# STRONGER... *Together!*

BANK OF GUAM

2004
ANNUAL
REPORT

# CONTENTS



# FINANCIAL HIGHLIGHTS

[$ in thousands, except per share data]

| At December 31st | 2004 | 2003 | Change in Amount | Change in % | 2002 |
|---|---|---|---|---|---|
| Total assets | $ 749,885 | $ 704,628 | $ 45,257 | 6.4% | $ 696,277 |
| Total deposits | $ 668,657 | $ 623,121 | $ 45,536 | 7.3% | $ 585,049 |
| Net loans | $ 385,989 | $ 358,048 | $ 27,941 | 7.8% | $ 366,718 |
| Allowance for loan losses | $ 8,666 | $ 7,807 | $ 859 | 11.0% | $ 7,508 |
| Investment securities | $ 236,465 | $ 247,741 | $ (11,276) | -4.6% | $ 161,342 |
| Stockholders' equity | $ 66,924 | $ 64,851 | $ 2,073 | 3.2% | $ 88,182 |
| Net income (loss) | $ 6,505 | $ (17,280) | $ 23,785 | 137.6% | $ 4,920 |
| Cash dividends declared | $ 4,280 | $ 4,274 | $ 6 | 0.1% | $ 4,267 |
| **PER SHARE** | | | | | |
| Net income (loss) per common share-basic | $ 0.76 | $ (2.02) | $ 2.78 | 137.6% | $ 0.58 |
| Net income (loss) per common share-diluted | $ 0.74 | $ (1.97) | $ 2.71 | 137.6% | $ 0.55 |
| Cash dividends declared | $ 0.50 | $ 0.50 | $ - | 0.0% | $ 0.50 |
| Book value per common share (9,959,395 shares issued/8,565,634 shares outstanding) | $ 7.81 | $ 7.58 | $ 0.23 | 3.0% | $ 10.33 |

| CASH DIVIDENDS DECLARED PER QUARTER | 1st Qtr. | 2nd Qtr. | 3rd Qtr. | 4th Qtr. | Total/Yr. |
|---|---|---|---|---|---|
| 2004 | $ 0.125 | $ 0.125 | $ 0.125 | $ 0.125 | $ 0.50 |
| 2003 | $ 0.125 | $ 0.125 | $ 0.125 | $ 0.125 | $ 0.50 |

# *MESSAGE TO STOCKHOLDERS*

## *Hafa Adai!*

Although 2004 was again a challenging year for Bank of Guam, we have successfully come through seven years of severe economic conditions in the region, including the devastation caused by typhoons and an earthquake, and the disastrous effects on tourism as a result of war and disease. Our perseverance and preparations over those years are finally being rewarded with a resumption of growth in our asset base and improving profitability. It is truly a pleasure to provide good news to you this year, and I am grateful to you, our Bank of Guam stockholders, for your patience and understanding throughout the previous trying period.

This year I am finally able to report that the economy of Guam and the economies of the other islands in our market are improving. Throughout the region, tourism has been recovering at a rapid pace. In Guam, military activity is expanding, with higher troop strength, more frequent vessel port calls and a level of new construction that promises continued growth for several more years. Along with local improvements in labor conditions and private investment, continuing funding for the Republic of Palau, the Federated States of Micronesia and the Republic of the Marshall Islands under their respective Compacts of Free Association with the United States is supporting the development of infrastructure, creating new jobs and promising sustainable growth with a greater degree of stability. All of these things translate into higher levels of income, better standards of living and, of course, more activity for our Bank.

The expansion of our business during 2004 is evident in many aspects of the performance of the Bank. Perhaps most revealing is that our deposit base climbed by $46 million, rising to our highest year-end level ever at $669 million. These deposits drove our growth in assets by a strong 6.4%, from $705 million to $750 million, and well over half of that growth was in the form of loans. Our loan portfolio itself increased by 7.9%, or $29 million, to $395 million, providing a modest reversal of the decline in our loan-to-deposit ratio over the preceding five years. These figures all reflect the economic expansion that we have been enjoying, and we see many indications that conditions will become progressively more favorable over the next several years.

Another aspect of the improving economies of the region is the substantial decline in net loan losses that the Bank recorded last year. After a drop of 59.9% from 2002 to 2003, these net charge-offs fell by another 35.4% in 2004, to just $1.8 million, their lowest level since 1995. Because we anticipated this improvement, we reduced our provisions for loan losses during 2004 by $450 thousand, to $2.7 million, but nonetheless added 11.0% to our loan loss reserves, which stood at 2.2% of total loans outstanding as of the end of the year. In terms of protecting our stockholders' equity, this compares quite favorably to the average 1.3% in reserves held by other banks of our size throughout the United States. As the growth of our loan portfolio accelerates with the improving economy, we will continue to maintain this superior buffer against unanticipated events, just as we maintain our strict credit underwriting criteria.

On June 30, 2004, the Federal Reserve commenced a series of five 25bp increases in the target Federal Funds rate, raising it from 1.00% to 2.25% and boosting the prime interest rate from 4.00% to 5.25% by the end of the year. Many of the Bank's assets allow periodic re-pricing to adjust to a changing interest rate environment, and they generally re-price more rapidly than our deposit liabilities. Consequently, these increases in rates enabled us to earn $1.9 million (6.3%) more in net interest income during the year for a total of $32.1 million. This, along with the smaller provision for loan losses, added $2.4 million to our pre-tax profitability.

At the same time, our continuing program of aggressive cost containment allowed us to reduce our overhead expenses by

$2.2 million (6.8%), to $30.2 million. Most of this reduction occurred in general, administrative and other expenses (down 24.4%), offset in part by a moderate increase in furniture and equipment expenses (13.2%), along with a nominal increase in employee salaries and benefits (1.6%).

Together, the increase in net interest income and the reduction in overhead expenses led to an increase of $4.5 million (92.6%) in net income before income taxes, to $9.4 million, our highest level since 1999. After paying nearly 31 percent of that net to the respective governments of the region in the form of income taxes, we earned net income of $6.5 million during 2004. That is 32.2% higher than the $4.9 million we earned in 2002 and signals a reversal of the downward trend that started with our regional recession in 1996.

Historically, Bank of Guam has paid regular quarterly dividends, and 2004 was no different, with dividends of $0.125 per share each quarter, totaling $4.3 million for the year. After that deduction from net income, we were still able to bolster our capitalization by $2.1 million (3.2%), bringing us up to $66.9 million in stockholders' equity. Despite our 6.4% growth in assets, this increase in equity allows the Bank to continue to be classified as "well capitalized" by regulatory standards. As always, our Bank maintains a very solid financial footing.

For many years, Bank of Guam has been a leader in the industry in the adoption of proven new technologies that are appropriate for the provision of the highest quality products and services to our customers. That practice has led us to a number of "firsts" in our region and we continue to advance in this area ahead of our competition. The primary directions that banking technologies have been taking in recent years are in digital imaging and Internet communications. By now, our image statements for Bank of Guam checking accounts are familiar to most of our customers, and now those same images, along with the endorsements on the back of the checks, are available to our Pacific Express® onLine customers. Together with our popular on-line bills paying feature, this is drawing increasing numbers of our customers to do much of their banking over the Internet, reducing the traffic in our branch lobbies and helping to attenuate our personnel costs while accelerating the speed and improving the precision with which transactions are conducted.

Many of our customers are still concerned with the personal and financial security of conducting transactions over the Internet, and rightfully so: there are many potential risks involved, and heightened care and awareness are crucial. With this in mind, our Bank has taken uncompromising steps to ensure that our customers' financial information and personal data are kept safe by installing multiple layers of protection so that our digital systems are secure from unauthorized intrusion. We are proud of the success of our efforts and confident that our exemplary record in protecting our customers' accounts from the potential hazards of Internet transactions will be maintained in the future.

While most people view the Internet as a means to communicate with others via email and an avenue to entertainment, shopping and research, we at Bank of Guam know that it is much more: it is a reliable and inexpensive channel for transmitting data and voice from point to point. During 2004 we laid all the groundwork for establishing our own virtual private network (VPN) that uses the physical facilities provided by the Internet but is technically more secure than the leased communications lines that we have been using for data transmissions between our branches and our data processing center. The Bank's virtual private network has been tested and proven secure, and it will allow us to substantially reduce our telecommunications costs as it is switched on this year.

In conjunction with our virtual private network, we are also converting to voice over Internet protocol (VoIP) this year, improving the quality of our voice communications both internally and with our customers while simultaneously slashing our local and long-distance telephone costs. By integrating with our data systems, it will allow call logging and tracking as well as improving accessibility for our customers, and it will enhance our ability to provide faster, more comprehensive service. This new system has many other advantages, as well. Management and staff will be able to use the VoIP features for a multitude of purposes, including scheduling, contacting personnel wherever they are throughout the network, and conferring in groups without the need for being physically present. This is yet another example of how technology allows our Bank to achieve greater productivity while also lowering operating costs.

Customer service has always been Bank of Guam's primary passion, but with all of the technology that we have, we know that providing the best possible service will always come down to the human factor, the quality and knowledge of our staff. Last year we implemented a new set of testing procedures in our personnel selection process and implemented an elaborate system of training and development to keep our employees' skills finely honed. As part of our continuous customer service monitoring, we conducted an extensive customer survey, and the results were extremely good. Most particularly, our customers were very pleased with the variety and quality of the products and services that we provide, and their impression of the courtesy and helpfulness of our staff was exceptionally high. Reinforcing these survey results, we are witnessing a fairly rapid increase in the number of customers banking with us. With this experience and the positive results we have achieved, we are planning to expand our training program even further in the future.

Our training efforts are not limited to our in-house staff, though. We also offered a series of personal finance seminars last year, both in our Headquarters training facility and on-site to groups throughout the communities we serve, whether the participants were Bank of Guam customers or not, and coordinated the local financial industry's efforts to reach young people during National Teach Children to Save Day. We also made our training facility available to the University of Guam for their new, accelerated Master of Business Administration degree, and in 2004 two members of our senior management team taught classes in that program. Both as individuals and as a part of the Bank of Guam family, our officers and staff are deeply involved in voluntary service to each of the communities we serve, whether through donations of time or money, either in coordinating events or participating in activities that make our islands better places to live. Throughout our organization we have many people who are dedicated to making a profound impact wherever they go and whatever they do.

On a more personal note, many of you know that I have had a series of issues with my health over the past few years. I appreciate your expressions of encouragement, and am touched by the care that so many of you have shown. I also understand that some of you may be concerned about my future as it relates to the performance of our Bank. I would like to assure you that my health is steadily improving and that I hope to be back to work soon. In the meantime, I thank you for your thoughts and kind words. In any event, though, what I have written above and what you will read in the pages that follow should make it clear that the success of Bank of Guam is the result of more than just one man. Our Bank is managed by an exceptionally qualified and competent team of professionals who thoroughly know our business, our islands, our economies and our people. As individuals they have earned the respect and admiration of those around them, and as a group they comprise the finest business leadership that anyone could hope to assemble anywhere in the world.

**Bank of Guam Senior Management team,** SEATED LEFT TO RIGHT… Jocelyn B. Miyashita, Vice President/Credit Administrator; Josephine L. Mariano, Vice President/Branch and Central Operations Administrator; Jacqueline A. Marati, Vice President/Human Resources and Marketing Administrator. STANDING LEFT TO RIGHT… Joseph P. Bradley, Vice President/Trust and Economic and Market Statistics Officer; Francisco M. Atalig, Vice President/Chief Financial Officer; William D. Leon Guerrero, Executive Vice President/Chief Operating Officer; Ernest P. Villaverde, Vice President/Information Management Systems Administrator; and Danilo M. Rapadas, Vice President/Legal Counsel and Compliance Officer.

I would again like to say that it is a pleasure to submit this annual report to you. After these many years of hardship, I am glad that our results are finally showing the remarkable improvement that I have been promising for so long. I also want to thank you for your faith in me and in Bank of Guam. Your continuing support has been of inestimable value in putting our Bank squarely back on the road to long-term prosperity.

.

Thank You and Si Yúus Maàse,

**Anthony A. Leon Guerrero**
PRESIDENT AND CHAIRMAN OF THE BOARD

# STRONGER...*Together!*

This is the theme of the 2004 Bank of Guam Annual Report. We bring you our relationships and partners who have helped our communities continue to build and grow. During these particularly challenging years, Bank of Guam's customers continued to develop because of their work to overcome challenges ***TOGETHER.*** No one company or firm can succeed without the will, the resources and, above all, the support of our community. We are proud to present to you some of our many partners as we begin the year 2005 resolute about the state of our economy and determined about our region's ability to sustain growth.

As a team, we have worked to provide services and products to our customers, individual and business, non-profit and government. In these pages, we feature how teams of Bank of Guam bankers work together, bringing service and attention to our customers. These are hallmarks of our banking style: local decision-making, global reach and personal relationships.

**JOETEN ENTERPRISES...** Joeten Enterprises and its subsidiaries and affiliates have grown alongside Bank of Guam since the early 1970s. A pioneer in the business community starting with a small retail merchandise store run by the late Jose C. "Joeten" Tenorio and Soledad T. "Daidai" Tenorio and children, Joeten Enterprises has grown to what is now a multimillion dollar corporation diversified in general merchandising, retailing & wholesaling, auto dealership, auto parts store and other investments, employing approximately 600 people. Pictured (SEATED, LEFT TO RIGHT) are Marcie M. Tomokane, Bank of Guam Vice President/CNMI Regional Manager; Annie T. Sablan, President/Joeten Enterprises, Inc.; Clarence T. Tenorio, President/Marianas Management Corporation; Pat T. Palacios, President/J.C. Tenorio Enterprises, Inc.; and Clarence P. Tenorio, Jr., VP/Wholesale Manager, J.C. Tenorio Enterprises, Inc. (STANDING, LEFT TO RIGHT) Craig P. Tenorio, Assistant Manager/Joeten Motor Company, Inc. & Board Member of Marianas Management Corporation; Jose T. Palacios, Manager/Hafa Adai Shopping Center & Board Member of All Star Sporting Goods; Norman Peter Tenorio, Parts Manager/Joeten Motor Company, Inc. & Board Member; and Jason T. Sablan, Vice President/Merchandising Manager of Joeten Development, Inc.

**TRIPLE J ENTERPRISES…** Celebrating its 20th Anniversary in 2004, Robert Jones and his family continue to invest in the future of our community. Among their many interests are Triple J Enterprises, Triple J Motors, Triple J Five Star Wholesale, Triple J Saipan and Triple J Marshall Islands. Shown here at the construction site of their new $14 million headquarters facility in Upper Tumon are (LEFT TO RIGHT) Triple J Enterprises Executive Vice President Jeff Jones; Bank of Guam Vice President Joyce Miyashita; Triple J Enterprises President Robert Jones; and Triple J Enterprises Vice President Dan Murrell.

THE PHOENIX CENTER

**FATHER DUENAS MEMORIAL SCHOOL**

Guam's only all-boys high school, FDMS embarked on the ambitious construction of high school classrooms and a multi-purpose gym that significantly enhances the region's quality sports facilities. Pictured (LEFT TO RIGHT) are FDMS Principal Bill Roth; Bank of Guam Assistant Vice President/ Branch Manager Jenais L. Guerrero; Phoenix Gym Committee Chair Peter Roy Martinez; and FDMS Assistant Principal Tony Thompson.


**CARS PLUS and CYCLES PLUS**…From his adolescent and young adult years as a motorcycle racing champion and enthusiast, Joey Crisostomo has played a significant role in bringing automobile and motorcycle dealerships to Guam. Building upon his days with other car dealerships, Crisostomo opened Cars Plus LLC, which now is the dealership for Chrysler-Jeep-Dodge and Hyundai, and operates Payless Car Rental. Cycles Plus opened in 2003 selling Kawasaki and Suzuki motorcycles, a fulfillment of a long-held dream to sell bikes. Pictured (LEFT TO RIGHT) are Cars Plus Finance Director Richard Thompson; Bank of Guam Corporate Banking Officer Reanna Cruz; Cars Plus Marketing Director Joyce Crisostomo; and Cars Plus President Joey Crisostomo.

**PACIFIC INTERNATIONAL, INC. (PII)**
Jerry Kramer, based in Majuro, has played a significant role in the development of the Marshall Islands, Guam and Saipan. His interests include the Tobolar Copra Processing Authority and Waffle-Crete International, as well as the Majuro Shopping Center, Laulau Bay (Saipan), Nimitz Towers (Guam), New Century Hotel (Guam) and the Marshall Islands Resort.

Pictured (LEFT TO RIGHT) are PII Secretary David Kramer; Lorraine Kramer; PII President Jerry Kramer; PII Vice President Mercy Kramer; and Bank of Guam Assistant Vice President Kal Rengiil.

**LUISA MAANAO ADA** and her husband **ROLAND ADA** have been with the Bank of Guam since its inception. Longtime small business owners of the Mini Camachile store in Windward Hills, the Adas have consistently relied on the Bank of Guam for their financial services requirements.

Pictured (LEFT TO RIGHT) are Roland Ada, Luisa Maanao Ada and Bank of Guam Assistant Vice President Ben Pablo.

**JOHNDEL INTERNATIONAL, INC.…** Celebrating over 25 years of growth and innovation, Johndel International, Inc. has grown from the garage of the Ilao family home in Tamuning into an international enterprise spanning Guam, Saipan, Micronesia and the Philippines. Bearing the John M. Ilao family head's name, businesses now include JMI Electrical & Airconditioning, JMI Healthcare, JMI Edison (Saipan) and MR Imaging. Pictured (LEFT TO RIGHT) are Johndel International, Inc. Corporate Board Secretary Genilie G. Ilao; Johndel International, Inc. President Eduardo Ilao and Bank of Guam Assistant Vice President Wayne Santos.

# STRONGER...Together!

**THE COMMUNITY BANK...**

When our communities grow, Bank of Guam grows. Traditionally among the region's most generous benefactors to civic, philanthropic and athletic organizations, Bank of Guam officers and employees play key leadership roles in promoting civic and community causes in the region.

Among the many...


**American Cancer Society's Relay for Life...**

**Saipan's Flame Tree Arts Festival...**Lupe T. Pangelinan, Commonwealth Council for Arts & Culture Accountant; Carmen C. Cabrera, Dept. of Community & Cultural Affairs Secretary; Marcie Tomokane, Bank of Guam Vice President/Saipan Branch Manager; and Angel S. Hocog, Arts Council Festival Coordinator.

**Big Brothers/Big Sisters of Guam...**BBBS Guam Chairman Phillipe Gerling; Bank of Guam President Anthony A. Leon Guerrero; and Bank of Guam Vice President Craig Wade.

**Education Exchange Scholarship Award...** Sister Dorothy Lettiere of Academy of Our Lady of Guam; Calvin Lai (winner's father); Scholarship Award Winner Anita Lai of AOLG; William D. Leon Guerrero, Bank of Guam Executive Vice President; and Jacqueline A. Marati, Bank of Guam Vice President.

**San Francisco de Borja School in Rota...**Principal and Administrator Sister Asencion Zambra with Larry Phillip, Bank of Guam Assistant Vice President/Rota Branch Manager.

# *Independent Auditors' Report*

Deloitte & Touche LLP
361 South Marine Drive
Tamuning, GU 96913-3911
USA

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

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

We have audited the accompanying consolidated statements of condition of Bank of Guam and its subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income (loss), comprehensive income (loss), changes in stockholders' equity and cash flows for the years then ended. 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. The consolidated financial statements of the Bank for the year ended December 31, 2002 were audited by other auditors whose report dated February 28, 2003, expressed an unqualified opinion on those statements.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bank of Guam and its subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 24, 2005

Member of
**Deloitte Touche Tohmatsu**

[In thousands, except par value]

# CONSOLIDATED STATEMENTS OF CONDITION

| | December 31, 2004 | December 31, 2003 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 40,816 | $ 33,465 |
| Federal funds sold | 31,950 | 7,830 |
| Interest bearing deposits with banks | 2,202 | 437 |
| Total cash and cash equivalents | 74,968 | 41,732 |
| Interest bearing deposits with banks | 6,000 | 5,150 |
| Investment securities available for sale | 117,610 | 245,073 |
| Investment securities held to maturity | 116,647 | - |
| Federal Home Loan Bank stock, at cost | 2,208 | 2,668 |
| Loans, net of allowance for loan losses | 385,989 | 358,048 |
| Accrued interest receivable | 3,378 | 3,576 |
| Premises and equipment, net | 24,837 | 26,229 |
| Goodwill | 783 | 789 |
| Other assets | 17,465 | 21,363 |
| | $ 749,885 | $ 704,628 |
| **Liabilities and Stockholders' Equity** | | |
| Liabilities: | | |
| Deposits: | | |
| Non-interest bearing | $ 192,468 | $ 166,245 |
| Interest bearing | 476,189 | 456,876 |
| Total deposits | 668,657 | 623,121 |
| Accrued interest payable | 524 | 492 |
| FHLB advance | 10,000 | 10,000 |
| Long-term borrowing | 2,000 | 4,000 |
| Other liabilities | 1,780 | 2,164 |
| Total liabilities | 682,961 | 639,777 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock $0.2083 par value; 48,000 shares authorized; 9,959 and 9,947 shares issued and 8,566 and 8,553 shares outstanding at 2004 and 2003, respectively | 2,076 | 2,073 |
| Additional paid-in capital | 14,073 | 14,011 |
| Retained earnings | 67,757 | 65,532 |
| Accumulated other comprehensive loss | (1,651) | (1,434) |
| | 82,255 | 80,182 |
| Common stock in treasury, at cost (1,394 shares) | (15,331) | (15,331) |
| Total stockholders' equity | 66,924 | 64,851 |
| | $ 749,885 | $ 704,628 |





SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

[In thousands, except per share amounts]

# Consolidated statements of income (loss)

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Interest income: | | | |
| Loans | $ 28,052 | $ 28,557 | $ 31,257 |
| Investment securities | 7,734 | 5,800 | 4,046 |
| Federal funds sold | 269 | 231 | 343 |
| Deposits with banks | 87 | 153 | 200 |
| Total interest income | 36,142 | 34,741 | 35,846 |
| Interest expense: | | | |
| Time deposits | 1,534 | 1,380 | 2,184 |
| Savings deposits | 2,049 | 2,433 | 3,565 |
| Other borrowed funds | 481 | 763 | 743 |
| Total interest expense | 4,064 | 4,576 | 6,492 |
| Net interest income | 32,078 | 30,165 | 29,354 |
| Provision for loan losses | 2,700 | 3,150 | 4,439 |
| Net interest income, after provision for loan losses | 29,378 | 27,015 | 24,915 |
| Non-interest income: | | | |
| Service charges and fees | 4,353 | 4,302 | 4,582 |
| Other income | 5,827 | 5,937 | 6,402 |
| Total non-interest income | 10,180 | 10,239 | 10,984 |
| Non-interest expenses: | | | |
| Salaries and employee benefits | 13,208 | 12,997 | 13,366 |
| Occupancy | 4,422 | 4,477 | 4,284 |
| Furniture and equipment | 3,798 | 3,354 | 3,201 |
| General, administrative and other | 8,726 | 11,545 | 9,543 |
| Total non-interest expenses | 30,154 | 32,373 | 30,394 |
| Income before income taxes | 9,404 | 4,881 | 5,505 |
| Income tax expense | 2,899 | 22,161 | 585 |
| Net income (loss) | $ 6,505 | $ (17,280) | $ 4,920 |
| Earnings (loss) per share: | | | |
| Basic | $ 0.76 | $ (2.02) | $ 0.58 |
| Diluted | $ 0.74 | $ (1.97) | $ 0.55 |

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

[In thousands]

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Net income (loss) | $ 6,505 | $ (17,280) | $ 4,920 |
| Other comprehensive (loss) income, net of tax effects: | | | |
| Unrealized holding (loss) gain on available-for-sale securities arising during the period | (355) | (1,890) | 254 |
| Reclassification for gains realized on available-for-sale securities during the period | 120 | 41 | - |
| Amortization of unrealized holding loss on held-to-maturity securities during the period | 18 | - | - |
| Total other comprehensive (loss) income | (217) | (1,849) | 254 |
| Comprehensive income (loss) | $ 6,288 | $ (19,129) | $ 5,174 |

# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Common stock: | | | |
| Balance at beginning of year (9,947, 9,933 and 9,919 shares, respectively) | $ 2,073 | $ 2,070 | $ 2,067 |
| Common stock issued to employees (12, 14 and 14 shares issued, respectively) | 3 | 3 | 3 |
| Balance at end of year (9,959, 9,947 and 9,933 shares, respectively) | 2,076 | 2,073 | 2,070 |
| Additional paid-in capital: | | | |
| Balance at beginning of year | 14,011 | 13,942 | 13,867 |
| Common stock issued to employees | 62 | 69 | 75 |
| Balance at end of year | 14,073 | 14,011 | 13,942 |
| Common stock in treasury (1,394 shares) | (15,331) | (15,331) | (15,331) |
| Accumulated other comprehensive (loss) income: | | | |
| Balance at beginning of year | (1,434) | 415 | 161 |
| Change in unrealized (loss) gain on securities available for sale, net of reclassification adjustment and tax effects | (235) | (1,849) | 254 |
| Change in unrealized loss on securities held to maturity, net of reclassification adjustment and tax effects | 18 | - | - |
| Balance at end of year | (1,651) | (1,434) | 415 |
| Retained earnings: | | | |
| Balance at beginning of year | 65,532 | 87,086 | 86,433 |
| Net income (loss) | 6,505 | (17,280) | 4,920 |
| Cash dividends declared | (4,280) | (4,274) | (4,267) |
| Balance at end of year | 67,757 | 65,532 | 87,086 |
| Total stockholders' equity | $ 66,924 | $ 64,851 | $ 88,182 |

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

[In thousands]

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Cash flows from operating activities: | | | |
| Net income (loss) | $ 6,505 | $ (17,280) | $ 4,920 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Provision for loan losses | 2,700 | 3,150 | 4,439 |
| Depreciation and amortization | 3,078 | 3,068 | 3,067 |
| Amortization (accretion) of fees, discounts and premiums | 621 | 1,625 | (895) |
| Realized gain on sale of available-for-sale securities | (120) | (128) | (538) |
| Gain on sale of premises and equipment | (14) | (5) | (20) |
| Writedown and loss on sales of foreclosed assets | 657 | 955 | 2,600 |
| Write-off of tax assets due to tax settlement | - | 4,471 | - |
| Net change in: | | | |
| Accrued interest receivable | 198 | (380) | (231) |
| Other assets | (771) | (695) | (292) |
| Accrued interest payable | 32 | (79) | (613) |
| Other liabilities | (384) | 689 | 501 |
| Net cash provided by (used in) operating activities | 12,502 | (4,609) | 12,938 |
| Cash flows from investing activities: | | | |
| Net change in interest bearing deposits with banks | (850) | (5,150) | - |
| Purchases of securities available for sale | (200,100) | (443,335) | (472,314) |
| Proceeds from sales of securities available for sale | 20,667 | 90,013 | 22,430 |
| Maturities, prepayments and calls of securities available for sale | 195,302 | 263,570 | 459,389 |
| Purchases of securities held to maturity | (10,181) | - | - |
| Maturities, prepayments and calls of securities held to maturity | 4,298 | - | - |
| Proceeds from FHLB stock redeemed | 460 | 7 | - |
| Loan originations and principal collections, net | (35,829) | (15,411) | (1,948) |
| Proceeds from sales of loans | 9,207 | 20,829 | 20,825 |
| Proceeds from sales of foreclosed real estates | 1,615 | 237 | - |
| Additions to foreclosed real estates | (1,504) | - | - |
| Additions to premises and equipment | (1,697) | (668) | (884) |
| Proceeds from sale of premises and equipment | 25 | 53 | 22 |
| Net cash (used in) provided by investing activities | (18,587) | (89,855) | 27,520 |
| Cash flows from financing activities: | | | |
| Net increase in deposits | 45,536 | 38,072 | 23,839 |
| Payment of subordinated debt | (2,000) | (2,000) | (2,000) |
| Payment of FHLB advances | (5,000) | (5,000) | - |
| Proceeds from FHLB advances | 5,000 | - | 5,000 |
| Proceeds from issuance of common stock | 65 | 72 | 78 |
| Dividends paid | (4,280) | (4,274) | (4,267) |
| Net cash provided by financing activities | 39,321 | 26,870 | 22,650 |
| Net change in cash and cash equivalents | 33,236 | (67,594) | 63,108 |
| Cash and cash equivalents at beginning of year | 41,732 | 109,326 | 46,218 |
| Cash and cash equivalents at end of year | $ 74,968 | $ 41,732 | $ 109,326 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | $ 4,032 | $ 4,655 | $ 7,105 |
| Income taxes | 3,529 | 16,299 | - |
| Supplemental schedule of noncash investing and financing activities: | | | |
| Foreclosed assets transferred from loans, net | $ 295 | $ 1,487 | $ 11,294 |
| Transfer of foreclosed assets to loans | (4,314) | (1,385) | (1,111) |
| Transfer of fixed assets to insurance receivable | - | (234) | - |
| Transfer of securities available for sale to held to maturity | 110,813 | - | - |

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

## Note 1 - Summary of Significant Accounting Policies

### Principles of Consolidation and Basis of Presentation

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

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

### Business

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

### Risks and Uncertainties

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

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

### Use of Estimates

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

### Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, federal funds sold, and interest bearing deposits with banks, all of which mature within ninety days. The Bank is required by the Federal Reserve System to maintain non-interest earning cash reserves against certain of their deposit accounts. At December 31, 2004 and 2003, the required combined reserves totaled approximately $12,505 and $10,957, respectively.

The Bank is required to maintain non-interest bearing compensating balances with Bank of the West in consideration for the federal funds purchased and Letters of Credit facilities with the institution. The average balance required to be maintained for such purposes for 2004 and 2003 was $250.

### Interest Bearing Deposits with Banks

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

### Investment Securities

The Bank accounts for investment securities based on their classification as trading, available-for-sale or held-to-maturity. Securities are classified in accordance with management's intention regarding their retention. Accounting for each group of securities follows the requirements of Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Investments in the trading category are carried at fair value with unrealized gains and losses recorded in earnings. Investments in the available-for-sale category are recorded at fair value with unrealized gains and losses excluded from

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

earnings and reported in other comprehensive income. Gains and losses on the sale of investment securities are recorded on the trade date and are determined using the specific identification method. Investments in the held-to-maturity category are recorded at amortized cost. For investments classified as held-to-maturity, premiums and discounts are initially recorded as part of the investment securities' balance, and are amortized or accreted, respectively, to interest income on the straight-line method, which approximates the interest yield method, over the period to maturity (call dates, if earlier, with respect to premiums) of the related securities.

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

## Loans

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

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

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

## Allowance for Loan Losses

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

## Off-Balance Sheet Financial Instruments

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

## 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 amortized ratably over the shorter of the respective lease term or the estimated useful lives of the improvements.

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

[In thousands, except per share data]

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004, 2003 and 2002

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

## Foreclosed Assets

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

## Goodwill

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

## Treasury Stock

In October 2001, the Bank repurchased 1,394 shares of common stock in accordance with the terms of a litigation settlement. The Bank's repurchased shares of common stock are recorded as "common stock in treasury" and are recorded as a reduction of stockholders' equity. These shares were recorded under the cost method of accounting for treasury stock. Pursuant to the approval terms of the Bank's primary regulatory agency, the shares must be reissued within five years.

## Income Taxes

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

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

## Dividends Declared

At its discretion, the Bank declares dividends to its stockholders on 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 2004 and 2003.

## Comprehensive Income

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

## Earnings Per Common Share

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

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

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Average number of common shares outstanding | 8,558 | 8,545 | 8,533 |
| Effect of dilutive options | 242 | 231 | 338 |
| Average number of common shares outstanding used to calculate diluted earnings per common share | 8,880 | 8,776 | 8,871 |

## Reclassification

Certain reclassifications has been made to the 2003 financial statements to conform to the 2004 presentation.

[In thousands, except per share data]

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004, 2003 and 2002

## Note 2 - Investment Securities

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

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

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

| | 2004 | | | |
|---|---|---|---|---|
| **Securities Available for Sale** | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
| U.S. Treasury obligations | $ 46,902 | $ - | $ 227 | $ 46,675 |
| U.S. Government agencies and sponsored agencies debt securities | 71,260 | - | 397 | 70,863 |
| Other securities | 72 | - | - | 72 |
| | $ 118,234 | $ - | $ 624 | $ 117,610 |
| **Securities Held to Maturity** | | | | |
| U.S. Government agencies and sponsored agencies debt securities | $ 33,961 | $ - | $ 229 | $ 33,732 |
| U.S. Government agencies and sponsored agencies mortgage-backed securities | 82,686 | 15 | 510 | 82,191 |
| | $ 116,647 | $ 15 | $ 739 | $ 115,923 |

| | 2003 | | | |
|---|---|---|---|---|
| **Securities Available for Sale** | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
| U.S. Treasury obligations | $ 47,685 | $ 35 | $ 14 | $ 47,706 |
| U.S. Government agencies and sponsored agencies debt securities | 106,404 | 293 | 1,504 | 105,193 |
| U.S. Government agencies and sponsored agencies mortgage-backed securities | 93,013 | 70 | 1,051 | 92,032 |
| Other securities | 142 | - | - | 142 |
| | $ 247,244 | $ 398 | $ 2,569 | $ 245,073 |

At December 31, 2004 and 2003, investment securities with a carrying value of $142,711 and $98,275, 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, 2004, 2003 and 2002

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

The amortized cost and fair value of investment securities by contractual maturity at December 31, 2004, follows:

| | Available for Sale | | Held to Maturity | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due within one year | $ 69,844 | $ 69,730 | $ 12 | $ 12 |
| Due after one but within five years | 48,390 | 47,880 | 5,051 | 5,039 |
| Due after five but within ten years | - | - | 2,652 | 2,645 |
| Due after ten years | - | - | 26,244 | 26,034 |
| | 118,234 | 117,610 | 33,959 | 33,730 |
| Mortgage-backed securities | - | - | 82,688 | 82,193 |
| | $ 118,234 | $ 117,610 | $ 116,647 | $ 115,923 |

For the years ended December 31, 2004, 2003 and 2002, proceeds from sales of available-for-sale securities amounted to $20,667, $90,013 and $22,430, respectively. Net realized gains amounted to $120, $128 and $538, respectively.

Information pertaining to securities with gross unrealized losses at December 31, 2004, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

| | Less Than Twelve Months | | Over Twelve Months | |
|---|---|---|---|---|
| **Securities Available for Sale** | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| U.S. Treasury obligations | $ 227 | $ 46,675 | $ - | $ - |
| U.S. Government agencies and sponsored agencies debt securities | 283 | 65,973 | 114 | 4,890 |
| | $ 510 | $ 112,648 | $ 114 | $ 4,890 |
| **Securities Held to Maturity** | | | | |
| U.S. Government agencies and sponsored agencies debt securities | $ - | $ 205 | $ 229 | $ 33,527 |
| U.S. Government agencies and sponsored agencies mortgage-backed securities | 234 | 31,797 | 276 | 33,873 |
| | $ 234 | $ 32,002 | $ 505 | $ 67,400 |

Management evaluates securities for other-than-temporary impairment on an annual basis, and more frequently when economic or market concerns warrant such evaluation. At December 31, 2004, the unrealized losses associated with U.S. Treasury securities, government agency debentures, U.S. sponsored-agency debentures and mortgage-backed securities are not considered to be other-than-temporary because their unrealized losses are related to changes in interest rates and do not affect the expected cash flows of the underlying collateral or issuer. The Bank has the intent and ability to hold the debt securities for a period of time sufficient to allow for any anticipated recovery in fair value.

[In thousands, except per share data]

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004, 2003 and 2002

## Note 3 - Loans

A summary of the balances of loans at December 31, 2004 and 2003 follows:

| | 2004 | 2003 |
|---|---|---|
| Commercial | $ 220,474 | $ 196,123 |
| Consumer | 86,103 | 76,966 |
| Real estate | 80,611 | 81,842 |
| Government | 8,250 | 11,659 |
| Other | 357 | 378 |
| Gross loans | 395,795 | 366,968 |
| Less: net deferred loan fees | 1,140 | 1,113 |
| Less: allowance for loan losses | 8,666 | 7,807 |
| Net loans | $ 385,989 | $ 358,048 |

At December 31, 2004 and 2003, loans to directors and executive officers of the Bank amounted to $16,863 and $16,996, respectively. These loans were extended in the normal course of business and at prevailing interest rates.

At December 31, 2004, loans outstanding were comprised of 77% variable rate loans and 23% fixed rate loans.

A summary of the changes in the allowance for loan losses for years ended December 31, 2004, 2003 and 2002, follows:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Balance at beginning of year | $ 7,807 | $ 7,508 | $ 10,176 |
| Provision for loan losses | 2,700 | 3,150 | 4,439 |
| Loans charged-off | (2,637) | (3,718) | (9,307) |
| Recoveries of loans previously charged-off | 796 | 867 | 2,200 |
| Balance at end of year | $ 8,666 | $ 7,807 | $ 7,508 |

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

| | 2004 | 2003 |
|---|---|---|
| Total impaired loans, all with a valuation allowance | $ 9,118 | $ 9,954 |
| Valuation allowance related to impaired loans | $ 1,947 | $ 3,056 |
| Total non-accrual loans | $ 9,756 | $ 8,193 |
| Total loans past-due ninety days or more and still accruing | $ 1,000 | $ 412 |

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Average investment in impaired loans | $ 9,536 | $ 16,335 | $ 22,716 |
| Interest income recognized on impaired loans | $ 185 | $ 123 | $ 776 |
| Interest income recognized on a cash basis on impaired loans | $ 185 | $ 123 | $ 776 |

[In thousands, except per share data]

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004, 2003 and 2002

## Note 4 - Premises and Equipment

A summary of premises and equipment at December 31, 2004 and 2003 follows:

| | 2004 | 2003 |
|---|---|---|
| Buildings | $ 27,767 | $ 27,587 |
| Furniture and equipment | 23,793 | 22,799 |
| Automobiles and mobile facilities | 850 | 848 |
| Leasehold improvements | 3,567 | 3,581 |
| | 55,977 | 54,815 |
| Less accumulated depreciation | 32,576 | 29,737 |
| | 23,401 | 25,078 |
| Construction-in-progress | 1,436 | 1,151 |
| | $ 24,837 | $ 26,229 |

For the years ended December 31, 2004, 2003 and 2002, depreciation expense amounted to $3,078, $3,068 and $3,067, respectively.

## Note 5 - Other Assets

A summary of other assets at December 31, 2004 and 2003 follows:

| | 2004 | 2003 |
|---|---|---|
| Foreclosed assets, net | $ 5,417 | $ 10,204 |
| Prepaid expenses | 4,545 | 4,566 |
| Deferred tax asset | 2,664 | 2,137 |
| Insurance claims | 2,591 | 1,432 |
| Prepaid income tax | 19 | 13 |
| Food stamps redeemed | 2 | 634 |
| Other | 2,227 | 2,377 |
| | $ 17,465 | $ 21,363 |

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

| | 2004 | 2003 |
|---|---|---|
| Balance at beginning of year | $ 10,204 | $ 11,294 |
| Additions | 1,807 | 1,487 |
| Sales | (5,937) | (1,590) |
| | 6,074 | 11,191 |
| Writedowns/loss on sale, net | (606) | (842) |
| Provision for valuation losses | (51) | (145) |
| Balance at end of year | $ 5,417 | $ 10,204 |

[In thousands, except per share data]

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004, 2003 and 2002

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

A summary of foreclosed asset operations, which are included in non-interest expenses, for the years ended December 31, 2004, 2003 and 2002, is as follows:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Real estate operations, net | $ 543 | $ 477 | $ (328) |
| Loss (gain) on the sale of the foreclosed assets | 189 | (32) | 155 |
| Writedowns | 417 | 842 | 2,445 |
| Provision on valuation losses | 51 | 145 | - |
| Net losses from other real estate operations | $ 1,200 | $ 1,432 | $ 2,272 |

## Note 6 - Deposits

A summary of deposits at December 31, 2004 and 2003 follows:

| | 2004 | 2003 |
|---|---|---|
| Non-interest bearing deposits | $ 192,468 | $ 166,245 |
| Interest bearing deposits: | | |
| Demand deposits | 79,954 | 63,543 |
| Regular savings | 215,201 | 209,174 |
| Time deposits: | | |
| $100,000 or more | 103,300 | 107,424 |
| Less than $100,000 | 21,182 | 21,689 |
| Other interest bearing deposits | 56,552 | 55,046 |
| | 476,189 | 456,876 |
| Total | $ 668,657 | $ 623,121 |

At December 31, 2004, the scheduled maturities of time deposits are as follows:

| Year ending December 31, | |
|---|---|
| 2005 | $ 119,039 |
| 2006 | 2,760 |
| 2007 | 1,116 |
| 2008 | 510 |
| 2009 | 870 |
| Thereafter | 187 |
| | $ 124,482 |

[In thousands, except per share data]

## Note 7 - Borrowings

### Federal Home Loan Bank (FHLB) Advances

The Bank has a credit line with FHLB equal to 15% of total assets. At December 31, 2004 and 2003, the Bank had outstanding advances against this credit line under Blanket Agreements for Advances and Security Agreements (the Agreements) of $10,000. The Agreements enable the Bank to borrow funds from the FHLB to fund mortgage loan programs and to satisfy certain other funding needs. The weighted average rate of interest applicable to the advance was 4.23% and 4.25% at December 31, 2004 and 2003, respectively. The advances outstanding at December 31, 2004 are due to mature by June 2006, with principal repayments scheduled to be $5,000 due in October 2005 and June 2006. The value of first lien one-to-four unit mortgage loans and first lien multifamily loans pledged under the Agreements must be maintained at not less than 120% and 125%, respectively, of the advances outstanding.

### Long-Term Debt

During 1996, the Bank exchanged all outstanding shares of its 11% Cumulative Perpetual Preferred Stock, Series A, and its 9.8% Cumulative Perpetual Preferred Stock, Series B, for $10,000 of subordinated debt. The indenture provides for the payment of interest each quarter beginning March 31, 1996, at a rate of 8.625% per annum through December 31, 2000, thereafter interest accrues at the rate of LIBOR plus 0.375%. Principal repayments scheduled in quarterly installments of $500 commenced on March 31, 2001. At December 31, 2004 and 2003, the outstanding balance of the subordinate debt amounted to $2,000 and $4,000, respectively.

### Line of Credit

At December 31, 2003, the Bank had a $5,000 line of credit agreement with Bank of the West. Extensions of credit are limited to the following types of credit facilities: commercial letters of credit, standby letters of credit, and back-up line for federal funds borrowed. There were no lines outstanding at December 31, 2003. The line expired during the year ended December 31, 2004 and is pending renewal.

In addition, at December 31, 2004 and 2003, the Bank had $20,000 and $65,000, respectively, in federal funds lines of credit available with its correspondent banks. At December 31, 2004 and 2003, there were no outstanding borrowings against any of these lines.

## Note 8 - Income Taxes

The income tax provision includes the following components:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Government of Guam income taxes: | | | |
| Current | $ 3,038 | $ 19,163 | $ - |
| Deferred | (415) | 2,729 | 281 |
| Foreign income taxes (including U.S. income taxes) | 276 | 269 | 304 |
| Total income tax expense | $ 2,899 | $ 22,161 | $ 585 |

The components of deferred income taxes are as follows:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Loan loss provision | $ (291) | $ (102) | $ 907 |
| Foreign tax credit carry-forward | - | 1,115 | (303) |
| NOL carry-forward | - | 1,264 | (441) |
| Depreciation, accelerated for tax purposes | 98 | 98 | 98 |
| Deferred loan origination fees | (10) | 19 | 18 |
| Foreclosed assets valuation | (212) | 344 | - |
| Other, net | - | (9) | 2 |
| Deferred tax (benefit) provision | $ (415) | $ 2,729 | $ 281 |

[In thousands, except per share data]

# *NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*

December 31, 2004, 2003 and 2002

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

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

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Deferred tax assets: | | | |
| Allowance for loan losses | $ 2.946 | $ 2,655 | $ 2,553 |
| Foreign tax credit carry-forward | - | - | 1,115 |
| NOL carry-forward | - | - | 1,264 |
| Foreclosed assets | (85) | (297) | 47 |
| Net unrealized loss on securities available for sale | 212 | 738 | - |
| Net unrealized loss on securities held to maturity | 638 | - | - |
| Loan origination fees | 388 | 378 | 397 |
| Total deferred tax asset | 4,099 | 3,474 | 5,376 |
| Deferred tax liability: | | | |
| Depreciation | (1,435) | (1,337) | (1,239) |
| Other | - | - | (9) |
| Total deferred tax liability | (1,435) | (1,337) | (1,248) |
| Net deferred tax asset | $ 2,664 | $ 2,137 | $ 4,128 |

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

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

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Statutory Guam income tax rate | 34% | 34% | 34% |
| Tax settlement agreement | - | 428 | - |
| Nontaxable interest income | (3) | (8) | (23) |
| Effective tax rate | 31% | 454% | 11% |

The Bank included net interest income earned on U.S. Treasury and other U.S. Government Obligations as nontaxable income in and prior to 2001. The Bank had received a Final Notice of Deficiency ("90 Day Letter") for tax years 1992 through 1994 from the Guam Department of Revenue and Taxation (the Department) asserting that interest income earned on U.S. Treasury and other U.S. Government Obligations is subject to tax. In September 2003, the Bank and the Department entered into a settlement agreement under which the Bank paid $15,000 and agreed to forego certain recorded deferred tax assets and prepaid income taxes. The settlement resulted in an income tax provision of $19,471 recorded in September and October 2003. The settlement agreement has effectively closed all tax years through 2001. Legal fees relating to this tax settlement that were incurred by the Bank during the year ended December 31, 2003 amounted to $2,268 and are recorded within general, administrative and other expenses. The Bank included interest income earned on U.S. Treasury and other U.S. Government Obligations for 2002 in its tax return, filed in September 2003. Nontaxable interest income in 2004 and 2003 is related to interest income earned on loans to the Government of Guam.

[In thousands, except per share data]

## Note 9 - Employee Benefit Plans

### Stock Purchase Plan

The Bank has a stock purchase plan that covers substantially all employees meeting the minimum service requirements. Under the plan, qualified employees are allowed to participate in the purchase of designated shares of the Bank's common stock at 85% of fair market value at date of exercise. A maximum of 1,947 shares are authorized for issuance. As of December 31, 2004, 1,408 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, 2004, 2003 and 2002, shares totaling 12, 14 and 14, respectively, were issued under the plan at average prices per share of $5.29, $5.24 and $5.26, respectively.

### Executive Employment Agreements

The President and Executive Vice President are employed under agreements terminating on December 31, 2006 and May 31, 2008, respectively. Under the agreements, each receives a specified base salary, which is adjusted annually for changes in the Guam 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.

The employment agreements between the Bank and the President and the Executive Vice President provide, in the event of their death during the term of their respective employment contracts, for the continuation of the payment of certain compensation amounts to designated survivors for a period of five years.

The late Chairman's bonus under an agreement is based on the level of qualified assets or profitability, within a defined limit. The Board of Directors resolved to pay this bonus to the late Chairman's spouse for the remaining term through 2007.

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 respective 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, 2004 and 2003, there were no Phantom Stock units outstanding under the plan.

### Employee Retirement Savings Plan

The Bank has a 401(k) Plan whereby substantially all employees, with at least one year of continuous service, are eligible to participate in the Plan. The Bank makes matching contributions equal to 50 percent of the first 6 percent of an employee's compensation contributed to the Plan. Matching contributions vest to the employee over a five-year period of service. For the years ended December 31, 2004, 2003 and 2002, expense attributable to the Plan amounted to $164, $159 and $170, respectively.

## Note 10 - Lease Commitments

The Bank utilizes facilities, equipment and land under various operating leases with terms ranging from 1 to 99 years. Additionally, the Bank leases office space to third parties, with terms ranging from 3 to 5 years with option periods ranging up to 15 years.

At December 31, 2004, annual lease commitments under the above noncancelable operating leases were as follows:

| Year ending December 31, | |
|---|---|
| 2005 | $ 1,567 |
| 2006 | 1,374 |
| 2007 | 968 |
| 2008 | 933 |
| 2009 | 820 |
| Thereafter | 23,100 |
| | $ 28,762 |

[In thousands, except per share data]

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004, 2003 and 2002

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

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, 2004 and 2003 were approximately $299 and $287, respectively. During the year ended December 31, 2002 the Bank leased certain facilities from three separate entities in which three of its directors had separate ownership interests; lease payments made to these entities were approximately $422.

At December 31, 2004, minimum future rents to be received under noncancelable operating sublease agreements were as follows:

| Year ending December 31, | |
|---|---|
| 2005 | $ 212 |
| 2006 | 124 |
| 2007 | 113 |
| 2008 | 113 |
| 2009 | 47 |
| | $ 609 |

A summary of the rental activities for the years ended December 31, 2004, 2003 and 2002, is as follows:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Rent expense | $ 1,889 | $ 2,000 | $ 2,052 |
| Less: sublease rentals | 322 | 331 | 354 |
| | $ 1,567 | $ 1,669 | $ 1,698 |

## Note 11 - Fair Value of Financial Instruments

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

### Cash and Cash Equivalents

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

### Interest Bearing Deposits with Banks

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

### Investment Securities

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

### Loans

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

### Deposits

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

### Federal Home Loan Bank Advances

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

### Long-Term Borrowings

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

[In thousands, except per share data]

(*Note 11: Fair Value of Financial Instruments, Continued...*)

quotes on debt with similar terms.

### Accrued Interest

The carrying amount of accrued interest approximates fair value.

### Off-Balance Sheet Commitments and Contingent Liabilities

Management does not believe it is practicable to provide an estimate of fair value because of the uncertainty involved in attempting to assess the likelihood and timing of a commitment being drawn upon, coupled with a lack of an established market and the wide diversity of fee structures.

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

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Financial assets: | | | | |
| Cash and cash equivalents | $ 74,968 | $ 74,968 | $ 41,732 | $ 41,732 |
| Interest bearing deposits with banks | $ 6,000 | $ 6,000 | $ 5,150 | $ 5,150 |
| Investment securities available for sale | $ 117,610 | $ 117,610 | $ 245,073 | $ 245,073 |
| Investment securites held to maturity | $ 116,647 | $ 115,923 | $ - | $ - |
| Federal Home Loan Bank stock | $ 2,208 | $ 2,208 | $ 2,668 | $ 2,668 |
| Loans, net of allowance | $ 385,989 | $ 389,419 | $ 358,048 | $ 360,370 |
| Accrued interest receivable | $ 3,378 | $ 3,378 | $ 3,576 | $ 3,576 |
| Financial liabilities: | | | | |
| Deposits | $ 668,657 | $ 668,813 | $ 623,121 | $ 623,745 |
| Accrued interest payable | $ 524 | $ 524 | $ 492 | $ 492 |
| Federal Home Loan Bank advances | $ 10,000 | $ 10,000 | $ 10,000 | $ 10,000 |
| Long-term debt | $ 2,000 | $ 2,000 | $ 4,000 | $ 4,000 |

## Note 12 - Minimum Regulatory Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2004 and 2003, that the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2004, 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 management believes have changed the Bank's category. The Bank's actual capital amounts and ratios

[In thousands, except per share data]

(*Note 12: Minimum Regulatory Capital Requirements, Continued...*)

as of December 31, 2004 and 2003 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, 2004:** | | | | | | |
| Total capital (to Risk Weighted Assets) | $ 75,396 | 16.82% | $ 35,864 | 8.00% | $ 44,830 | 10.00% |
| Tier 1 capital (to Risk Weighted Assets) | $ 67,792 | 15.12% | $ 17,932 | 4.00% | $ 26,898 | 6.00% |
| Tier 1 capital (to Average Assets) | $ 67,792 | 8.85% | $ 30,634 | 4.00% | $ 38,293 | 5.00% |
| **As of December 31, 2003:** | | | | | | |
| Total capital (to Risk Weighted Assets) | $ 74,681 | 18.01% | $ 33,179 | 8.00% | $ 41,474 | 10.00% |
| Tier 1 capital (to Risk Weighted Assets) | $ 65,496 | 15.79% | $ 16,590 | 4.00% | $ 24,884 | 6.00% |
| Tier 1 capital (to Average Assets) | $ 65,496 | 9.04% | $ 28,994 | 4.00% | $ 36,242 | 5.00% |

## Note 13 - Off-Balance Sheet Activities

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

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

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

| | 2004 | 2003 |
|---|---|---|
| Commitments to extend credit | $ 91,085 | $ 69,650 |
| Letters of credit: | | |
| Standby letters of credit | $ 5,557 | $ 3,863 |
| Other letters of credit | 2,172 | 862 |
| | $ 7,729 | $ 4,725 |

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

Commercial and standby letters-of-credit are conditional

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

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

## Note 14 - Guarantees

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

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

At December 31, 2004, the maximum undiscounted future payments that the Bank could be required to make was $5,557. 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, 2004.

## Note 15 - Contingency

In December 2002, a major typhoon struck Guam causing significant damage to the Bank's premises and equipment. During the year ended December 31, 2003, the Bank expensed approximately $400 of associated typhoon expenses, which approximated the deductible amounts for typhoon coverage under its policy. During the year ended December 31, 2004, the Bank filed a claim for $13,300 for which the insurance company offered a settlement of $2,100 and to which the Bank made a counter offer of $6,000. The parties will meet during the first quarter of 2005 to negotiate their differences over the claim or seek mediation should they be unable to resolve their differences to mutual satisfaction. As of December 31, 2004, the Bank has recorded an insurance claim receivable of $2,591 for typhoon related repairs and has also contracted for additional repairs of $650. The Bank has made all essential repairs to continue operations and future repairs will be dependent upon the level of funds realized from the insurance settlement. The Bank does not have complete information at this time to determine the ultimate outcome of this settlement. However, management believes that the ultimate outcome should not have a material adverse affect on the Bank's financial position. Accordingly, no provision for any gain or loss that may result upon the final settlement has been recorded in the accompanying consolidated financial statements.

# *FINANCIAL REVIEW*

# *Corporate Information*


### Annual Meeting
The 2005 annual meeting of stockholders will be held at 7:00PM on Monday, May 2, 2005, in the Bank's Hagåtña Branch in its Headquarters Building.

### Independent Accountants
Deloitte & Touche LLP
361 South Marine Drive
Tamuning, GU 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

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

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

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

The Bank of New York Company, Inc.
One Wall Street • New York, NY 10286
Tel: (212) 495-1784
www.bankofny.com

### Other Financial Services
Bank of Guam Trust Services
Headquarters Building • 6th Floor
111 Chalan Santo Papa
Hagåtña, Guam 96910
Tel: (671) 472-5743 • Fax: (671) 472-5527

Bank of Guam Financial Services/PrimeVest®
Headquarters Building • 6th Floor
111 Chalan Santo Papa
Hagåtña, Guam 96910
Tel: (671) 472-5490 • Fax: (671) 472-5527

### Insurance Services
BankGuam Insurance Underwriters, Ltd.
Headquarters Building • 2nd Floor
111 Chalan Santo Papa
Hagåtña, Guam 96910
Tel: (671) 479-2265 • Fax: (671) 479-2266

### Member
Federal Deposit Insurance Corporation
American Bankers Association
Guam Bankers Association
California Bankers Association
Western States Bankcard Association
Saipan Bankers Association

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

[$ in tables in thousands]

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

## Results of Operations

Having recovered from the effects of a devastating typhoon and rebounding from its first financial loss due to the settlement of a long-standing tax dispute with the Government of Guam in 2003, the Bank's financial performance this past year reinforces its ability to continue to build on its solid footings and deliver a strong profit performance.

The Bank closed the year with record levels in both total resources and total liabilities, contributed by the sustained growth in its loan, investment and deposit portfolios. At December 31, 2004, the Bank's total resources reached $749.9 million, up $45.3 million (or 6.4%) from $704.6 million in 2003, attributed to the $28.8 million increase in total loans and $15.9 million net increase in total investments (comprised of Federal Funds sold, Time Deposits with other Banks and Investment Securities).

| | 2004 | 2003 | $ Change | % Change |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and Due from Banks | $ 40,816 | $ 33,465 | $ 7,351 | 22.0% |
| Federal Funds Sold | 31,950 | 7,830 | 24,120 | 308.0% |
| Interest Bearing Deposits with Banks | 2,202 | 437 | 1,765 | 403.9% |
| Total Cash and Cash Equivalents | 74,968 | 41,732 | 33,236 | 79.6% |
| Interest Bearing Deposits with Banks | 6,000 | 5,150 | 850 | 16.5% |
| Investment Securities Available-For-Sale | 117,610 | 245,073 | (127,463) | -52.0% |
| Investment Securities Held-To-Maturity | 116,647 | - | 116,647 | 100.0% |
| Federal Home Loan Bank Stock, at Cost | 2,208 | 2,668 | (460) | -17.2% |
| Loans, net of Allowance for Loan Losses | 385,989 | 358,048 | 27,941 | 7.8% |
| Accrued Interest Receivable | 3,378 | 3,576 | (198) | -5.5% |
| Premises and Equipment, net | 24,837 | 26,229 | (1,392) | -5.3% |
| Goodwill | 783 | 789 | (6) | -0.8% |
| Other Assets | 17,465 | 21,363 | (3,898) | -18.2% |
| Total Assets | $ 749,885 | $ 704,628 | $ 45,257 | 6.4% |

Fueled by the positive growth in the U.S. economy, short-term interest rates shifted upwards by as much as 125 basis points during the second half of 2004 to close the year with a target federal funds rate of 2.25%. This increase, coupled with the growth in our loan and investment portfolios, contributed to the $1.4 million (or 4.0%) increase in total interest income. Total interest expense, on the other hand, decreased by $0.5 million (or 11.2%) as we maintained the pricing of our interest bearing demand and savings deposits, which by comparison offer premium pricing versus the competition. On a net basis, the $1.4 million growth in total interest revenues and the reduction in total interest expenses, combined with the reduction in loan loss provision expense by $0.4 million, contributed to the $2.4 million (or 8.7%) increase in Net Interest Income.

| | 2004 | 2003 | $ Change | % Change |
|---|---|---|---|---|
| Total Interest Income | $ 36,142 | $ 34,741 | $ 1,401 | 4.0% |
| Total Interest Expense | 4,064 | 4,576 | (512) | -11.2% |
| Net Interest Income | 32,078 | 30,165 | 1,913 | 6.3% |
| Provision for Loan Losses | 2,700 | 3,150 | (450) | -14.3% |
| Net Interest Income after Provision | 29,378 | 27,015 | 2,363 | 8.7% |
| Total Non-Interest Income | 10,180 | 10,239 | (59) | -0.6% |
| Total Non-Interest Expense | 30,154 | 32,373 | (2,219) | -6.9% |
| Income Before Income Taxes | 9,404 | 4,881 | 4,523 | 92.7% |
| Income Tax Expense | 2,899 | 22,161 | (19,262) | -86.9% |
| Net Income (Loss) | $ 6,505 | $ (17,280) | $ 23,785 | 137.6% |

**[$ in tables in thousands]**

In 2003, while the Bank recorded its first financial loss in its 32-year history due to a one-time charge taken in connection with the settlement of the long-standing tax dispute with the Government of Guam, the Bank's core business continued to deliver a reasonable level of profit performance. During 2004, the Bank recorded a significant turn-around in its profit performance with Net Profits after tax of $6.5 million. This strong profit performance contributed $2.1 million or 3.2% (net of dividends paid) to common shareholders equity, which closed the year at $66.9 million, up from $64.9 million in 2003.

As a result of the Bank's sustained growth in both its profitability and capital base in 2004, the Bank continued its long-standing practice of declaring regular quarterly dividends during the year of $0.1250 per share per quarter. For the full year of 2004, the Bank declared and paid $4.3 million in dividends to its common shareholders.

## Loans and Deposits

While economic conditions in our region have stabilized and are showing signs of gradual improvement from prior years, the Bank has remained focused on its asset quality and continued to maintain its high level of underwriting standards and practices. This stance has enabled the Bank to substantially reduce the average volume of loans categorized as impaired to $9.5 million in 2004, down $6.8 million from $16.3 million in 2003. This favorable trend allowed the Bank to aggressively market its loan programs in Guam and the CNMI, as well as enter into loan participation agreements with various U.S. West Coast banks (primarily in California) to diversify its credit risk, which contributed $28.8 million in growth to our loan portfolio during 2004. At year-end 2004, total (gross) loans stood at $394.7 million, up 7.9% from $365.9 million in 2003. Commercial loans, inclusive of loan participations, registered the largest increase, up $24.4 million (or 12.4%) to close the year at $220.5 million from $196.1 million in 2003. Likewise, our Consumer loans and MasterCard/Visa portfolios registered moderate increases during the year with consumer loans closing the year at $73.9 million, up $7.4 million (or 11.1%) from $66.5 million last year. MasterCard/Visa outstanding stood at $12.2 million, up $1.7 million (or 16.6%) from $10.5 million in 2003. Our Government and Real Estate loan portfolios, on the other hand, registered net decreases as compared to last year. At the end of 2004, Government loans totaled $8.3 million, down $3.4 million (or 29.2%) from $11.7 million, while Real Estate loans closed the year at $80.6 million, down $1.2 million from $81.8 million the previous year.

| | 2004 | 2003 | $ Change | % Change |
|---|---|---|---|---|
| Commercial Loans | $ 220,474 | $ 196,123 | $ 24,351 | 12.4% |
| Real Estate Loans | 80,611 | 81,842 | (1,231) | -1.5% |
| Consumer Loans | 73,863 | 66,472 | 7,391 | 11.1% |
| Consumer MasterCard®/VISA® | 12,240 | 10,494 | 1,746 | 16.6% |
| Government Loans | 8,250 | 11,659 | (3,409) | -29.2% |
| Other Loans | 357 | 378 | (21) | -5.6% |
| Gross Loans | 395,795 | 366,968 | 28,827 | 7.9% |
| Deferred Loan Fees | (1,140) | (1,113) | 27 | 2.4% |
| Allowance for Loan Losses | (8,666) | (7,807) | 859 | 11.0% |
| Net Loans | $ 385,989 | $ 358,048 | $ 27,941 | 7.8% |

While the Bank's aggressive marketing and sales efforts have generated substantial growth in loans, the Bank at the same time continued its focus on improving asset quality through its stringent underwriting standards and effective collection efforts. As a result, net loan losses in 2004 dropped by $1.0 million to $1.8 million as compared to $2.9 million in 2003.

| | 2004 | 2003 | $ Change | % Change |
|---|---|---|---|---|
| Gross Loan Losses | $ 2,637 | $ 3,718 | $ (1,081) | -29.1% |
| Recoveries of Prior Years' Losses | 796 | 867 | (71) | -8.2% |
| Net Loan Losses | $ 1,841 | $ 2,851 | $ (1,010) | -35.4% |

On the liabilities side, the Bank's deposit base continues to register sustained growth momentum, closing the year at $668.7 million, up $45.5 million (7.3%) from $623.1 million in 2003. Interest-bearing demand deposits, the lead product in terms of absolute dollar increase, reached $80.0 million, up $16.4 million (or 25.8%) from $63.5 million, followed by savings deposits totaling $215.2 million, up $6.0 million (or 2.9%) from $209.2 million, the previous year. Other interest bearing deposits, which closed the year at $56.6 million, also increased slightly by $1.5 million (or 2.7%) from $55.0 million in 2003. Time Deposits, the only product to register a decline, dropped by $4.6 million (or 3.6%) to $124.5 million in 2004, down from $129.1 million in 2003. The overall positive growth in deposits effectively increased our loan-to-deposit ratio to 59.0% in 2004, up from 58.7% last year.

[$ in tables in thousands]

| | 2004 | 2003 | $ Change | % Change |
|---|---|---|---|---|
| Non-Interest Bearing Deposits | $ 192,468 | $ 166,245 | $ 26,223 | 15.8% |
| Interest Bearing Deposits: | | | | |
| Interest Bearing Demand | 79,954 | 63,543 | 16,411 | 25.8% |
| Regular Savings | 215,201 | 209,174 | 6,027 | 2.9% |
| Time Deposits: | | | | |
| $100,000 or more | 103,300 | 107,424 | (4,124) | -3.8% |
| Less than $100,000 | 21,182 | 21,689 | (507) | -2.3% |
| Other Interest Bearing Deposits | 56,552 | 55,046 | 1,506 | 2.7% |
| Total Interest Bearing Deposits | 476,189 | 456,876 | 19,313 | 4.2% |
| Total Deposits | $ 668,657 | $ 623,121 | $ 45,536 | 7.3% |

## Liquidity and Investment Portfolio

The Bank's investment portfolio, which is comprised of U.S. Government agency and treasury securities, federal funds sold and time deposits at other banks, increased by $15.9 million (or 6.2%) to close the year at $274.4 million, up from $258.5 million in 2003. This increase was largely attributed to the $24.1 million (or 308.0%) increase in Federal Funds Sold, which at year end stood at $32.0 million, up from $7.8 million, followed by Time Deposits at other Banks, which increased by $2.6 million (or 46.8%) to $8.2 million from $5.6 million last year. Investment Securities, on the other hand, dropped by $10.8 million to end the year at $234.3 million, down from $245.1 million in 2003. The overall increase in our investment portfolio, coupled with the increase in short-term interest rates during the year, contributed positively to both total interest revenues and portfolio yields. Our total interest income on investments during the year was $8.1 million, up $1.9 million (or 30.8%) from $6.2 million, while the overall yield on the portfolio rose to 2.78% from 2.19% last year.

| | 2004 | 2003 | $ Change | % Change |
|---|---|---|---|---|
| Federal Funds Sold | $ 31,950 | $ 7,830 | $ 24,120 | 308.0% |
| TCD at other Banks | 8,202 | 5,587 | 2,615 | 46.8% |
| Investment Securities Available for Sale | 117,610 | 245,073 | (127,463) | -52.0% |
| Investment Securities Held to Maturity | 116,647 | - | 116,647 | 100.0% |
| Total Investment Portfolio | $ 274,409 | $ 258,490 | $ 15,919 | 6.2% |

As required by accounting regulations, the Bank accounts for and classifies its investment securities as "Available-for-Sale," "Held-to-Maturity" and "Trading," based on management's intention regarding their retention. Although the Bank's policy and practice has traditionally been to hold its investments to maturity, its entire investment securities portfolio remained classified as "Available-for-Sale" during 2003. However, in following through with its intention to hold its investments to maturity, and at the same time providing for its short-term liquidity requirements, the Bank transferred $116.6 million of its investments in U.S. Government Agencies, sponsored agencies debt securities, and mortgage-back securities from "Available-for-sale" to "Held-to-Maturity" in October 2004. The Bank intends to and has the ability to hold these securities to maturity. The Bank does not engage in trading of securities, and therefore does not hold any of its securities in the "Trading" classification.

## Net Interest Income

During 2004, the combined effect of the increase in short-term interest rates and the growth in our loan and investment portfolios, coupled with the reduction in interest paid and loan loss provision expenses, contributed $2.4 million to Net Interest Income, which closed this year at $29.4 million, up 8.7% from $27.0 million in 2003. This increase is largely attributed to the growth in total interest income, which totaled $36.1 million, up $1.4 million (or 4.0%) from $34.7 million in 2003, derived primarily from the $1.9 million increase in interest income on our investment portfolio, partially offset by the slight drop ($0.5 million) in loan interest income. Interest income on investments for the year totaled $8.1 million, up from $6.2 million in 2003. Interest income on loans, on the other hand, decreased slightly to end the year at $28.1 million, down from $28.6 million last year. And, despite the increases in short-term interest rates during the year, the Bank managed to maintain the pricing of its interest bearing demand and savings deposits, resulting in a net reduction of $0.5 million in total interest expense to $4.1 million, down from $4.6 million in 2003.

[$ in tables in thousands]

| | 2004 | 2003 | $ Change | % Change |
|---|---|---|---|---|
| Interest Income: | | | | |
| Loans | $ 28,052 | $ 28,557 | $ (505) | -1.8% |
| Investment Securities | 7,734 | 5,800 | 1,934 | 33.3% |
| Federal Funds Sold | 269 | 231 | 38 | 16.5% |
| Deposits with Other Banks | 87 | 153 | (66) | -43.1% |
| Total Interest Income | $ 36,142 | $ 34,741 | $ 1,401 | 4.0% |
| Interest Expense: | | | | |
| Time Deposits | $ 1,534 | $ 1,380 | $ 154 | 11.2% |
| Demand and Savings | 2,049 | 2,433 | (384) | -15.8% |
| Other Borrowed Funds | 481 | 763 | (282) | -37.0% |
| Total Interest Expense | 4,064 | 4,576 | (512) | -11.2% |
| Net Interest Income Before Provision for Loan Losses | $ 32,078 | $ 30,165 | $ 1,913 | 6.3% |
| Loan Loss Provisions | $ 2,700 | $ 3,150 | $ (450) | -14.3% |
| Net Interest Income | $ 29,378 | $ 27,015 | $ 2,363 | 8.7% |

Overall, the Bank's net interest margin for 2004 increased 25 basis points to 4.82%, from 4.57% in 2003.

## Other Operating Income and Expenses

Total other operating income, which is derived from fees and commissions, service charges and other non-interest income, was $10.2 million in 2004, equal to the other operating income recorded in 2003. While the Bank successfully marketed its new Internet banking and cash management services, credit life insurance products and credit card merchant services, which together generated an additional $0.4 million in fee income, this was fully offset by the drop in foodstamp income, wire transfer service fees and miscellaneous other operating income. On the other side of the equation, total other operating expenses in 2004 dropped by $2.2 million (or 6.9%) to $30.2 million from $32.4 million in 2003. This substantial reduction in expenses is largely attributed to the $2.3 million decrease in legal expenses related to the tax dispute that was settled in 2003. Special professional and contract services expense likewise registered a combined reduction of $0.3 million during the year, but this was fully offset by the increase in insurance premium cost of equal amount.

## Capital Resources

Under current FDIC regulations, the Bank must maintain a 5.0% tier-1 capital to average assets ratio and tier-1 capital to risk-weighted assets ratio of 6.0% in order to be classified as "well capitalized". Additionally, the Bank's total capital to risk-weighted assets ratio must equal or exceed 10.0% to meet the standard for that classification. At December 31, 2004, the Bank's total capital, which includes qualified subordinate debt of $2.0 million (recorded as long-term borrowings on the balance sheet), stood at $75.4 million, up by $0.7 million from $74.7 million a year earlier. This increase in total capital is primarily attributed to the $2.2 million increase in retained earnings, which closed the year at $67.8 million, up from $65.5 million last year. This increase was partially offset by the $2.0 million decrease in subordinated debt outstandings. The Bank's capital ratios at December 31, 2004, continue to exceed all of the minimum regulatory capital adequacy requirements, and allow the Bank to remain classified as "well capitalized" for regulatory purposes.

| | 2004 | Minimum to be Adequately Capitalized | Minimum to be Well Capitalized |
|---|---|---|---|
| Total Capital | $ 75,396 | | |
| to Risk Weighted Assets | 16.82% | 8.00% | 10.00% |
| Tier 1 Capital | $ 67,792 | | |
| to Risk Weighted Assets | 15.12% | 4.00% | 6.00% |
| Tier 1 Capital | $ 67,792 | | |
| to Average Assets | 8.85% | 4.00% | 5.00% |

**[$ in tables in thousands]**

## Off-Balance Sheet Arrangements

In the ordinary course of business, the Bank enters into agreements to extend credit to its customers, comprised of commitments to extend credit (loan commitments) and letters of credit. These arrangements are subject to the same credit criteria as the on-balance sheet loans of the Bank and expose the Bank to a potential risk of credit loss represented by the contractual amounts of the agreements. However, because some of these agreements may expire without being exercised, the Bank's need for cash to fund these may be less than the full amounts arranged. Commitments to extend credit increased by $21.4 million (30.8%) to $91.1 million at the end of 2004 in comparison to $69.7 million at the end of 2003. Total letters of credit outstanding during 2004 increased by $3.0 million to $7.7 million, up from $4.7 million in 2003. The Bank does not anticipate any material losses associated with these off-balance sheet arrangements.

| | 2004 | 2003 | $ Change | % Change |
|---|---|---|---|---|
| Commitments to Extend Credit | $ 91,085 | $ 69,650 | $ 21,435 | 30.8% |
| Letters of Credit: | | | | |
| Standby Letters of Credit | $ 5,557 | $ 3,863 | $ 1,694 | 43.9% |
| Other Letters of Credit | 2,172 | 862 | 1,310 | 152.0% |
| Total Letters of Credit | $ 7,729 | $ 4,725 | $ 3,004 | 63.6% |

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

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

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

**[$ in thousands, unaudited]**

# SUMMARY OF FINANCIAL CONDITION

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| **Assets:** | | | | | |
| Cash and due from banks | $ 40,816 | $ 33,465 | $ 39,207 | $ 39,347 | $ 41,836 |
| Interest-bearing deposits in other banks | 8,202 | 5,587 | 33,519 | 5,151 | 5,499 |
| Federal funds sold | 31,950 | 7,830 | 36,600 | 1,720 | 6,000 |
| Investment securities | 236,465 | 247,741 | 161,342 | 169,250 | 153,554 |
| Loans | 394,655 | 365,855 | 374,226 | 406,579 | 445,246 |
| Less allowance for possible loan losses | 8,666 | 7,807 | 7,508 | 10,176 | 9,640 |
| Net loans | 385,989 | 358,048 | 366,718 | 396,403 | 435,606 |
| Bank premises and equipment | 24,837 | 26,229 | 28,911 | 31,094 | 32,398 |
| Accrued interest receivables and other assets | 21,626 | 25,728 | 29,980 | 25,600 | 20,366 |
| Total assets | $749,885 | $704,628 | $696,277 | $668,565 | $695,259 |
| **Liabilities and Stockholders' Equity:** | | | | | |
| Deposits: | | | | | |
| Non-interest bearing | $192,468 | $166,245 | $162,301 | $134,480 | $134,575 |
| Interest bearing | 476,189 | 456,876 | 422,748 | 426,730 | 432,146 |
| Total deposits | 668,657 | 623,121 | 585,049 | 561,210 | 566,721 |
| Accrued interest payables and other liabilities | 2,304 | 2,656 | 2,046 | 2,158 | 3,580 |
| Federal Home Loan Bank advances | 10,000 | 10,000 | 15,000 | 10,000 | 15,000 |
| Long-term debt | 2,000 | 4,000 | 6,000 | 8,000 | 10,000 |
| Total liabilities | 682,961 | 639,777 | 608,095 | 581,368 | 595,301 |
| Common stock of $0.2083 par value Authorized 48,000,000 shares at 9,959,395 shares issued/8,565,634 shares outstanding in 2004 and 9,947,115 shares issued/8,553,354 shares outstanding in 2003 | 2,076 | 2,073 | 2,070 | 2,067 | 2,063 |
| Capital surplus | 14,073 | 14,011 | 13,942 | 13,867 | 13,775 |
| Treasury stock (1,393,761 shares) | (15,331) | (15,331) | (15,331) | (15,331) | - |
| Retained earnings | 67,757 | 65,532 | 87,086 | 86,433 | 84,073 |
| Accumulated other comprehensive (loss) income | (1,651) | (1,434) | 415 | 161 | 47 |
| Total stockholders' equity | 66,924 | 64,851 | 88,182 | 87,197 | 99,958 |
| Total liabilities and stockholders' equity | $749,885 | $704,628 | $696,277 | $668,565 | $695,259 |

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

# SUMMARY OF OPERATIONS

| | Years ended December 31, 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| **Interest income:** | | | | | |
| Interest and fees on loans | $ 28,052 | 28,557 | $ 31,257 | $ 39,237 | $ 47,065 |
| Interest on deposits in other banks | 87 | 153 | 200 | 241 | 342 |
| Interest on investment securities | 7,734 | 5,800 | 4,046 | 8,138 | 9,809 |
| Interest on federal funds sold | 269 | 231 | 343 | 651 | 670 |
| Total interest income | 36,142 | 34,741 | 35,846 | 48,267 | 57,886 |
| **Interest expense:** | | | | | |
| Time deposits | 1,534 | 1,380 | 2,184 | 7,409 | 9,712 |
| Savings deposits | 2,049 | 2,433 | 3,565 | 7,113 | 8,889 |
| Other borrowed funds | 481 | 763 | 743 | 1,178 | 1,671 |
| Total interest expense | 4,064 | 4,576 | 6,492 | 15,700 | 20,272 |
| Net interest income | 32,078 | 30,165 | 29,354 | 32,567 | 37,614 |
| Provision for loan losses | 2,700 | 3,150 | 4,439 | 3,571 | 4,387 |
| Net interest income after provision for loan losses | 29,378 | 27,015 | 24,915 | 28,996 | 33,227 |
| **Other operating income:** | | | | | |
| Service charges and fees | 4,353 | 4,302 | 4,582 | 4,202 | 3,964 |
| Investment securities gains, net | 120 | 128 | 538 | 34 | 1 |
| Other income | 5,707 | 5,809 | 5,864 | 5,098 | 4,425 |
| Total other operating income | 10,180 | 10,239 | 10,984 | 9,334 | 8,390 |
| **Other operating expenses:** | | | | | |
| Salaries and employee benefits | 13,208 | 12,997 | 13,366 | 14,604 | 15,466 |
| Net occupancy | 4,422 | 4,477 | 4,284 | 4,240 | 4,249 |
| Furniture and equipment | 3,798 | 3,354 | 3,201 | 3,144 | 2,974 |
| General, administrative and other expenses | 8,726 | 11,545 | 9,543 | 9,465 | 10,371 |
| Total other operating expenses | 30,154 | 32,373 | 30,394 | 31,453 | 33,060 |
| Income before income taxes | 9,404 | 4,881 | 5,505 | 6,877 | 8,557 |
| Provision (benefit) for income taxes | 2,899 | 22,161 | 585 | (264) | (614) |
| **Net income (loss)** | $ 6,505 | $ (17,280) | $ 4,920 | $ 7,141 | $ 9,171 |
| **Net income (loss) per share** | | | | | |
| Basic earnings (loss) per common share | $ 0.76 | $ (2.02) | $ 0.58 | $ 0.74 | $ 0.93 |
| Diluted earnings (loss) per common share | $ 0.74 | $ (1.97) | $ 0.55 | $ 0.72 | $ 0.90 |

**[$ in thousands, unaudited]**

# SUMMARY OF AVERAGE BALANCES AND INTEREST RATES

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | Avg. Balance | Avg. Rate | Avg. Balance | Avg. Rate |
| **Earning Assets:** | | | | |
| Due from Banks - Time | $ 6,853 | 1.81% | $ 14,481 | 1.06% |
| Securities: | | | | |
| U.S. Government Securities | 244,077 | 3.38% | 226,657 | 2.22% |
| Other Securities | 19,590 | 4.79% | 22,270 | 3.45% |
| Total Securities | 263,667 | 3.49% | 248,927 | 2.33% |
| Federal Funds Sold | 20,998 | 1.47% | 18,925 | 1.22% |
| Loans: | | | | |
| Commercial, Industrial & Government | 210,951 | 6.13% | 217,264 | 6.26% |
| Real Estate | 80,633 | 6.32% | 84,491 | 7.39% |
| Consumer | 83,074 | 10.47% | 76,431 | 11.39% |
| Total Loans | 374,658 | 7.13% | 378,186 | 7.55% |
| Total Earning Assets | 666,176 | 5.46% | 660,519 | 5.26% |
| **Non-Earning Assets:** | | | | |
| Cash and Due from Banks - Demand | 31,017 | | 28,007 | |
| Bank Premises and Equipment | 25,843 | | 28,964 | |
| Other Real Estate Owned | 8,617 | | 11,262 | |
| Other Assets | 19,179 | | 23,157 | |
| Allowance for Loan Losses | (8,556) | | (8,305) | |
| Total Assets | $ 742,276 | | $ 743,604 | |
| **Liabilities and Stockholders' Equity:** | | | | |
| ***Interest Paying Liabilities - Deposits*** | | | | |
| Demand and Savings | $ 299,074 | 0.56% | $ 276,821 | 0.71% |
| Time Certificates | 184,867 | 1.09% | 187,888 | 0.98% |
| Total Time and Savings Deposits | 483,941 | 0.76% | 464,709 | 0.82% |
| Other Borrowed Funds | 10,000 | 4.21% | 14,253 | 4.72% |
| Subordinated Debt | 3,231 | 1.80% | 5,337 | 1.68% |
| Total Interest Paying Liabilities | 497,172 | 0.84% | 484,299 | 0.94% |
| ***Non-Interest Paying Liabilities and Equity*** | | | | |
| Demand Deposits | 174,688 | | 171,293 | |
| Other Liabilities | 4,396 | | 3,507 | |
| Stockholders' Equity | 66,020 | | 84,505 | |
| Total Liabilities and Stockholders' Equity | $ 742,276 | | $ 743,604 | |
| **Rate Differential** | | 4.62% | | 4.31% |

[$ in thousands, unaudited]

| 2002 Avg. Balance | 2002 Avg. Rate | 2001 Avg. Balance | 2001 Avg. Rate | 2000 Avg. Balance | 2000 Avg. Rate |
|---|---|---|---|---|---|
| $ 19,423 | 1.86% | $ 5,572 | 4.33% | $ 5,512 | 5.93% |
| 184,962 | 2.56% | 177,643 | 4.94% | 166,185 | 6.14% |
| 345 | 7.12% | 406 | 4.68% | 630 | 7.05% |
| 185,307 | 2.56% | 178,049 | 4.94% | 166,815 | 6.15% |
| 24,183 | 1.62% | 16,573 | 3.93% | 10,658 | 6.33% |
| 211,454 | 6.32% | 258,805 | 8.31% | 285,192 | 10.25% |
| 85,753 | 7.10% | 93,404 | 8.18% | 92,049 | 7.96% |
| 82,360 | 11.49% | 83,915 | 12.02% | 84,383 | 11.99% |
| 379,567 | 7.61% | 436,124 | 9.00% | 461,624 | 10.11% |
| 608,480 | 5.86% | 636,318 | 7.69% | 644,609 | 8.98% |
| 28,873 | | 28,527 | | 26,915 | |
| 29,676 | | 31,843 | | 32,859 | |
| 12,456 | | 6,209 | | 1,628 | |
| 19,245 | | 24,148 | | 27,907 | |
| (8,133) | | (9,701) | | (10,137) | |
| $ 690,597 | | $ 717,344 | | $ 723,781 | |
| $ 250,324 | 1.23% | $ 214,893 | 2.48% | $ 214,122 | 2.70% |
| 167,381 | 1.50% | 231,985 | 3.97% | 244,211 | 5.22% |
| 417,705 | 1.34% | 446,878 | 3.25% | 458,333 | 4.04% |
| 15,000 | 4.67% | 15,628 | 4.61% | 15,583 | 5.01% |
| 6,500 | 2.30% | 9,554 | 3.33% | 10,000 | 8.63% |
| 439,205 | 1.47% | 472,060 | 3.33% | 483,916 | 4.17% |
| 158,832 | | 132,166 | | 131,721 | |
| 3,331 | | 11,193 | | 8,525 | |
| 89,229 | | 101,925 | | 99,619 | |
| $ 690,597 | | $ 717,344 | | $ 723,781 | |
| | 4.19% | | 4.36% | | 4.82% |

# SENIOR MANAGEMENT, HEADQUARTERS AND BRANCH OFFICIALS

**Anthony A. Leon Guerrero**
PRESIDENT AND CHAIRMAN OF THE BOARD

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

**Francisco M. Atalig**
VICE PRESIDENT/CHIEF FINANCIAL OFFICER

**Jocelyn B. Miyashita**
VICE PRESIDENT/CREDIT ADMINISTRATOR

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

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

**Ernest P. Villaverde**
VICE PRESIDENT/INFORMATION MANAGEMENT SYSTEMS ADMINISTRATOR

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

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

**Josephine L. Blas**
VICE PRESIDENT/GENERAL AUDITOR

**Craig R. Wade**
VICE PRESIDENT/CORPORATE BANKING GROUP MANAGER

**Mike W. Naholowaa**
VICE PRESIDENT/CREDIT OFFICER

**Daniel F. Anderson**
VICE PRESIDENT/CREDIT OFFICER

**Luke M. Elliott**
VICE PRESIDENT/ELECTRONIC DATA PROCESSING MANAGER

**Ann M. Roth**
VICE PRESIDENT/FINANCIAL SERVICES OFFICER

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

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

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

**Joseph H. Paulino**
ASSISTANT VICE PRESIDENT/TRUST OFFICER

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

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

**Benjamin C. Pablo**
ASSISTANT VICE PRESIDENT/CONSUMER LOAN MANAGER

**Amoretta P. Carlson**
ASSISTANT VICE PRESIDENT/REAL ESTATE DEPARTMENT MANAGER

**Carmelita M. Cruz**
ASSISTANT VICE PRESIDENT/LOAN SUPPORT MANAGER

## Branch and Facility Managers

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

**Renee A. Cahinhinan**
ASSISTANT CASHIER/SANTA CRUZ BRANCH MANAGER

**Richard G. Camacho**
ASSISTANT VICE PRESIDENT/TAMUNING BRANCH MANAGER

**Jenais L. Guerrero**
ASSISTANT VICE PRESIDENT/MANGILAO BRANCH MANAGER

**Helen C. Tedpahogo**
ASSISTANT CASHIER/MALESSO BRANCH MANAGER

**Julie A. Gogue**
ASSISTANT CASHIER/NAVAL STATION BRANCH MANAGER

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

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

**Katherine Blas-Muna**
ASSISTANT VICE PRESIDENT/HARMON BRANCH MANAGER

**Romeo A. Angel**
VICE PRESIDENT/DEDEDO BRANCH MANAGER

**Dina A. San Nicolas**
ASSISTANT CASHIER/YIGO BRANCH MANAGER

**Elaine J. Lizama**
ASSISTANT CASHIER/ANDERSEN AFB BRANCH MANAGER

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

**Daria C. Cing**
ASSISTANT CASHIER/TINIAN OPERATIONS OFFICER

**Ina F. Attao**
ASSISTANT CASHIER/SAIPAN PRICE-COSTCO IN-STORE FACILITY MANAGER

**Jeffrey V. Diaz**
ASSISTANT CASHIER/SAN ANTONIO FACILITY MANAGER

**Larry A. Phillip**
ASSISTANT VICE PRESIDENT/ROTA BRANCH MANAGER

**Vida B. Ricafrente**
ASSISTANT VICE PRESIDENT/POHNPEI BRANCH MANAGER

**Joanne H. Akinaga**
ASSISTANT VICE PRESIDENT/CHUUK BRANCH MANAGER

**Kathrine C. Lujan**
ASSISTANT VICE PRESIDENT/PALAU BRANCH MANAGER

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

**Shirley N. Quitugua**
VICE PRESIDENT/SAN FRANCISCO BRANCH MANAGER

## Subsidiary

**Francis E. Santos**
VICE PRESIDENT/GENERAL MANAGER BANKGUAM INSURANCE UNDERWRITERS, LTD.

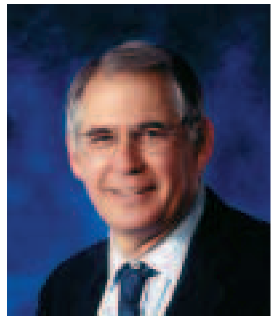
# BOARD OF DIRECTORS

**Anthony A. Leon Guerrero**

- Bank of Guam President and Chairman of the Board
- Chairman, Executive Committee and Loan Committee
- Member, Hagåtña Restoration and Redevelopment Authority
- Board Member, American Cancer Society-Guam Unit

**Lourdes A. Leon Guerrero**

- Bank of Guam Vice Chairperson of the Board
- Vice Chairperson, Executive Committee & Loan Committee
- Senator, 23rd, 24th, 26th, 27th and 28th Guam Legislature
- Member, Guam Nurses Association

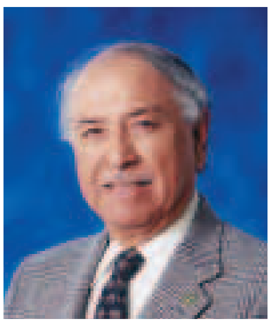


**Roger P. Crouthamel**

- 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.

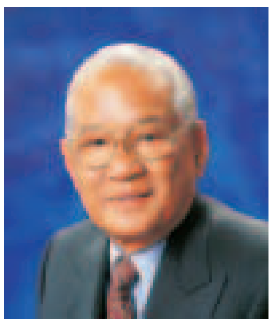
**Felino B. Amistad**

- Bank of Guam Board Treasurer and Assistant Secretary
- Owner/Manager, Metropolitan Press
- Owner/Manager, House of Fabrics



**Ralph G. Sablan, M.D.**

- Bank of Guam Director
- Private Practice: Dermatology
- U.S. Navy Captain, Retired
- Former President, Guam Medical Society



**Pedro P. Ada, Jr.**

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

**Luis G. Camacho, D.D.S., M.S.**

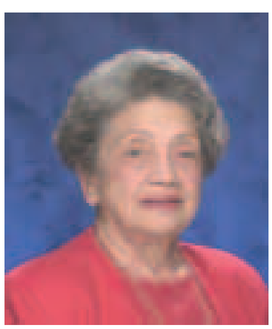
- Bank of Guam Director
- President, Camacho, Inc.
- Past President, Guam Dental Society
- Past Member, Guam Board of Dental Examiners
- Orthodontist, Retired

**Martin D. Leon Guerrero**

- Bank of Guam Director
- Chairman, Trust Committee
- Vice Chairman, Audit Committee
- President and Chairman, The Fifth Wheel Inc.
- President, Ignacia Corporation

**Joe T. San Agustin**

- Bank of Guam Director
- Chairman, Audit Committee and Nominating Committee
- Speaker, 20th- 22nd Guam Legislature
- Senator, 14th - 23rd Guam Legislature
- Instructor, University of Guam
- Chairman, Government of Guam Retirement Fund



**Eugenia A. Leon Guerrero**

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

**William D. Leon Guerrero**

- Bank of Guam Director
- Bank of Guam Executive Vice President and Chief Operating Officer
- Member, Guam Banking Board

www.bankofguam.com

BANK OF GUAM

CHARTERED MARCH 13, 1972

HAGÅTÑA, GUAM

Member FDIC