18,047
Occupancy	5,861	5,673	5,740
Furniture and equipment	5,128	5,505	4,885
General, administrative and other	12,507	12,757	11,206
Total non-interest expenses	43,073	42,774	39,878
Income before income taxes	9,436	7,429	8,618
Income tax expense	2,344	1,928	2,409
Net income	$ 7,092	$ 5,501	$ 6,209
Earnings per share:			
Basic	$ 0.81	$ 0.63	$ 0.72
Diluted	$ 0.79	$ 0.62	$ 0.70

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

[In thousands]

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31, 2010	2009	2008
Net income	$ 7,092	$ 5,501	$ 6,209
Other comprehensive income (loss), net of tax effects:			
Unrealized holding loss on available-for-sale securities arising during the period	(2,333)	(4,407)	(1,260)
Reclassification for gains realized on available-for-sale securities during the period	2,603	2,718	1,450
Amortization of unrealized holding loss on held-to-maturity securities during the period	108	130	93
Total other comprehensive income (loss)	378	(1,559)	283
Comprehensive income	$ 7,470	$ 3,942	$ 6,492

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Years Ended December 31, 2010	2009	2008
Common stock:			
Balance at beginning of year (8,702, 8,668 and 8,634 shares, respectively)	$ 1,820	$ 1,813	$ 1,801
Common stock issued to employees (45, 34 and 34 shares issued, respectively)	10	7	12
Balance at end of year (8,747, 8,702 and 8,668 shares, respectively)	1,830	1,820	1,813
Additional paid-in capital:			
Balance at beginning of year	13,357	13,097	12,839
Common stock issued to employees	326	260	258
Balance at end of year	13,683	13,357	13,097
Common stock in treasury	(290)	(290)	(290)
Accumulated other comprehensive loss:			
Balance at beginning of year	(1,781)	(222)	(505)
Change in unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effects	270	(1,689)	190
Change in unrealized loss on securities held to maturity, net of reclassification adjustment and tax effects	108	130	93
Balance at end of year	(1,403)	(1,781)	(222)
Retained earnings:			
Balance at beginning of year	67,789	66,616	64,719
Net income	7,092	5,501	6,209
Cash dividends declared	(4,349)	(4,328)	(4,312)
Balance at end of year	70,532	67,789	66,616
Total stockholders' equity	$ 84,352	$ 80,895	$ 81,014

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

[In thousands]

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2010	2009	2008
Cash flows from operating activities:			
Net income	$ 7,092	$ 5,501	$ 6,209
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for loan losses	3,125	2,550	2,400
Depreciation and amortization	3,040	3,250	3,064
Amortization of fees, discounts and premiums	1,677	1,857	(38)
Writedown and loss (gain) on sales of foreclosed assets, net	143	(58)	46
Decrease (increase) in mortgage servicing rights	23	(246)	2
Realized gain on sale of available-for-sale securities	(2,603)	(2,718)	(1,450)
Loss on disposal of premises and equipment	-	-	28
Net change in:			
Accrued interest receivable	(1,266)	(1,324)	307
Other assets	3,670	(16,500)	2,676
Accrued interest payable	(185)	(554)	(977)
Other liabilities	(624)	737	(977)
Net cash provided by (used in) operating activities	14,092	(7,505)	11,290
Cash flows from investing activities:			
Net change in interest bearing deposits with banks	5,000	(996)	5,000
Purchases of securities available for sale	(231,476)	(451,913)	(484,049)
Proceeds from sales of securities available for sale	261,196	261,204	156,805
Maturities, prepayments and calls of securities available for sale	18,833	111,999	395,174
Maturities, prepayments and calls of securities held to maturity	9,961	9,851	11,468
Loan originations and principal collections, net	(97,207)	(66,534)	(89,375)
Proceeds from sales of loans	32,439	25,119	18,493
Proceeds from sales of foreclosed real estate	50	168	193
Proceeds from sales of premises and equipment	-	-	65
Additions to premises and equipment	(1,114)	(1,318)	(2,815)
Net cash (used in) provided by investing activities	(2,318)	(112,420)	10,959
Cash flows from financing activities:			
Net increase in deposits	77,381	72,231	3,499
Payment of FHLB advances	(20,000)	(15,000)	-
Proceeds from FHLB advances	-	15,000	25,000
Proceeds from Federal funds purchased	(10,000)	10,000	-
Proceeds from issuance of common stock	336	267	270
Dividends paid	(4,349)	(4,328)	(4,312)
Net cash provided by financing activities	43,368	78,170	24,457
Net change in cash and cash equivalents	55,142	(41,755)	46,706
Cash and cash equivalents at beginning of year	46,336	88,091	41,385
Cash and cash equivalents at end of year	$ 101,478	$ 46,336	$ 88,091
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$ 6,213	$ 9,579	$ 10,820
Income taxes	310	1,528	1,877
Supplemental schedule of noncash investing and financing activities:			
Foreclosed assets transferred from loans, net	$ 878	$ 3,862	$ 225
Transfer of foreclosed assets to loans	(77)	(126)	(484)
Sale of premises and equipment through bank financing	-	-	585

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

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 wholly-owned subsidiaries, BankGuam Properties, Inc. and BankGuam Insurance Underwriters, Ltd. All significant intercompany and inter-branch 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, 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 (ROP) and the United States of America. The Bank currently has twelve branches in Guam, three in the CNMI, four 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 the valuation of real estate owned. Credit and market risks can be affected by a concentration of business in the Pacific Rim and California, United States of America.

The Bank is subject to 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 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 regulator 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 (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the periods presented. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, valuation of foreclosed assets, other-than-temporary impairment of securities, and the fair value of financial instruments.

Significant Group Concentration of Credit Risk

Most of the Bank's activities are with customers located within Guam, CNMI, FSM, RMI, ROP and California, United States of America (US). The types of securities that the Bank invests in are included in note 3. The types of lending that the Bank engages in are included in note 4. The Bank does not have any significant concentrations in any one industry or customer.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand and balances due from banks, federal funds sold, and interest bearing deposits with banks, all of which mature within ninety days. The Bank is required by the Federal Reserve System to maintain cash reserves against certain of their deposit accounts. At December 31, 2010 and 2009, the required combined reserves totaled approximately $15,613 and $14,466, respectively.

Interest Bearing Deposits with Banks

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

Investment Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and are recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair value, are classified as "available for sale" and are recorded at fair value, with unrealized gains and

(Note 1: Summary of Significant Accounting Policies, Continued...)
...Investment Securities, Continued

losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest yield method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Other-Than-Temporary-Impairments (OTTI) of Investment Securities

Management evaluates securities for other-than-temporary impairment on an annual basis, and more frequently when economic or market concerns warrant such evaluation.

In April 2009, the Financial Accounting Standards Board (FASB) issued an accounting standard which amended OTTI guidance in GAAP for debt securities by requiring a write-down when estimated fair value is below amortized cost in circumstances where: (1) an entity has the intent to sell a security; (2) it is more-likely-than-not that an entity will be required to sell the security before recovery of its amortized cost basis; or (3) an entity does not expect to recover the entire amortized cost basis of the security. If an entity intends to sell a security or if it is more-likely-than-not that the entity will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security's amortized cost basis and its estimated fair value. If an entity does not intend to sell the security or it is not more-likely-than-not that it will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and an amount related to all other factors, which is recognized in other comprehensive income. This accounting standard did not amend recognition and measurement guidance related to OTTI write-downs of equity securities. The Bank adopted this accounting standard on January 1, 2010. The adoption of this accounting standard, which was codified into ASC Topic 320, *"Investments-Debt and Equity Securities,"* had no impact on retained earnings and did not impact the Bank's statements of income and condition. See Note 3 for the disclosures required under this accounting standard.

Federal Home Loan Bank Stock

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

Loans Held for Sale and Mortgage Servicing Rights (MSR)

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.

Mortgage servicing assets are recognized separately when rights are acquired through sale of mortgage loans. Under the servicing assets and liabilities accounting guidance in ASC Topic 860, *"Transfers and Servicing"*, servicing rights resulting from the sale of loans originated by the Bank are initially measured at fair value at the date of transfer. The Bank subsequently measures each class of servicing asset using either the fair value or the amortization method. The Bank has elected to initially and subsequently measure the mortgage servicing rights for mortgage loans using the fair value method. Under the fair value method, the servicing rights are carried in the statements of condition at fair value and the changes in fair value are reported in earnings in the period in which the changes occur.

Fair value is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables change from period to period as market conditions and projected interest rates change, and may have an adverse impact on the value of the mortgage servicing right and may result in a reduction to noninterest income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on contractual percentage of the outstanding principal and are recorded as income when earned. The change in fair value of mortgage servicing rights is netted against loan servicing fee income.

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 as income using the effective interest method over the contractual life of the loans.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Credit card loans and other unsecured consumer loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

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

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of the loan. The general component covers unimpaired loans and is based on historical charge-off experience and expected loss given default derived from the Bank's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loans' obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer loans for impairment disclosures.

Off-Balance Sheet Financial Instruments

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

Premises and Equipment

Premises and equipment are reported at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the related assets. Depreciation expense has been computed principally using estimated lives of 15 to 40 years for premises and 5 to 10 years for furniture and equipment. Leasehold improvements are depreciated over the estimated lives of the assets or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

Construction-in-progress consists of accumulated direct and indirect costs associated with the Bank's construction of premises and the purchase of equipment 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.

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

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. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Foreclosed assets are estimated using the appraised value of the underlying collateral discounted as necessary due to management's estimates of changes in economic conditions less estimated costs to sell. A valuation allowance is increased by provisions charged to earnings. Subsequent write-down, income and expense incurred in connection with holding such assets, and gains and losses realized from the sales of such assets are charged to the valuation allowance.

Goodwill

Goodwill is deemed to have an indefinite life and is not amortized but is evaluated at least annually for impairment in accordance with ASC Topic 350 *"Intangibles – Goodwill and Other."*

Treasury Stock

Common stock shares repurchased are recorded as treasury stock at cost.

Income Taxes

Income taxes represent taxes recognized under laws of the Government of Guam, which generally conform to U.S. income tax laws. Foreign income taxes result from payments of taxes with effective rates ranging from 2% to 5% of gross income 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 income tax accounting guidance ASC Topic 740, *"Income Taxes."*

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

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

A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount that the tax authority has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Bank recognizes interest and penalties on income taxes as a component of income tax expense.

Dividends Declared

At its discretion, the Bank declares dividends to 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 2010, 2009 and 2008.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains on securities available for sale and unrealized losses related to factors other than credit on debt securities, which are also recognized as separate components of equity.

Earnings Per Common Share

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

[In thousands, except per share data]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

(Note 1: Summary of Significant Accounting Policies, Continued...)
...Earnings Per Common Share, Continued

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

	2010	2009	2008
Average number of common shares outstanding	8,721	8,681	8,642
Effect of dilutive options	231	234	226
Average number of common shares outstanding used to calculate diluted earnings per common share	8,952	8,915	8,868

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in note 16. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market condition could significantly affect the estimates.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Advertising Costs

Advertising costs are expensed as incurred.

Subsequent Events

Management has evaluated subsequent events through February 23, 2011, which is the date that the consolidated financial statements are available to be issued. There were no material subsequent events that would require recognition or disclosure in the financial statements for the year ended December 31, 2010.

Note 2 - Recent Accounting Pronouncements

Transfer of Financial Assets

On January 1, 2010, the Bank adopted accounting guidance in ASC Topic 860 which amended GAAP related to the accounting for transfers and servicing of financial assets and extinguishments of liabilities, including the removal of the concept of a qualifying special-purpose entity from GAAP. This new accounting standard also clarifies that a transferor must evaluate whether it has maintained effective control of a financial asset by considering its continuing direct or indirect involvement with the transferred financial asset. This accounting standard is effective for financial asset transfers occurring after December 31, 2009. The adoption of this accounting standard on January 1, 2010 did not impact the Company's statements of income and condition.

Fair Value Measurements and Disclosures

In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06, *"Improving Disclosures About Fair Value Measurements,"* which added disclosure requirements about transfers in and out of Levels 1 and 2, clarified existing fair value disclosure requirements about the appropriate level of disaggregation, and clarified that a description of valuation techniques and inputs used to measure fair value was required for recurring and nonrecurring Level 2 and 3 fair value measurements. The Bank adopted these provisions of this ASU in preparing the Consolidated Financial Statements for the year ended December 31, 2010. The adoption of these provisions, which was subsequently codified into ASC Topic 820, *"Fair Value Measurements and Disclosures,"* only affected the disclosure requirements for fair value measurements and as a result had no impact on the Bank's statements of income and condition. See Note 16 for the disclosures required by this ASU.

This ASU also requires that Level 3 activity related to purchases, sales, issuances, and settlements be presented on a gross basis, rather than as a net number as currently permitted. This provision of the ASU is effective for the Bank's reporting period ending December 31, 2011. As this provision amends only the disclosure requirements for Level 3 fair value measurements, the adoption will have no impact on the Bank's financial position or results of operations.

Disclosure about the Credit Quality

In July 2010, the FASB issued ASU 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," which will require the Bank to provide a greater level of disaggregated information about the credit quality of the Bank's loans and leases and the Allowance for Loan and Lease Losses (the "Allowance"). This ASU will also require the Bank to disclose additional informa-

[In thousands, except per share data]

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(Note 2: Recent Accounting Pronouncements, Continued...)
...Disclosure about the Credit Quality, Continued

tion related to credit quality indicators, nonaccrual and past due information, and information related to impaired loans and loans modified in a troubled debt restructuring. The provisions of this ASU are effective for the Bank's reporting period ending December 31, 2011. As this ASU amends only the disclosure requirements for loans and leases and the Allowance, the adoption will have no impact on the Bank's financial position or results of operations.

Intangibles - Goodwill and Other

In December 2010, the FASB issued ASU 2010-28, which (1) does not prescribe a specific method of calculating the carrying value of a reporting unit in the performance of step 1 of the goodwill impairment test and (2) requires entities with a zero or negative carrying value to assess, considering qualitative factors such as those listed in ASC 350-20-35-30, whether it is more likely than not that a goodwill impairment exists. If an entity concludes that it is more likely than not that goodwill impairment exists, the entity must perform step 2 of the goodwill impairment test. The ASU is effective for impairment tests performed during the year ended December 31, 2012. Management believes that the adoption of this Statement will not have significant impact on the Bank's financial position or results of operations.

Note 3 - Investment Securities

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

	2010			
Securities Available for Sale	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government agency and sponsored Agencies (GSE) debt securities	$ 85,004	$ 131	$ (636)	$ 84,499
U.S. government agency pool securities	44,732	531	(67)	44,196
U.S. government agency or GSE mortgage-backed securities	63,822	106	(1,311)	62,617
	$ 192,558	$ 768	$ (2,014)	$ 191,312
Securities Held to Maturity				
U.S. government agency pool securities	$ 2,784	$ 28	$ (24)	$ 2,788
U.S. government agency or GSE mortgage-backed securities	25,582	1,489	-	27,071
	$ 28,366	$ 1,517	$ (24)	$ 29,859

	2009			
Securities Available for Sale	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Municipal Bonds	$ 11,693	$ 74	$ (77)	$ 11,690
U.S. government agency pool securities	88,477	229	(473)	88,233
U.S. government agency or GSE mortgage-backed securities	139,683	50	(1,458)	138,275
	$ 239,853	$ 353	$ (2,008)	$ 238,198
Securities Held to Maturity				
U.S. government agency pool securities	$ 3,458	$ -	$ (69)	$ 3,389
U.S. government agency or GSE mortgage-backed securities	35,037	1,200	(3)	36,234
	$ 38,495	$ 1,200	$ (72)	$ 39,623

At December 31, 2010 and 2009, investment securities with a carrying value of $124,133 and $160,006, 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, 2010 and 2009

(Note 3: Investment Securities, Continued...)

The amortized cost and fair value of investment securities by contractual maturity at December 31, 2010, follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due after one but within five years	$ 85,004	$ 84,499	$ -	$ -
U.S. government agency pool securities	43,732	44,196	2,784	2,788
Mortgage-backed securities	63,822	62,617	25,582	27,071
	$ 192,558	$ 191,312	$ 28,366	$ 29,859

For the years ended December 31, 2010, 2009 and 2008, proceeds from sales of available-for-sale securities amounted to $261,196, $261,204 and $156,805, respectively; gross realized gains were $2,591 $2,984 and $1,818, respectively; and gross unrealized losses were $28, $266 and $215, respectively.

Temporarily Impaired Securities

The following table shows the gross unrealized losses and fair value of the Bank's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2010 and 2009.

	2010			
	Less Than Twelve Months		Over Twelve Months	
Securities Available for Sale	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
U.S. government agency and sponsored Agencies (GSE) debt securities	$ 636	$ 54,364	$ -	$ -
U.S. government agency pool securities	-	-	67	11,051
U.S. government agency or GSE mortgage-backed securities	1,311	55,363	-	-
	$ 1,947	$ 109,727	$ 67	$ 11,051
Securities Held to Maturity				
U.S. government agency or GSE mortgage-backed securities	$ 1	$ 18	$ 23	$ 1,008

	2009			
	Less Than Twelve Months		Over Twelve Months	
Securities Available for Sale	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
Municipal bonds	$ 8	$ 2,779	$ 69	$ 3,575
U.S. government agency pool securities	272	22,500	201	15,393
U.S. government agency or GSE mortgage-backed securities	1,458	129,736	-	-
	$ 1,738	$ 155,015	$ 270	$ 18,968
Securities Held to Maturity				
U.S. government agency or GSE mortgage-backed securities	$ -	$ -	$ 72	$ 3,306

[In thousands, except per share data]

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(Note 3: Investment Securities, Continued...)
...Temporarily Impaired Securities, Continued

The Bank does not believe that the investment securities that were in an unrealized loss position as of December 31, 2010, which comprised a total of 35 securities, were other-than-temporarily impaired. Specifically, the 35 securities are comprised of the following: 13 Small Business Administration (SBA) Pool securities, 10 debt securities issued by Government National Mortgage Association (GNMA), 1 debt security issued by Federal Home Loan Bank (FHLB), 10 mortgage-backed securities issued by GNMA and 1 mortgage-backed security issued by Federal Home Loan Mortgage Corporation (FHLMC).

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

Note 4 - Loans

A summary of the balances of loans at December 31, 2010 and 2009 follows:

	2010	2009
Commercial	$ 368,635	$ 345,712
Consumer	112,462	102,024
Real estate	88,840	86,329
Government	47,904	23,746
Other	4,112	2,662
Gross loans	621,953	560,473
Less: net deferred loan fees	1,406	1,281
Less: allowance for loan losses	9,408	8,895
Net loans	$ 611,139	$ 550,297

At December 31, 2010 and 2009, loans to directors and executive officers of the Bank amounted to $15,912 and $13,678, respectively. These loans were extended in the normal course of business and at prevailing interest rates. At December 31, 2010 and 2009, undisbursed commitments amounted to $7,140 and $7,925, respectively.

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 $173,505 and $159,255 at December 31, 2010 and 2009, respectively. On December 31, 2010 and 2009, the Bank recorded mortgage servicing rights at their fair value of $942 and $965, respectively.

At December 31, 2010, loans outstanding were comprised of approximately 73% variable rate loans and 27% fixed rate loans.

A summary of the changes in the allowance for loan losses for the years ended December 31, 2010, 2009 and 2008, follows:

	2010	2009	2008
Balance at beginning of year	$ 8,895	$ 9,943	$ 9,000
Provision for loan losses	3,125	2,550	2,400
Loans charged-off	(3,838)	(4,659)	(2,681)
Recoveries of loans previously charged-off	1,226	1,061	1,224
Balance at end of year	$ 9,408	$ 8,895	$ 9,943

[In thousands, except per share data]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

(Note 4: Loans, Continued...)

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

	2010	2009
Carrying value of impaired loans without a valuation allowance	$ 8,599	$ 5,650
Carrying value of impaired loans with a valuation allowance	6,711	5,208
Total impaired loans	$ 15,310	$ 10,858
Valuation allowance related to total impaired loans	$ 826	$ 1,091
Total non-accrual loans	$ 15,310	$ 10,858
Total loans past-due ninety days or more and still accruing	$ 1,355	$ 5,172

	2010	2009	2008
Average investment in impaired loans	$ 13,084	$ 10,302	$ 7,600
Interest income recognized on impaired loans, all based on cash basis	$ 73	$ 262	$ 226

Note 5 - Premises and Equipment

A summary of premises and equipment at December 31, 2010 and 2009 follows:

	2010		
	Cost	Accumulated Depreciation	Net Book Value
Buildings	$ 27,742	$ (14,906)	$ 12,836
Furniture and equipment	23,715	(19,614)	4,101
Automobiles and mobile facilities	1,400	(1,148)	252
Leasehold improvements	4,092	(2,647)	1,445
	56,949	(38,315)	18,634
Contruction in-progress	79	-	79
	$ 57,028	$ (38,315)	$ 18,713

	2009		
	Cost	Accumulated Depreciation	Net Book Value
Buildings	$ 27,742	$ (14,108)	$ 13,634
Furniture and equipment	22,641	(17,867)	4,774
Automobiles and mobile facilities	1,383	(941)	442
Leasehold improvements	3,507	(2,414)	1,093
	55,273	(35,330)	19,943
Contruction in-progress	696	-	696
	$ 55,969	$ (35,330)	$ 20,639

For the years ended December 31, 2010, 2009 and 2008, depreciation expense was $3,040, $3,250 and $3,064, respectively.

[In thousands, except per share data]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

Note 6 - Other Assets

A summary of other assets at December 31, 2010 and 2009 follows:

	2010	2009
Prepaid income tax	$ 9,872	$ 12,149
Prepaid expenses	4,910	5,177
Prepaid FDIC assessments for 2011 and 2012	4,522	5,853
Foreclosed assets, net	4,486	3,878
Deferred tax asset, net	2,870	2,813
Mortgage servicing rights	942	965
Other	1,137	1,184
	$ 28,739	$ 32,019

Note 7 - Forclosed Assets

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

	2010	2009
Balance at beginning of year	$ 3,878	$ 252
Additions	878	3,862
Sales	(127)	(294)
	4,629	3,820
Writedowns and (loss) gain on sale, net	(221)	4
Change in valuation allowances	78	54
Balance at end of year	$ 4,486	$ 3,878

A summary of foreclosed asset operations, which are included in non-interest expenses, for the years ended December 31, 2010, 2009 and 2008, is as follows:

	2010	2009	2008
Real estate operations, net	$ 196	$ 58	$ 71
Loss (gain) on the sale of the foreclosed assets	20	(14)	(22)
Writedowns	201	10	67
Change in valuation allowances	(78)	(54)	(91)
Net losses from other real estate operations	$ 339	$ -	$ 25

[In thousands, except per share data]

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 8 - Deposits

A summary of deposits at December 31, 2010 and 2009 follows:

	2010	2009
Non-interest bearing deposits	$ 232,956	$ 213,292
Interest bearing deposits:		
Demand deposits	75,237	72,830
Regular savings	386,303	311,484
Time deposits:		
$100,000 or more	69,542	84,004
Less than $100,000	15,943	17,951
Other interest bearing deposits	109,294	112,333
	656,319	598,602
Total	$ 889,275	$ 811,894

At December 31, 2010, the scheduled maturities of time deposits were as follows:

Year ending December 31,	
2011	$ 81,810
2012	862
2013	613
2014	646
2015	1,301
Thereafter	253
	$ 85,485

Note 9 - Borrowings

Federal Home Loan Bank (FHLB) Advances

The Bank has a credit line with the FHLB equal to 10% of total assets. At December 31, 2010 and 2009, the Bank had outstanding advances against this credit line under Blanket Agreements for Advances and Security Agreements (the Agreements) of $15,000 and $35,000, respectively. 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 3.58% and 2.37% at December 31, 2010 and 2009, respectively.

The advances outstanding at December 31, 2010 are due to mature as follows:

Year ending December 31,	
2011	$ 5,000
2012	10,000
	$ 15,000

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.

Overnight Fed Funds Lines

At December 31, 2010 and 2009, the Bank had $17,000 in federal funds lines of credit available with its correspondent banks. No borrowings were outstanding as of December 31, 2010. At December 31, 2009, $10,000 was outstanding against these lines.

[In thousands, except per share data]

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 10 - Income Taxes

The income tax provision includes the following components:

	2010	2009	2008
Government of Guam income taxes:			
Current	$ 2,297	$ 1,167	$ 2,419
Deferred	(252)	410	(324)
Foreign income taxes (including U.S. income taxes)	299	351	314
Total income tax expense	$ 2,344	$ 1,928	$ 2,409

The components of deferred income taxes are as follows:

	2010	2009	2008
Deferred loan origination fees	$ (42)	$ (24)	$ (33)
Mortgage servicing rights	(8)	84	(2)
Loan loss provision	(175)	356	(321)
Deferred rent obligation	(27)	(24)	(31)
Foreclosed assets valuation	-	18	63
Deferred tax (benefit) provision	$ (252)	$ 410	$ (324)

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

	2010	2009
Deferred tax assets:		
Allowance for loan losses	$ 3,200	$ 3,025
Foreclosed assets	64	64
Net unrealized loss on securities available for sale	424	563
Net unrealized loss on securities held to maturity	299	355
Loan origination fees	477	435
Deferred rent obligation	188	161
Total deferred tax asset	4,652	4,603
Deferred tax liability:		
Depreciation	(1,462)	(1,462)
Mortgage servicing rights	(320)	(328)
Total deferred tax liability	(1,782)	(1,790)
Net deferred tax asset	$ 2,870	$ 2,813

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.

The difference between effective income tax expense and income tax expense computed at the Guam statutory rate was due to nontaxable interest income earned on loans to the Government of Guam for each of the years ended December 31, 2010, 2009 and 2008.

The Bank files income tax returns in Guam, CNMI and the State of California. The Bank is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2006.

[In thousands, except per share data]

Note 11 - 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, 2010, 1,657 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, 2010, 2009 and 2008, shares totaling 45, 34 and 33 respectively, were issued under the plan at average prices per share of $7.49, $7.87 and $7.57, respectively.

Executive Employment Agreements

The President and the Executive Vice President are employed under separate agreements terminating December 31, 2012 and May 31, 2013, respectively. Under the agreements, they receive specified base salaries, which are adjusted annually for changes in the U.S. Consumer Price Index plus an incentive bonus. The 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 an agreement with the Bank, the designated survivor of the late Chairman is receiving a bonus based on the level of qualified assets or profitability, within a defined limit, through 2010.

Under a Phantom Stock unit and stock option plan, the President and 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 their 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, 2010 and 2009, there were no Phantom Stock units outstanding under the plan.

Senior Vice Presidents Employment Agreements

Seven Senior Vice Presidents entered into separate 5-year employment agreements terminating on December 31, 2011. Under the agreements, they receive specified base salaries and they may receive bonuses, within a defined limit, based on the Bank's profitability, adjusted by certain Bank performance criteria.

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 made matching contributions equal to 50 percent of the first six percent of an employee's compensation contributed to the Plan through February 28, 2008. Effective March 1, 2008, the Bank makes matching contributions equal to 100% of an employee's deferrals, up to 1% of the employee's compensation, plus 50% of the employee's deferrals that exceed 1%, but less than 5% of the employee's compensation. Previously, matching contributions vest to the employee over a five-year period of service. Effective March 1, 2008, matching contributions become 100% vested to the employee after 2 years of service. For the years ended December 31, 2010, 2009 and 2008, the expense attributable to the Plan was $341, $342 and $322, respectively.

Note 12 - 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. The total amount of the rent is being debited to expense on the straight-line method over the lease terms in accordance with ASC Topic 840 *"Leases."* The Bank has recorded a deferred obligation of $554 and $474 as of December 31, 2010 and 2009, respectively, which has been included within other liabilities, to reflect the excess of rent expense over cash paid on the leases.

At December 31, 2010, annual lease commitments under the above noncancelable operating leases were as follows:

Year ending December 31,	
2011	$ 1,647
2012	1,116
2013	975

[In thousands, except per share data]

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(Note 12: Lease Commitments, Continued...)

Year ending December 31,	
2014	830
2015	640
Thereafter	19,266
	$ 24,474

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, 2010, 2009 and 2008 approximated $263, $263 and $252, respectively.

Additionally, the Bank leases office space to third parties, with original lease terms ranging from 3 to 5 years with option periods ranging up to 15 years. At December 31, 2010, minimum future rents to be received under noncancelable operating sublease agreements were $13 for the year ended December 31, 2011.

A summary of rental activities for years ended December 31, 2010, 2009 and 2008, is as follows:

	2010	2009	2008
Rent expense	$ 2,508	$ 2,326	$ 2,285
Less: sublease rentals	269	283	249
	$ 2,239	$ 2,043	$ 2,036

Note 13 - Other Income

A summary of the rental activities for the years ended December 31, 2010, 2009 and 2008, is as follows:

	2010	2009	2008
Gain on sale of securities	$ 2,603	$ 2,718	$ 1,450
Merchant activities, net	1,254	1,219	1,430
Cardholder activities, net	1,520	1,273	1,469
Other operating income	2,974	2,679	2,515
	$ 8,351	$ 7,889	$ 6,864

Note 14 - 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, 2010 and 2009, that the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2010, 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.

There are no conditions or events since the notification that

[In thousands, except per share data]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

(*Note 14: Minimum Regulatory Capital Requirements, Continued...*)

management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2010 and 2009 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, 2010:						
Total capital (to Risk Weighted Assets)	$ 93,286	13.76%	$ 54,228	8.00%	$ 67,785	10.00%
Tier 1 capital (to Risk Weighted Assets)	$ 84,813	12.21%	$ 27,114	4.00%	$ 40,671	6.00%
Tier 1 capital (to Average Assets)	$ 84,813	8.52%	$ 39,816	4.00%	$ 49,771	5.00%
As of December 31, 2009:						
Total capital (to Risk Weighted Assets)	$ 89,227	14.95%	$ 47,746	8.00%	$ 59,683	10.00%
Tier 1 capital (to Risk Weighted Assets)	$ 81,767	13.70%	$ 23,873	4.00%	$ 35,810	6.00%
Tier 1 capital (to Average Assets)	$ 81,767	8.07%	$ 40,528	4.00%	$ 50,660	5.00%

Note 15 - 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, 2010 and 2009 is as follows:

	2010	2009
Commitments to extend credit	$ 94,979	$ 62,143
Letters of credit:		
Standby letters of credit	$ 33,072	$ 21,003
Other letters of credit	1,513	2,792
	$ 34,585	$ 23,795

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.

(*Note 15: Off-Balance Sheet Activities, Continued...*)

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. The Bank generally holds collateral supporting those commitments. Management does not anticipate any material losses as a result of these transactions.

The Bank considers its standby letters of credit to be guarantees. At December 31, 2010, the maximum undiscounted future payments that the Bank could be required to make was $33,072. 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, 2010.

Note 16 - Fair Value of Financial Assets and Liabilities

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with ASC Topic 820 *"Fair Value Measurements and Disclosures,"* the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

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

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

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

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

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

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

Cash and Cash Equivalents

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

[In thousands, except per share data]

(*Note 16: Fair Value of Financial Assets and Liabilities, Continued...*)

Interest-Bearing Deposits in Banks

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

Investment Securities

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

If quoted market prices are not available, the Bank estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include GSE obligations, corporate bonds, and other securities. Mortgage-backed securities are included in Level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, the Bank would classify those securities in Level 3. At December 31, 2010 and 2009, the Bank did not have any Level 3 securities.

Loans

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

Mortgage Servicing Rights

The fair value of MSRs is determined using models which depend on estimates of prepayment rates and resultant weighted average lives of the MSRs and the option adjusted spread levels.

Deposit Liabilities

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

Short-Term Borrowings

The carrying amounts of federal funds purchased and FHLB advances maturing within ninety days approximate their fair values.

Long-Term Borrowings

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

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.

Financial assets measured at fair value on a recurring basis as of December 31, 2010 and 2009 are as follows:

December 31, 2010	Quoted Prices in Active Markets for Indentical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investment securities				
Available for Sale	$ -	$ 191,312	$ -	$ 191,312
Other assets:				
MSRs	-	-	942	942
Total assets	$ -	$ 191,312	$ 942	$ 192,254

[In thousands, except per share data]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

(Note 16: Fair Value of Assets and Liabilities, Continued...)

December 31, 2009	Quoted Prices in Active Markets for Indentical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investment securities				
Available for Sale	$ -	$ 238,198	$ -	$ 238,198
Other assets:				
MSRs	-	-	965	965
Total assets	$ -	$ 238,198	$ 965	$ 239,163

There are no liabilities measured at fair value on a recurring basis as of December 31, 2010 and 2009.

During the years ended December 31, 2010 and 2009, the changes in Level 3 assets measured at fair value on a recurring basis are as follows:

	2010	2009
Beginning balance	$ 965	$ 719
Realized and unrealized net (losses) gains:		
Included in net income	(23)	246
Included in other comprehensive income	-	-
Purchases, sales and issuances, net	-	-
Ending balance	$ 942	$ 965

There were no transfers in or out of the Bank's Level 3 financial assets for the years ended December 31, 2010 and 2009.

Assets Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances the Bank makes adjustments to fair value for assets and liabilities though they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the consolidated statements of condition by caption and by level in the fair value hierarchy at December 31, 2010 and 2009, for which a nonrecurring change in fair value has been recorded:

December 31, 2010	Quoted Prices in Active Markets for Indentical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets:				
Loans, net				
Impaired loans	$ -	$ 362	$ -	$ 362
Other assets				
Other real estate owned	$ -	$ 3,354	$ -	$ 3,354

December 31, 2009	(Level 1)	(Level 2)	(Level 3)	Total
Financial assets:				
Loans, net				
Impaired loans	$ -	$ 3,184	$ -	$ 3,184

[In thousands, except per share data]

(Note 16: Fair Value of Assets and Liabilities, Continued...)
...Assets Measured at Fair Value on a Nonrecurring Basis, Continued

In accordance with the provisions of loan impairment guidance of ASC Subtopic 310-10-35, individual loans with total carrying values of $453 and $5,209 at December 31, 2010 and 2009, respectively, were written down to their fair value of $362 and $3,184, respectively, resulting in an impairment charge of $91 and $2,025, respectively, which were recorded as charge offs to the allowance for loan losses. Loans subject to write downs are estimated using the appraised value of the underlying collateral discounted as necessary due to management's estimates of changes in economic conditions less estimated costs to sell.

In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsections of ASC Subtopic 360–10, foreclosed assets with a carrying amount of $3,555 was written down to their fair value of $3,354, resulting in a loss of $201, which was included in earnings for the period. Foreclosed assets subject to write downs is estimated using the appraised value of the underlying collateral discounted as necessary due to management's estimates of changes in economic conditions less estimated costs to sell.

Additionally, the Bank also makes adjustments to nonfinancial assets and liabilities though they are not measured at fair value on an ongoing basis. The Bank does not have nonfinancial assets or liabilities for which a nonrecurring change in fair value has been recorded during the year ended December 31, 2010.

Fair Value of Other Financial Instruments

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

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 101,478	$ 101,478	$ 46,336	$ 46,336
Interest bearing deposit with banks	$ 1,150	$ 1,150	$ 6,150	$ 6,150
Investment securities held to maturity	$ 28,366	$ 29,859	$ 38,495	$ 39,623
Loans, net	$ 611,139	$ 625,247	$ 550,297	$ 552,558
Accrued interest receivable	$ 6,723	$ 6,723	$ 5,457	$ 5,457
Financial liabilities:				
Deposits	$ 889,275	$ 893,072	$ 811,894	$ 812,872
Accrued interest payable	$ 233	$ 233	$ 418	$ 418
Federal funds purchased	$ -	$ -	$ 10,000	$ 10,000
Federal Home Loan Bank advances	$ 15,000	$ 15,000	$ 35,000	$ 35,000

Note 17 - Contingency

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

[$ in tables in thousands]

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

At December 31, 2010, the Bank's total assets had increased by 5.3% to close the year at $990.6 million, up $50.0 million from $940.6 million in 2009. This increase is largely attributed to a $60.8 million increase in net Loans coupled with a $33.8 million increase in Interest Bearing Deposits with Banks, which were partially offset by a $57.0 million decrease in Investment Securities portfolio.

Assets	2010	2009	$ Change	% Change
Cash and Due from Banks	$ 32,102	$ 25,748	$ 6,354	24.7%
Federal Funds Sold	10,000	-	10,000	100.0%
Interest Bearing Deposits with Banks	59,376	20,588	38,788	188.4%
Total Cash and Cash Equivalents	101,478	46,336	55,142	119.0%
Interest Bearing Deposits with Banks	1,150	6,150	(5,000)	(81.3%)
Investment Securities Available-For-Sale	191,312	238,198	(46,886)	(19.7%)
Investment Securities Held-To-Maturity	28,366	38,495	(10,129)	(26.3%)
Federal Home Loan Bank Stock, at Cost	2,198	2,198	–	–
Loans, Net of Allowance for Loan Losses	611,139	550,297	60,842	11.1%
Accrued Interest Receivable	6,723	5,457	1,266	23.2%
Premises and Equipment, net	18,713	20,639	(1,926)	(9.3%)
Goodwill	783	783	–	–
Other Assets	28,739	32,019	(3,280)	(10.2%)
Total Assets	$ 990,601	$ 940,572	$ 50,029	5.3%

During 2010, the economies in our regional markets remained relatively flat and the continuation of the historically low market interest rates continued to put pressure on our interest revenues despite the $48.1 million growth in our total earning assets portfolio. As a result, our total interest income for the year of $49.4 million is down slightly by $0.2 million (0.4%) from $49.6 million in 2009. However, we were able to fully offset the decline in total interest income as we gradually lowered the interest rates on our interest bearing liabilities during the year, and thus reduced our total interest expense by $3.0 million (33.2%) to $6.0 million from $9.0 million in 2009. On a net basis, our Net Interest Income before Provision for Loan Losses for the year totaled $43.4 million, up $2.8 million from $40.6 million in 2009.

Although the stagnant economic conditions and the historically low interest rate environment presented major challenges during the year, we were able to expand and grow our core business while delivering sustained profit performance. We closed 2010 with Total Assets of $990.6 million, up $50.0 million (5.3%); Total Deposits of $889.3 million, up $77.4 million (9.5%); and Net Profits after Taxes of $7.1 million, up $1.6 million (28.9%) from $5.5 million in 2009. Our sustained profit performance in 2010 allowed us to continue paying regular, quarterly dividends that totaled $4.3 million for the year, and contributed an additional $2.8 million to our Common Shareholders' Equity, which closed the year at $84.4 million, up by $3.5 million (4.3%) from $80.9 million in 2009.

[$ in tables in thousands]

For 2010, our rate of return on assets (ROA), and return on equity (ROE) stood at 0.72% and 8.49%, respectively, up from last year's 0.57% ROA and 6.71% ROE attributed to the increase in our current year net profits. Our ROA and ROE this year continue to compare quite favorably to our peer group, which reported ROA at 0.50%, and ROE at 4.50% for the year.

Income	2010	2009	$ Change	% Change
Total Interest Income	$ 49,417	$ 49,624	$ (207)	(0.4%)
Total Interest Expense	6,028	9,025	(2,997)	(33.2%)
Net Interest Income	43,389	40,599	2,790	6.9%
Provision for Loan Losses	3,125	2,550	575	22.5%
Net Interest Income after Provision	40,264	38,049	2,215	5.8%
Total Non-Interest Income	12,245	12,154	91	0.7%
Total Non-Interest Expense	43,073	42,774	299	0.7%
Income Before Income Taxes	9,436	7,429	2,007	27.0%
Income Tax Expense	2,344	1,928	416	21.6%
Net Income	$ 7,092	$ 5,501	$ 1,591	28.9%

Loans and Deposits

During 2010, we continued with our commitment to actively support the growth and development of the communities that we serve throughout the region and thus expanded our loan and credit card programs throughout the islands. As a result, our total loans (net of deferred loan fees) grew by $61.5 million (11.0%) to $622.0 million, up from $560.5 million in 2009. Our Government loan portfolio (largely comprised of loans to Government of Guam entities) registered the largest increase to close the year at $47.9 million, up $24.2 million from $23.7 million last year. This was followed by the $22.9 million (6.6%) growth in Commercial loans which totaled $368.3 million, up from $345.7 million; the $10.4 million (10.2%) growth in Consumer loans (inclusive of Credit Card balances) which totaled $112.5 million, up from $102.0 million; and Real Estate loans at $88.8 million, up $2.5 million (2.9%) from $86.3 million in 2009.

Loans	2010	2009	$ Change	% Change
Commercial	$ 368,635	$ 345,712	$ 22,923	6.6%
Consumer	112,462	102,024	10,438	10.2%
Real Estate	88,840	86,329	2,511	2.9%
Government Loans	47,904	23,746	24,158	101.7%
Other Loans	4,112	2,662	1,450	54.5%
Gross Loans	621,953	560,473	61,480	11.0%
Less: Net Deferred Loan Fees	1,406	1,281	125	9.8%
Less: Allowance for Loan Losses	9,408	8,895	513	5.8%
Net Loans	$ 611,139	$ 550,297	$ 60,842	11.1%

While the Bank continued its focus on strong asset quality through our stringent underwriting standards and effective collection efforts, our average volume of loans categorized as impaired increased to $15.3 million, up from $10.9 million last year. Conversely and on a more positive note, our gross loan losses in 2010 decreased to $3.8 million, down 17.6% from $4.7 million, coupled with higher recoveries of loans previously charged-off totaling $1.2 million, up from $1.1 million last year. As a result, net loan losses for the year decreased by $1.0 million to $2.6 million, down 27.4% from $3.6 million last year.

Impaired Loans	2010	2009	$ Change	% Change
Impaired Loans	$ 15,310	$ 10,858	$ 4,452	41.0%
Interest income recognized on Impaired Loans	$ 73	$ 262	$ (189)	(72.1%)

Loan Losses	2010	2009	$ Change	% Change
Gross Loan Losses	$ 3,838	$ 4,659	$ (821)	17.6%
Recoveries of charged-off loans	1,226	1,061	165	15.6%
Net Loan Losses	$ 2,612	$ 3,598	$ (986)	(27.4%)

[$ in tables in thousands]

On the liabilities side, our total deposit base during 2010 registered substantial growth, closing the year at $889.3 million, up $77.4 million (9.5%) from $811.9 million last year. Regular Savings, the lead product in terms of both absolute dollar amount and percentage increase, reached $386.3 million, up $74.8 million (24.0%) from $311.5 million, followed by Demand Deposits, interest bearing and non-interest bearing combined, which totaled $308.2 million, up $22.1 million (7.79%) from $286.1 million last year. Conversely, our time deposit portfolio, which is comprised of Time Deposit Open Accounts (TDOA) and fixed-term Time Deposits dropped by $19.5 million to $194.8 million from $214.3 million last year. Total TDOA balances at year-end 2010 dropped slightly by $3.0 million (2.7%) to $109.3 million from $112.3 million, while fixed-term Time Deposits, comprised largely of jumbo time deposits with balances of $100 thousand or more dropped by $16.5 million, closing the year at $85.5 million, down from $101.9 million last year.

Overall, the commendable growth in our loan portfolio contributed positively to our loan-to-deposit ratio which closed the year at 69.8%, up from 68.9% last year.

Deposits	2010	2009	$ Change	% Change
Non-Interest Bearing Deposits	$ 232,956	$ 213,292	$ 19,664	9.2%
Interest Bearing Deposits:				
Demand Deposits	75,237	72,830	2,407	3.3%
Regular Savings	386,303	311,484	74,819	24.0%
Time Deposits:				
$100,000 or more	69,542	84,004	(14,462)	(17.2%)
Less than $100,000	15,943	17,951	(2,008)	(11.2%)
Other Interest Bearing Deposits	109,294	112,333	(3,039)	(2.7%)
Total Interest Bearing Deposits	656,319	598,602	57,717	9.6%
Total Deposits	$ 889,275	$ 811,894	$ 77,381	9.5%

Liquidity and Investment Portfolio

During 2010, our investment portfolio (which is comprised of U.S. government agency pool securities, U.S. government sponsored enterprise (GSE) mortgage-backed securities, federal funds sold and time deposits at other banks) decreased by $51.2 million to close the year at $236.7 million, down 17.8% from $287.8 million in 2009. This is primarily attributed to the $57.0 million (20.6%) net decrease in the investment securities component of the portfolio, which totaled $219.7 million, down from $276.7 million. This decrease, however, was partially offset by a $10.0 million increase in overnight federal funds sold.

Throughout the year, we continued to execute our restructuring strategies to shorten the average maturity and duration of the portfolio in order to minimize the potential adverse impact from market valuation of our longer-term securities, as well as position the portfolio to yield higher returns as market interest rates rise. As a result, our restructuring and reinvestment action generated $2.6 million in net gains from securities sold. During 2010, interest income from our investment portfolio totaled $6.2 million, down $2.8 million from $9.1 million, and our investment portfolio yield stood at 2.36%, down from 2.74% in 2009.

Investments	2010	2009	$ Change	% Change
Federal Funds Sold	$ 10,000	$ -	$ 10,000	100.0%
TCDs at Other Banks	7,000	11,150	(4,150)	(37.2%)
Investment Securities-AFS	191,312	238,198	46,886	(19.7%)
Investment Securities-HTM	28,366	38,495	(10,129)	(26.3%)
Total Investment Portfolio	$ 236,678	$ 287,843	$ (51,165)	(17.8%)

As required by accounting standards, 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. However, in following through with our intention to hold our investments to maturity, and at the same time providing for our short-term liquidity requirements, at year-end 2010, we maintained $28.4 million of our investments in U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities as "Held-to-Maturity." We intend to and we have the ability to hold these securities to their contractual maturity. We do not engage in trading of securities, and therefore do not hold any of our securities in the "Trading" classification.

[$ in tables in thousands]

At December 31, 2010, the amortized cost and fair value of our investment securities, with gross unrealized gains and losses, were as follows:

Investment Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. Government agency and sponsored enterprise (GSE) debt securities	$ 85,004	$ 131	$ (636)	$ 84,499
U.S. Government agency pool securities	43,732	531	(67)	44,196
U.S. Government agency and GSE Mortgage-Backed Securities	63,822	106	(1,311)	62,617
Totals	$ 192,558	$ 768	$ (2,014)	$ 191,312
Securities held-to-maturity:				
U.S. Government agency pool securities	2,784	28	(24)	2,788
U.S. Government agency and GSE Mortgage-Backed Securities	25,582	1,489	-	27,071
Totals	$ 28,366	$ 1,517	$ (24)	$ 29,859

Net Interest Income

Our Net Interest Income after the Provision for Loan Losses for the year totaled $40.3 million, up by $2.2 million (5.8%) from $38.0 million in 2009. This increase is primarily attributed to the net decrease of $3.0 million in total interest expense, which more than offset the $0.2 million net decrease in total interest income. Overall, our net interest margin increased by 43 basis points (0.43%) to close the year at 5.03%, up from 4.60% last year.

Interest Income

Our total interest income of $49.4 million in 2010 registered a net decrease of $0.2 million (0.4%), down from $49.6 million last year. This net decrease is primarily attributed to the $2.9 million decrease in interest income from our investment portfolio which more than offset the $2.6 million increase in interest and fees on loans. During 2010, our loan portfolio generated interest and fees totaling $43.2 million, up $2.6 million (6.5%) from $40.6 million in 2009.

Interest Expense

As market interest rates remained at historically low levels during 2010, we also continued to gradually reduce the interest rates on our interest bearing liabilities during the year. As a result, our total interest expense in 2010 decreased by $3.0 million (33.2%) to $6.0 million, down from $9.0 million in 2009. This decrease was primarily attributed to the $1.4 million decrease in interest paid on our Savings Deposit portfolio which totaled $4.8 million, down from $6.2 million last year, followed by a $1.0 million decrease in interest paid on Time Deposits (largely in "jumbo" time deposits with balances of $100 thousand or more) which totaled $0.7 million for the year, down from $1.7 million last year. In addition, the total interest we paid on our other borrowed funds dropped by $0.5 million to $0.6 million, down from $1.1 million last year.

Interest Income	2010	2009	$ Change	% Change
Interest income:				
Loans	$ 43,206	$ 40,572	$ 2,634	6.5%
Investment Securities	5,605	8,529	(2,924)	(34.3%)
Federal Funds Sold	13	46	(33)	(71.7%)
Deposits with Other Banks	593	477	116	24.3%
Total Interest Income	$ 49,417	$ 49,624	$ (207)	(0.4%)
Interest Expense:				
Time Deposits	$ 656	$ 1,692	$ (1,036)	(61.2%)
Savings Deposits	4,796	6,228	(1,432)	(23.0%)
Other Borrowed Funds	576	1,105	(529)	(47.9%)
Total Interest Expense	$ 6,028	$ 9,025	$ (2,997)	(33.2%)

[$ in tables in thousands]

	2010	2009	$ Change	% Change
Net Interest Income				
Before Provision for Loan Losses	$ 43,389	$ 40,599	$ 2,790	6.9%
Provision for Loan Losses	$ 3,125	$ 2,550	$ 575	22.5%
Net Interest Income after				
Provision for Loan Losses	$ 40,264	$ 38,049	$ 2,215	5.8%

Non-Interest Income and Non-Interest Expense

Non-interest income, which is derived from service charges, fees, commissions, and other non-interest income sources totaled $12.2 million in 2010, up $0.1 million (0.7%) from $12.1 million in 2009. This increase was primarily attributed to the $0.3 million increase in credit card and merchant services income which totaled $2.8 million, up from $2.5 million, coupled with the $0.1 million increase in wire transfer and cable fee income, which totaled $0.7 million, up from $0.6 million, and the $0.1 million increase in trust fee income, which totaled $0.7 million, up from $0.6 million last year. These increases were, however, partially offset by the $0.2 million decrease in mortgage servicing income, which totaled $0.6 million, down from $0.8 million, and the $0.2 million decrease in checking and savings account service fees, which totaled $2.2 million during the year, down from $2.4 million last year.

Non-Interest Income	2010	2009	$ Change	% Change
Service charges and fees	$ 3,894	$ 4,265	$ (371)	(8.7%)
Investment securities gains, net	2,603	2,718	(115)	(4.2%)
Other income	5,748	5,171	577	11.2%
Total Non-Interest Income	$ 12,245	$ 12,154	$ 91	0.7%

On the expense side, non-interest expenses in 2010 totaled $43.1 million, up $0.3 million (0.7%) from $42.8 million in 2009. This increase was largely attributed to the $0.7 million (3.9%) increase in Salaries and Employee Benefit expenses which totaled $19.6 million, up from $18.8 million last year, plus the $0.2 million (3.3%) increase in Occupancy expenses which totaled $5.9 million, up from $5.7 million last year. These increases were however partially offset by the $0.4 million (6.8%) decrease in Furniture and Equipment expenses, which totaled $5.1 million, down from $5.5 million last year, and the $0.3 million (2.0%) decrease in General, Administrative and Other (GA&O) expenses, which totaled $12.5 million in 2010, down from $12.7 million in 2009. The decrease in Furniture and Equipment expenses of $0.4 million was attributed to the $0.2 million decrease in both furniture and equipment depreciation expenses, and equipment maintenance and repair expenses, which combined totaled $5.1 million, down from $5.5 million last year. The $0.3 million decrease in GA&O expenses was largely attributed to the $0.2 million decrease in Sundry Losses, which totaled $0.2 million, down from $0.4 million last year.

Non-Interest Expense	2010	2009	$ Change	% Change
Salaries and employee benefits	$ 19,577	$ 18,839	$ 738	3.9%
Occupancy	5,861	5,673	188	3.3%
Furniture and equipment	5,128	5,505	(377)	(6.8%)
General, administrative and other	12,507	12,757	(250)	(2.0%)
Total Non-Interest Expense	$ 43,073	$ 42,774	$ 299	0.7%

Capital Resources

Under current FDIC regulations, the Bank must maintain a 5.0% tier 1 capital to average assets ratio and a 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, 2010, the Bank's total capital, net of $0.3 million in treasury stocks, stood at $84.4 million, up $3.5 million from $80.9 million in 2009, and the Bank's capital ratios at December 31, 2010, continue to exceed all of the minimum regulatory capital adequacy requirements, and allow the Bank to remain classified as "well capitalized" for regulatory purposes.

[$ in tables in thousands]

Capital Adequacy	2010 Actual	Minimum to be Adequately Capitalized %	Minimum to be Well Capitalized %
Total Capital to Risk Weighted Assets ($)	$ 93,286		
Ratio (%)	13.76%	8.00%	10.00%
Tier 1 Capital to Risk Weighted Assets ($)	$ 84,813		
Ratio (%)	12.21%	4.00%	6.00%
Tier 1 Capital to Average Assets ($)	$ 84,813		
Ratio (%)	8.52%	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 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 them may be less than the full amounts arranged. At December 31, 2010, Commitments to extend credit totaled $95.0 million, up $32.8 million from $62.1 million in 2009. Total Letters of Credit outstanding increased by $10.8 million to $34.6 million, up from $23.8 million in 2009. The Bank does not anticipate any material losses associated with these off-balance arrangements.

Off-Balance Sheet Items	2010	2009	$ Change	% Change
Commitments to Extend Credit	$ 94,979	$ 62,143	$ 32,836	52.8%
Letters of Credit:				
Standby Letters of Credit	$ 33,072	$ 21,003	$ 12,069	57.5%
Other Letters of Credit	1,513	2,792	(1,279)	(45.8%)
Total Letters of Credit	$ 34,585	$ 23,795	$ 10,790	45.3%

Contractual Obligations

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. The total amount of the rent is being debited to expense on the straight-line method over the terms of the leases in accordance with ASC Topic 840 "Leases." The Bank has recorded a deferred obligation of $0.6 million and $0.5 million as of December 31, 2010 and 2009, respectively, which has been included within other liabilities, to reflect the excess of rent expense over cash paid on the leases.

The Bank leases certain facilities from two separate entities in which two of its directors have separate ownership interests. Lease payments made to these entities during each of the years ended December 31, 2010 and 2009 were approximately $0.3 million.

At December 31, 2010, the Bank's annual lease commitments under the above operating leases are as follows:

		Payments due by period			
	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
Long-term debt obligations	$ -	$ -	$ -	$ -	$ -
Capital lease obligations	-	-	-	-	-
Operating lease obligations	24,474	1,647	2,091	1,470	19,266
Purchase obligations	-	-	-	-	-
Other long-term liabilities	-	-	-	-	-
Total	$ 24,474	$ 1,647	$ 2,091	$ 1,470	$ 19,266

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 or circumstances after the date of such statements.

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

SUMMARY OF FINANCIAL CONDITION

	As of December 31,				
	2010	2009	2008	2007	2006
Assets:					
Cash and due from banks	$ 32,102	$ 25,748	$ 28,070	$ 22,937	$ 27,691
Federal funds sold	10,000	-	55,000	18,400	36,000
Interest bearing deposits with banks	60,526	26,738	10,175	10,202	7,702
Investment securities	221,876	278,891	211,537	289,014	254,492
Loans, net of deferred loan fees	620,547	559,192	525,111	454,842	423,363
Less allowance for possible loan losses	9,408	8,895	9,943	9,000	8,891
Net loans	611,139	550,297	515,168	445,842	414,472
Bank premises and equipment	18,713	20,639	22,571	23,498	23,908
Accrued interest receivable and other assets	36,245	38,259	15,756	19,389	20,224
Total assets	$990,601	$940,572	$858,277	$829,282	$784,489
Liabilities and Stockholders' Equity:					
Deposits					
Non-interest bearing	$232,956	$213,292	$205,333	$193,742	$178,722
Interest bearing	656,319	598,602	534,330	542,422	515,565
Total deposits	889,275	811,894	739,663	736,164	694,287
Accrued interest payable and other liabilities	1,974	2,783	2,600	4,554	4,843
Federal Home Loan Bank advances	15,000	35,000	35,000	10,000	10,000
Federal funds purchased	–	10,000	–	–	–
Total liabilities	$906,249	$859,677	$777,263	$750,718	$709,130
Stockholders' Equity:					
Capital stock of $0.2083 par value Authorized 48,000,000 shares at 8,746,292 shares issued/8,714,116 shares outstanding in 2010 and 8,701,663 shares issued/8,669,487 shares outstanding in 2009	1,830	1,820	1,813	1,801	1,792
Capital surplus	13,683	13,357	13,097	12,839	12,595
Treasury stock	(290)	(290)	(290)	(290)	–
Retained earnings	70,532	67,789	66,616	64,719	62,453
Accumulated other comprehensive loss	(1,403)	(1,781)	(222)	(505)	(1,481)
Total stockholders' equity	84,352	80,895	81,014	78,564	75,359
Total liabilities and stockholders' equity	$990,601	$940,572	$858,277	$829,282	$784,489

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

SUMMARY OF OPERATIONS

	Years ended December 31,				
	2010	2009	2008	2007	2006
Interest income:					
Loans	$ 43,206	$ 40,572	$ 37,413	$ 39,571	$ 37,666
Investment securities	5,605	8,529	11,568	12,671	11,112
Federal funds sold	13	46	636	1,602	1,352
Interest on deposits with banks	593	477	404	425	363
Total interest income	49,417	49,624	50,021	54,269	50,493
Interest expense:					
Time deposits	656	1,692	4,640	7,055	5,747
Savings deposits	4,796	6,228	4,022	4,843	3,985
Other borrowed funds	576	1,105	1,181	524	460
Total interest expense	6,028	9,025	9,843	12,422	10,192
Net interest income	43,389	40,599	40,178	41,847	40,301
Provision for loan losses	3,125	2,550	2,400	929	2,050
Net interest income, after provision for loan losses	40,264	38,049	37,778	40,918	38,251
Non-interest income:					
Service charges and fees	3,894	4,265	3,854	4,103	3,733
Investment securities gains (losses), net	2,603	2,718	1,450	75	–
Other income	5,748	5,171	5,414	5,808	5,680
Total non-interest income	12,245	12,154	10,718	9,986	9,413
Non-interest expenses:					
Salaries and employee benefits	19,577	18,839	18,047	17,419	15,232
Occupancy	5,861	5,673	5,740	5,288	5,128
Furniture and equipment	5,128	5,505	4,885	4,481	4,286
General, administrative and other expenses	12,507	12,757	11,206	11,606	9,445
Total non-interest expenses	43,073	42,774	39,878	38,794	34,091
Income before income taxes	9,436	7,429	8,618	12,110	13,573
Income tax expense	2,344	1,928	2,409	3,622	4,063
Net income	$ 7,092	$ 5,501	$ 6,209	$ 8,488	$ 9,510
Earnings per share					
Basic	$ 0.81	$ 0.63	$ 0.72	$ 0.99	$ 1.11
Diluted	$ 0.79	$ 0.62	$ 0.70	$ 0.96	$ 1.08

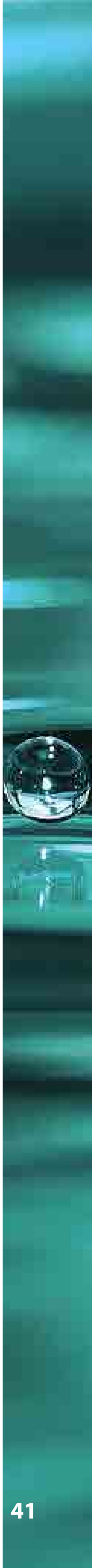
[$ in thousands, unaudited]

SUMMARY OF AVERAGE BALANCES AND INTEREST RATES

	2010		2009	
Assets	**Avg. Balance**	**Avg. Rate**	**Avg. Balance**	**Avg. Rate**
Earning Assets				
Due from Banks - Time	$ 28,662	0.93%	$ 17,326	1.32%
Securities				
U.S. Government Securities	164,471	3.47%	209,660	3.95%
Other Securities	58,881	2.96%	71,679	3.25%
Total Securities	223,352	3.34%	281,339	3.77%
Federal Funds Sold	11,635	0.11%	31,570	0.15%
Loans				
Commercial, Industrial & Government	399,252	6.42%	375,318	6.38%
Real Estate	88,352	6.38%	80,648	6.24%
Consumer	111,774	9.65%	97,207	9.58%
Total Loans	599,378	7.02%	553,173	6.92%
Total Earning Assets	863,027	5.77%	883,408	5.57%
Non-Earning Assets				
Cash and Due from Banks - Demand	75,757		52,219	
Bank Premises and Equipment	19,816		21,537	
Other Real Estate Owned	4,183		1,621	
Other Assets	27,026		14,362	
Allowance for Loan Losses	(9,440)		(9,589)	
Total Assets	$ 980,369		$ 963,558	
Liabilities and Stockholders' Equity				
Interest Paying Liabilities - Deposits				
Demand and Savings	$ 436,549	1.04%	$ 343,922	1.28%
Time Certificates	208,402	0.38%	306,782	1.16%
Total Time and Savings Deposits	644,951	0.83%	650,704	1.23%
Other Borrowed Funds	16,827	3.53%	31,156	3.44%
Subordinated Debt	-	0.00%	-	0.00%
Total Interest Paying Liabilities	661,778	0.90%	681,860	1.33%
Non-Interest Paying Liabilities and Equity				
Demand Deposits	227,887		194,410	
Other Liabilities	7,162		5,262	
Stockholders' Equity	83,542		82,026	
Total Liabilities and Stockholders' Equity	$ 980,369		$ 963,558	
Rate Differential		4.87%		4.24%

[$ in thousands, unaudited]

2008		2007		2006	
Avg. Balance	**Avg. Rate**	**Avg. Balance**	**Avg. Rate**	**Avg. Balance**	**Avg. Rate**
$ 11,797	3.52%	$ 9,614	4.74%	$ 8,499	4.49%
243,289	4.26%	254,148	4.19%	262,452	4.50%
49,508	5.67%	23,302	6.73%	11,498	6.24%
292,797	4.50%	277,450	4.40%	273,950	4.57%
31,582	1.80%	29,548	5.06%	26,313	4.92%
329,696	6.93%	286,125	8.72%	262,788	8.78%
74,792	6.43%	72,105	6.81%	73,313	6.43%
82,725	9.93%	76,706	10.19%	78,507	10.34%
487,213	7.37%	434,938	8.67%	414,608	8.66%
823,389	6.08%	751,548	6.90%	723,370	6.93%
30,870		26,628		22,829	
23,520		23,801		24,109	
361		752		1,391	
13,586		22,054		20,350	
(9,864)		(9,641)		(9,017)	
$ 881,862		$ 815,142		$ 783,032	
$ 293,086	0.85%	$ 287,978	1.11%	$ 302,976	0.96%
278.416	2.18%	249,989	3.53%	216,965	3.20%
571,502	1.50%	537,967	2.23%	519,941	1.90%
31,615	3.68%	10,000	5.25%	10,000	4.69%
-	0.00%	-	0.00%	-	0.00%
603,117	1.61%	547,967	2.29%	529,941	1.95%
196,032		186,248		174,355	
4,650		5,602		6,247	
78,063		75,325		72,489	
$ 881,862		$ 815,142		$ 783,032	
	4.46%		4.98%		4.98%



Senior management, headquarters & branch officials

Senior Management

Lourdes A. Leon Guerrero
President, CEO and Chair of the Board

William D. Leon Guerrero
Executive Vice President, Chief Operating Officer and Vice Chair of the Board

Francisco M. Atalig
Senior Vice President/Chief Financial Officer

Jocelyn B. Miyashita
Senior Vice President/Chief Credit Officer

Josephine L. Mariano
Senior Vice President/Branch, Central Operations & BSA Administrator

Danilo M. Rapadas
Senior Vice President/General Counsel and Chief Risk Officer

Jacqueline A. Marati
Senior Vice President/Marketing Administrator

Ernest P. Villaverde
Senior Vice President/Information Management Systems Administrator

Joseph P. Bradley
Senior Vice President/Economic and Market Statistics Officer

Josephine L. Blas
Senior Vice President/Policy Administrator

Headquarters Officials

Keven F. Camacho
Vice President/Chief Lending Officer

Lori C. Sablan
Vice President/Controller

Mike W. Naholowaa
Vice President/Credit Officer

Daniel F. Anderson
Vice President/Other Real Estate Owned

Kalistus D. Rengiil
Vice President/Corporate Banking Group Manager

Jacqueline Ann Hocog
Vice President/Mortgage Banking Group Manager

Jessica L.G. Diaz
Vice President/Retail Banking Group Manager

Carmelita M. Cruz
Vice President/Loan Adjustment Manager

Beatrice T. Pereda
Vice President/Assistant Central Operations Administrator

Kathrine C. Lujan
Vice President/BSA Manager

Bernadine Q. Pereda
Vice President/Loan Support Manager

Dawn M. Erwin
Assistant Vice President/Business Services Division Manager

Joaquin P.L.G. Cook
Vice President/Compliance Manager and Member, Board of Directors

Wayne S.N. Santos
Vice President/Marketing Manager

Patricia B. Salas
Vice President/Business Development Manager

Luke M. Elliott
Vice President/Electronic Data Processing Manager

Mark D. Terlaje
Vice President/Product and Information Management Systems Manager

Theresa C. Obispo
Vice President/Human Resources Administrator

Amoretta L.P. Carlson
Vice President/Trust Department Manager

J. John P. Ibanez
Vice President/Chief Audit Executive

Regional, Branch & Facility Managers

Christine B. Quichocho
Vice President/Guam Central-Southern Regional Manager

Jennifer B. Sanchez
Vice President/Hagåtña Branch Manager

David R. Sablan
Assistant Vice President/Santa Cruz Branch Manager

John T.M. Sarmiento
Assistant Vice President/Tamuning Branch Manager

Julie A. Gogue
Assistant Vice President/Mangilao Branch Manager

Rose A. Reyes
Assistant Cashier/Malesso Branch Manager

Elizabeth G. Rodgers
Assistant Vice President/Naval Station Branch Manager

Richard G. Camacho
Vice President/Guam Northern Regional Manager

Arlene C. Duenas
Assistant Vice President/Upper Tumon Branch Manager

David J. Arriola
Vice President/Tumon Bay Branch Manager

Katherine R. Lujan
Assistant Vice President/Harmon Branch Manager

Romeo A. Angel
Vice President/Dededo Branch Manager

Katherine B. Martir
Assistant Vice President/Yigo Branch Manager

Elaine J. Lizama
Assistant Vice President/Andersen AFB Branch Manager

Merced M. Tomokane
Vice President/CNMI Regional Manager

Larry A. Phillip
Assistant Vice President/Saipan Branch Manager

Sayuri M. Hideo
Assistant Cashier/Saipan Price-Costco In-Store Facility Manager

Teresa U. Palacios
Assistant Cashier/Saipan San Antonio Facility Manager

Marilyn L. Mendiola
Assistant Cashier/Tinian Facility Manager

Vicente S. Agulto
Assistant Vice President/Rota Branch Manager

Janice C. Quichocho
Vice President/FSM, RMI & ROP Regional Manager

Vida B. Ricafrente
Vice President/Pohnpei Branch Manager

Joanne H. Akinaga
Assistant Vice President/Chuuk Branch Manager

Matthew C. Cruz
Vice President/Palau Branch Manager

Lisa M. Leon Guerrero
Assistant Vice President/Majuro Branch Manager

Joseph D. Cruz
Vice President/Yap Branch Manager

Mary A. Simmering
Assistant Vice President/Kosrae Branch Manager

Shirley N. Quitugua
Vice President/San Francisco Branch Manager

BG Wealth Management Services

Ann M. Roth
Vice President/Investment Officer

Michael F. San Nicolas
Assistant Vice President/Investment Officer

Dave B. Guerrero
Assistant Vice President/BG Wealth Management/BSA Officer, Saipan

Board of Directors

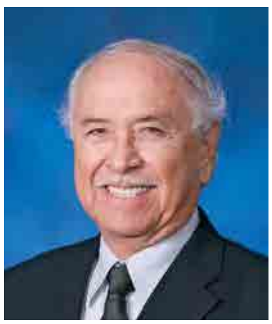
Lourdes A. Leon Guerrero
- Bank of Guam President, CEO and Chair of the Board
- Chair, Executive, Loan and Tax Recovery Committees
- Senator, 23rd, 24th, 26th, 27th and 28th Guam Legislatures
- Member, Guam Nurses Association
- Member, Teleguam LLC Board of Directors

William D. Leon Guerrero
- Bank of Guam Vice Chairman of the Board
- Bank of Guam Executive Vice President and Chief Operating Officer
- Chairman, Asset & Liability Committee
- Vice Chairman, Executive, Loan and Tax Recovery Committees
- Regent, University of Guam

Martin D. Leon Guerrero
- Bank of Guam Board Treasurer and Assistant Secretary
- Chairman, Trust Committee
- Vice Chairman, Audit Committee & Nominating Committee

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
- Chairman, Audit Committee and Nominating Committee
- Speaker, 20th, 21st and 22nd Guam Legislatures
- Senator, 14th - 23rd Guam Legislatures
- Instructor, University of Guam
- Chairman, Government of Guam Retirement Fund
- Former Director, Department of Administration, Bureau of Budget and Management Research



Ralph G. Sablan, M.D.
- U.S. Navy Captain, Retired
- Former President, Guam Medical Society
- Dermatologist, Retired
- Lifetime Member, American Academy of Dermatology

Luis G. Camacho, D.D.S., M.S.
- Vice Chairman, Stock Option Committee
- Past President, Guam Dental Society
- Past Member, Guam Dental Board
- Orthodontist, Retired

Frances L.G. Borja
- President, Carmen Safeway Enterprises, Inc.

Joaquin P.L.G. Cook
- Bank of Guam Vice President Compliance Manager
- Partner, Byerly & Cook Company
- Management Committee, IP&E Holdings, LLC

Joseph "Joey" Crisostomo
- Vice Chairman, Asset & Liability Committee
- President, CarsPlus LLC
- President, CyclesPlus LLC
- Member, Pacific Auto Leasing dba Thrifty Car Rental
- Immediate Past Chairman, Armed Forces Committee, Guam Chamber of Commerce

Patricia P. Ada
- General Manager, Board Secretary and Assistant Treasurer, Ada's Trust and Investment, Inc.
- Manager, P and M, LLP
- Manager, P.P. Ada Investment

With a crystal clear vision, like a pure drop of water, Jesus Leon Guerrero founded Bank of Guam®. Over time, the founding vision sent ripples of prosperity across the Western Pacific, and with the efforts of his son, Tony, those ripples grew into a building tide. Today, under the able guidance of Lou Leon Guerrero, the legacy continues. Bank of Guam®, the People's Bank, continues to grow and spread that crystal clear vision with ever-increasing impact to the islands of Micronesia and beyond.

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