BANCO DAVIVIENDA S.A. MIAMI INTERNATIONAL BANK BRANCH

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

MBAF
MORRISON BROWN ARGIZ & FARRA, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

BANCO DAVIVIENDA S.A. MIAMI INTERNATIONAL BANK BRANCH

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
of Banco Davivienda S.A.
Miami International Bank Branch

We have audited the accompanying financial statements of Banco Davivienda S.A. Miami International Bank Branch (the "Branch"), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Branch's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banco Davivienda S.A. Miami International Bank Branch as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Transactions with Head Office

As discussed in NOTE 1, the Branch is an integral part of Banco Davivienda S.A. (the “Head Office”) and it does not operate autonomously. Accordingly, the Branch is dependent upon continuing financial and operational support from the Head Office. International Branches have extensive transactions and relationships with the Head Office. Because of this relationship, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. Our opinion is not modified with respect to that matter.

Emphasis-Of-Matter

As further discussed in NOTE 1, the Branch had a concentration with two international loan customers in 2016 and 2015 whose balance as of December 31, 2016 and 2015 approximated $79,792,000 and $88,810,000, respectively, which was 23% and 28%, respectively, of the Branch’s total gross loans. The Branch does not anticipate any charge offs and has not incurred any charge offs during 2016 and 2015. However, the Branch could be negatively impacted if any significant charge offs are incurred in the foreseeable future as well as by any changes in the economies in these countries. Additionally, the Branch had a concentration with three depositors in 2016 and 2015 whose balance as of December 31, 2016 and 2015 approximated $79,753,000 and $87,003,000, respectively, which was 19% and 26%, respectively, of Branch’s total deposits. The Branch could be negatively impacted if the funds were withdrawn from the Branch; however, the Branch is an international Branch of Banco Davivienda S.A. which has approximately $2,952,000,000 (unaudited) and $2,450,000,000, respectively, in total equity as of December 31, 2016 and 2015, respectively.

Morrison, Brown, Argiz & Farra

Miami, Florida
February 13, 2017

BANCO DAVIVIENDA S.A. MIAMI INTERNATIONAL BANK BRANCH

BALANCE SHEETS
DECEMBER 31,

ASSETS	2016	2015
CASH AND CASH EQUIVALENTS:		
Cash and due from banks	$ 3,961,529	$ 2,421,543
Interest-bearing deposits in other financial institutions	112,319,434	86,789,691
TOTAL CASH AND CASH EQUIVALENTS	116,280,963	89,211,234
Interest-bearing deposits in other financial institutions	18,290,000	11,200,000
Trading securities	48,478,179	49,175,280
Securities available for sale	540,950	3,543,537
Loans, net	341,916,868	312,461,183
Property and equipment, net	736,696	910,976
Accrued interest receivable	3,047,359	3,135,921
Other assets	338,727	318,881
TOTAL ASSETS	**$ 529,629,742**	**$ 469,957,012**

LIABILITIES AND EQUITY	2016	2015
DEPOSITS:		
Noninterest-bearing - demand	$ 96,042,699	$ 70,957,798
Interest-bearing:		
Money market accounts	86,963,243	79,170,264
Time deposits	242,073,191	188,759,129
TOTAL DEPOSITS	425,079,133	338,887,191
Borrowings	86,000,000	117,000,000
Accrued interest payable	2,716,293	1,472,373
Other liabilities	397,275	438,363
TOTAL LIABILITIES	514,192,701	457,797,927
COMMITMENTS AND CONTINGENCIES (NOTES 13 AND 14)		
EQUITY:		
Head Office capital	12,137,015	12,137,015
Accumulated earnings (deficit)	3,251,329	(30,802)
Accumulated other comprehensive income, net of taxes	48,697	52,872
TOTAL EQUITY	15,437,041	12,159,085
TOTAL LIABILITIES AND EQUITY	**$ 529,629,742**	**$ 469,957,012**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31,

	2016	2015
INTEREST INCOME:		
Loans and fees on loans	$ 13,750,006	$ 11,499,592
Securities	1,146,728	1,643,755
Interest-bearing deposits in other financial institutions	675,916	350,882
TOTAL INTEREST INCOME	15,572,650	13,494,229
INTEREST EXPENSE:		
Deposits	2,450,481	2,643,388
Borrowings and federal funds purchased	3,624,271	1,290,753
TOTAL INTEREST EXPENSE	6,074,752	3,934,141
NET INTEREST INCOME BEFORE PROVISION FOR (RECOVERY OF) LOAN LOSSES	9,497,898	9,560,088
PROVISION FOR (RECOVERY OF) LOAN LOSSES	285,104	(203,576)
NET INTEREST INCOME AFTER PROVISION FOR (RECOVERY OF) LOAN LOSSES	9,212,794	9,763,664
NONINTEREST INCOME:		
Service charges, commissions and other	562,920	556,817
Foreign exchange fees	148,570	135,960
Realized gains on sales of trading securities	188,240	-
Unrealized gains on trading securities	505,914	-
Other	70,802	62,618
TOTAL NONINTEREST INCOME	1,476,446	755,395
NONINTEREST EXPENSES:		
Salaries and employee benefits	4,277,349	4,181,579
Occupancy	1,023,616	1,017,399
Professional fees	351,567	328,337
Depreciation and amortization	251,471	296,246
Travel and entertainment	101,887	98,268
Realized losses on sales of trading securities	-	41,801
Unrealized losses on trading securities	-	799,456
Other operating	1,401,219	1,302,836
TOTAL NONINTEREST EXPENSE	7,407,109	8,065,922
NET INCOME	**$ 3,282,131**	**$ 2,453,137**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,

	2016	2015
Net income	$ 3,282,131	$ 2,453,137
Change in unrealized holding gains on securities available for sale	(4,175)	(157,462)
Comprehensive income	**$ 3,277,956**	**$ 2,295,675**

The accompanying notes are an integral part of these financial statements.

BANCO DAVIVIENDA S.A. MIAMI INTERNATIONAL BANK BRANCH

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Head Office Capital	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Income, Net of Taxes	Total
BALANCES AT JANUARY 1, 2015	$ 12,137,015	$ (2,483,939)	$ 210,334	$ 9,863,410
Net income	-	2,453,137	-	2,453,137
Comprehensive loss	-	-	(157,462)	(157,462)
BALANCES AT DECEMBER 31, 2015	12,137,015	(30,802)	52,872	12,159,085
Net income	-	3,282,131	-	3,282,131
Comprehensive loss	-	-	(4,175)	(4,175)
BALANCES AT DECEMBER 31, 2016	**$ 12,137,015**	**$ 3,251,329**	**$ 48,697**	**$ 15,437,041**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,282,131	$ 2,453,137
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of premiums on securities available for sale, net	(16,588)	20,951
Depreciation and amortization	251,471	296,246
Provision for (recovery of) loan losses	285,104	(203,576)
Realized (gain) loss on sales of trading securities	(188,240)	41,801
Net changes in operatings assets and liabilities:		
Trading securities	885,341	(11,232,038)
Accrued interest receivable	88,562	(892,609)
Other assets	(19,846)	109,680
Accrued interest payable	1,243,920	487,229
Other liabilities	(41,088)	142,423
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	5,770,767	(8,776,756)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in interest-bearing deposits in other financial institutions	(7,090,000)	8,329,593
Net (increase) decrease in loans	(29,740,789)	16,849,462
Proceeds from maturities of securities available for sale	3,015,000	7,995,000
Purchases of property and equipment	(77,191)	(56,876)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(33,892,980)	33,117,179
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits - demand and money market accounts	32,877,880	(28,650,936)
Net increase (decrease) in deposits - time deposits	53,314,062	(126,205,311)
(Decrease) increase in borrowings	(31,000,000)	117,000,000
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	55,191,942	(37,856,247)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	27,069,729	(13,515,824)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	89,211,234	102,727,058
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 116,280,963**	**$ 89,211,234**

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	**$ 4,830,832**	**$ 3,446,912**
Change in unrealized gains on securities available for sale	**$ (4,175)**	**$ (157,462)**

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

Banco Davivienda S.A. Miami International Bank Branch (the "Branch") is an international Branch of Banco Davivienda S.A. (the "Head Office"), a Colombian bank member of Grupo Bolivar, and is not a separately incorporated legal entity. The Branch is licensed to operate as an international branch office by the Commissioner of the Office of Financial Regulation of the State of Florida.

The Branch focuses its activities on basic deposit services and cash management for Colombian individuals and corporate customers, which were principally used to fund an investment securities portfolio with immediately available liquidity as well as credit facilities. The Branch lends to low risk financial institutions and companies primarily in Colombia, El Salvador, Guatemala, Peru, Panama, Costa Rica, Mexico and the Virgin Islands and the United States of America.

A number of the Branch's transactions and funding originate with the Head Office and its affiliates. Most of the transactions are referred by the Head Office. As such, the Branch is dependent on the Head Office and its affiliates for a number of its transactions. Assets, liabilities and equity recorded in the financial statements of the Branch result from transactions applicable to the Branch.

Accounting Policies

The Branch's accounting policies and reporting practices conform with accounting principles generally accepted in the United States of America ("U.S. GAAP") and to predominant practices in the banking industry.

Use of Estimates

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The allowance for loan losses, valuation of securities, and deferred income tax assets are significant estimates made by management in the preparation of the accompanying financial statements. Actual results could differ significantly from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents of $116,280,963 and $89,211,234 at December 31, 2016 and 2015, respectively, mature within three months or less and consist of cash and due from banks and interest-bearing deposits in other financial institutions.

The Branch is required by regulation to maintain cash reserves with the Federal Reserve Bank. The average amount maintained was approximately $102,087,000 and $110,028,000 for 2016 and 2015, respectively, which was in accordance with applicable regulations.

Interest-bearing Deposits in Other Financial Institutions

Interest-bearing deposits in other financial institutions earn interest at the weighted average rate of 0.76% and 0.26% at December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, interest-bearing deposits in other financial institutions included in cash and cash equivalents approximated $112,319,000 and $86,790,000, respectively, which mature within three months or less. At December 31, 2016 and 2015, interest-bearing deposits in other financial institutions approximating $18,290,000 and $11,200,000 mature within one year.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

Credit risk represents the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. Concentrations of credit risk (whether on or off-balance sheet) arising from financial instruments exist in relation to certain groups of customers. A group concentration arises when a number of counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Branch's loan portfolio is concentrated largely in low risk loans to financial institutions and companies primarily in United States of America, Colombia, Virgin Islands, Guatemala, Peru, Panama, Mexico and El Salvador. Circumstances that negatively impact the economy of these countries, in general, could adversely impact the Branch's loan portfolio.

The Branch had a concentration with two international loan customers in 2016 and 2015 whose balance as of December 31, 2016 and 2015 approximated $79,792,000 and $88,810,000, respectively, which was 23% and 28%, respectively, of the Branch's total gross loans. The Branch does not anticipate any charge offs and has not incurred any charge offs during 2016 and 2015. However, the Branch could be negatively impacted if any significant charge offs are incurred in the foreseeable future as well as by any changes in the economies in these countries. Additionally, the Branch had a concentration with three depositors in 2016 and 2015 whose balance as of December 31, 2016 and 2015 approximated $79,753,000 and $87,003,000, respectively, which was 19% and 26%, respectively, of Branch's total deposits. The Branch could be negatively impacted if the funds were withdrawn from the Branch; however, the Branch is an international Branch of Banco Davivienda S.A. which has approximately $2,952,000,000 (unaudited) and $2,450,000,000, respectively, in total equity as of December 31, 2016 and 2015, respectively.

The Branch maintains it cash balances at several financial institutions. Accounts at each institution are secured by the Federal Deposit Insurance Corporation up to $250,000. The Branch has not incurred losses related to these accounts and believes it is not exposed to any significant credit risk in cash or cash equivalents. The exposure to the Branch from these transactions is dependent upon the balances it keeps and the financial strength of the respective depository institution.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sales of securities are recorded on the trade date and are determined using the specific identification method.

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 determining whether other than temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Branch to retain its investments in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans and the Allowance for Loan Losses

Loans are stated at the principal amount outstanding, net of unearned discounts, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and the Allowance for Loan Losses (Continued)

The Branch generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off, the loan has been restructured but is not meeting the terms of the restructure, or the loan reaches a predetermined number of days past due. All interest accrued but not collected for loans that are placed on non-accrual status or loans that are charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying to return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

All classes of loans: cash collateral-secured, commercial-unsecured and credit cards-unsecured are placed in nonaccrual status when the loan reaches 90 days past due.

When management places a loan on nonaccrual status, the accrued unpaid interest receivable is reversed against interest income and the loan is accounted on the cash or cost recovery method, until it qualifies for return to accrual status. Generally, management returns a loan to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

The Branch has determined that the entire balance of a loan is contractually delinquent for all classes if the minimum payment is not received by the specified due date on the borrower's statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status.

The Branch provides for loan losses through a provision for loan losses charged to operations. When management believes that a loan balance is uncollectible, the loan balance is charged against the allowance for loan losses. Subsequent recoveries, if any, are credited to the allowance for loan losses.

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. Management uses a disciplined process and methodology to establish the allowance for loan losses each quarter. To determine the total allowance for loan losses, the Branch estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of the amount applicable to:

- Cash collateral-secured
- Commercial-unsecured
- Credit cards-unsecured

In determining the balance of the allowance account, loans are pooled by portfolio segment and management evaluates the allowance for loan losses on each segment and as a whole on a regular basis to maintain the allowance at an adequate level based on factors which, in management's judgment, deserve current recognition in estimating loan losses. Such factors include changes in prevailing economic conditions, historical experience, changes in the character and size of the loan portfolio and the overall credit worthiness of the borrowers.

Changes in these factors could result in material adjustments to the allowance for loan losses and provision for loan losses. The losses the Branch may ultimately incur could differ materially from the amounts assumed in arriving at the allowance for loan losses.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and the Allowance for Loan Losses (Continued)

In determining the specific allowance for loan losses, management considers a loan to be impaired when, based on current information and events, it is probable that the Branch will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and amount of shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Impairment losses are included in the allowance for loan losses. Cash receipts on impaired loans are applied to reduce the principal amount of such loans until the principal has been recovered and excess cash receipts are recognized as interest income.

When the ultimate collectability of the total principal of an impaired loan is doubtful and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

The Branch's charge-off policies are as follows:

General policy – Management continuously reviews all problem loans for collectability. The Branch shall charge-off any loan classified "Loss" within the quarter-period in which it is classified as such, except for loans secured by real estate. The Branch shall charge-off any amount, which appears uncollectible, based on its continuous reviews of problem loans whether or not the item is a collection account.

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring ("TDR"). Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. Any impairment on a TDR, resulting from an impairment analysis is included in the Branch's allowance for loan losses.

Management believes that the allowance for losses on loans is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Branch's allowance for losses on loans. Such regulatory agencies may require the Branch to recognize additions to the allowance based on their judgments of information available to them at the time of their examination. The Branch has not received any notification from regulatory agencies requiring an increase in the allowance for loan losses.

In addition to the allowance for loan losses, the Branch estimates probable losses for financial instruments with off-balance-sheet risks, such as commercial and standby letters of credit and records these estimates in other liabilities on the balance sheets. Provision for credit losses related to the financial instruments with off-balance-sheet risks is reported in the statements of operations. Management considers past loss experience and any other pertinent information. As of December 31, 2016 and 2015, management determined a reserve was not required.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful lives of the respective assets or the lease term. Furniture, fixtures and equipment, and software and EDP equipment are depreciated or amortized using the straight-line method over the estimated useful lives of the respective assets, ranging up to five years. Artwork have indefinite lives; therefore, these assets are not depreciated. Expenditures for significant renewals and betterments are capitalized. Repairs and maintenance expenditures are charged to expense as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are credited or charged to operations.

Impairment of Long-Lived Assets

The Branch's long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. The Branch did not recognize an impairment charge during the years ended December 31, 2016 and 2015.

Interest Income

Interest income is recognized as earned, based upon the principal amount outstanding, on an accrual basis.

Foreign Exchange Fees

The Branch offers foreign exchange services to existing customers and earns a fee for the services provided. The foreign exchange fees for the years ended December 31, 2016 and 2015 totaled $148,570 and $135,960, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Branch recognizes and measures tax positions taken or expected to be taken in its tax return based on their technical merit and assesses the likelihood that the positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other operating noninterest expense, respectively.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net loss when earned or incurred. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale are to be reported as a separate component of the equity section of the balance sheet. Comprehensive income consists of net income and other comprehensive loss. Other comprehensive loss includes unrealized gains and losses on securities available for sale, which are also recognized as separate components of equity.

Interest Rate Risk

The Branch's performance is dependent to a large extent on its net interest income, which is the difference between income on interest-earning assets and its interest expense on interest-bearing liabilities. The Branch, like most financial institutions, is affected by changes in general interest rate levels and by other economic factors beyond its control. Interest rate risk arises from mismatches between the dollar amount of repricing or maturing assets and liabilities (the interest rate sensitivity gap). More liabilities repricing or maturing than assets over a given time frame is considered liability-sensitive, or a negative gap. An asset-sensitive position will generally enhance earnings in a rising interest rate environment and will negatively impact earnings in a falling interest rate environment, while a liability-sensitive position will generally enhance earnings in a falling interest rate environment and negatively impact earnings in a rising interest rate environment. Fluctuations in interest rates are not predictable or controllable. The Branch has attempted to structure its asset and liability management strategies to mitigate the impact of net interest income resulting from changes in market interest rates.

Fair Value Measurements

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in NOTE 15. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Subsequent Events

The Branch has evaluated subsequent events through February 13, 2017, which is the date the financial statements were available to be issued.

Recent Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standard Board ("FASB") issued an accounting standard update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted, but no earlier than annual reporting periods beginning after December 15, 2016. The Branch is currently evaluating the effect the update will have on its financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

Fair Value Measurement

In May 2015, the FASB issued an accounting standard update that removes the requirement to include investments in the fair value hierarchy for which fair value is measured at net asset value using the practical expedient. The update also changes certain disclosure requirements. The update is effective retrospectively for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early application is permitted. The Branch is currently evaluating the effect the update will have on its financial statements.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued an accounting standard update which seeks to enhance the recognition, measurement, presentation and disclosure requirements of financial instruments. The update is effective for fiscal years beginning after December 15, 2018 and for interim periods within fiscal years beginning after December 15, 2019 with early adoption permitted for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Branch is currently evaluating the effect the update will have on its financial statements.

Lease Accounting

In February 2016, the FASB issued an accounting standard update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Accounting by lessors remains largely unchanged from current U.S. GAAP. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted. The Branch is currently evaluating the effect the update will have on its financial statements.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued an accounting standard update which will replace the current incurred loss impairment methodology in U.S. GAAP with a methodology that reflects the expected credit losses. The update is intended to provide financial statement users with more decision-useful information about expected credit losses. This update is effective on a modified retrospective basis for financial statements issued for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted for fiscal years beginning after December 15, 2018 including interim periods in those fiscal years. The Branch is currently evaluating the effect the update will have on its financial statements.

2. BALANCES AND TRANSACTIONS WITH RELATED ENTITIES

In the normal courses of business, the Branch conducts transactions with related entities, which result in certain balances due to and from such related entities and amounts of income and expenses. The significant balances included in the accompanying financial statements are as follows at December 31:

	2016	2015
Assets:		
Cash and due from banks	$ 19,558	$ 19,558
Loan participations	62,039,285	95,351,493
Accrued interest receivable	783,718	7,690
Liabilities:		
Deposits - noninterest bearing - demand	20,962,200	24,575,103
Deposits - interest-bearing - time deposits	25,000,000	15,000,000
Accrued interest payable	978,612	986
Statements of Operations:		
Interest and commission income	3,484	7,363
Interest and other expenses	1,267,828	905,863

As of December 31, 2016 and 2015, the Branch had standby letters of credit with a related party totaling $2,101,245, and $881,774, respectively.

The Branch entered into two operating leases with a related party in 2012 that expire on October 31, 2022 (NOTE 14). Related party rent expense totaled approximately $914,000 and $860,000 for the years ended December 31, 2016 and 2015, respectively, which is included in occupancy in the accompanying statements of operations.

3. REGULATORY MATTERS

The State of Florida (the “State”) Department of Banking and Finance, Division of Banking (the “Department”), requires international banking agencies to maintain dollar deposits of investment securities (“Capital Equivalency”) with a state bank equal to the greater of $4 million or 7% of total liabilities, excluding accrued expenses and liabilities to affiliated branches, offices, agencies, or entities. In lieu of the Capital Equivalency, the Department may permit a Branch to hold, in the State, assets equal to the greater of $4 million or 107% of total liabilities, excluding accrued expenses and liabilities to affiliated branches, offices, agencies or entities. Assets held to meet this requirement exclude accrued income and amounts due from affiliated branches, offices, agencies, or entities.

At December 31, 2016 and 2015, in the opinion of management, the Branch is in compliance with the Capital Equivalency requirement because the Branch maintains $25,290,000 and $19,200,000, respectively, in interest-bearing deposits in a state bank and investment securities with a fair market value of $14,062,754 and $17,623,930, respectively.

4. TRADING SECURITIES

Trading securities are recorded at fair value and consist of Eurobonds. For the years ended December 31, 2016 and 2015, the fair value totaled $48,478,179 and $49,175,280, respectively.

5. SECURITIES AVAILABLE FOR SALE

The amortized cost, gross unrealized holding gains, gross unrealized holding losses and fair value of securities available for sale, by security type, are as follows:

	December 31, 2016			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Eurobonds	**$ 492,253**	**$ 48,697**	**$ -**	**$ 540,950**

	December 31, 2015			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Eurobonds	**$ 3,490,665**	**$ 52,872**	**$ -**	**$ 3,543,537**

There were no securities with unrealized losses at December 31, 2016 and 2015.

Expected maturities of securities available for sale will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The amortized cost and fair value of securities available for sale at December 31, 2016, by contractual maturity, are shown below:

	Amortized Cost	Fair Value
Due in one through five years	**$ 492,253**	**$ 540,950**

There were no sales of securities available for sale for the years ended December 31, 2016 and 2015.

6. LOANS, NET

A summary of loans, net, by type, is as follows as of December 31:

	2016	2015
Commercial-unsecured	$ 330,826,237	$ 302,111,944
Cash collateral-secured	13,886,000	12,858,136
Credit cards-unsecured	557,419	555,921
	345,269,656	315,526,001
Less:		
Allowance for loan losses	(3,352,788)	(3,064,818)
Loans, net	**$ 341,916,868**	**$ 312,461,183**

7. ALLOWANCE FOR LOAN LOSSES

A summary of gross loans based on domicile and type of borrower approximated as of December 31:

Country		**Private Sector**
United States of America	$	101,254,000
Colombia		91,268,000
El Salvador		70,310,000
Guatemala		36,000,000
Peru		30,312,000
Panama		5,444,000
Costa Rica		5,000,000
Mexico		4,667,000
Virgin Islands		1,015,000
	$	**345,270,000**

		2015
Country		**Private Sector**
United States of America	$	77,657,000
Colombia		64,818,000
Virgin Islands		59,231,000
Guatemala		36,000,000
Peru		30,312,000
Panama		29,398,000
Mexico		7,985,000
El Salvador		7,250,000
Costa Rica		1,625,000
Ecuador		1,250,000
	$	**315,526,000**

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Branch has segmented the loans in the portfolio by product type. Loans are segmented into the following pools:

- Cash collateral-secured
- Commercial-unsecured
- Credit card-unsecured

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Branch considers the allowance for loan losses of approximately $3,353,000 and $3,065,000 adequate to cover the loan losses inherent in the loan portfolio at December 31, 2016 and 2015, respectively.

7. ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Changes in the allowances for loan losses and the recorded investment in loans as of December 31, 2016 are as follows:

As of December 31, 2016

	Commercial - Unsecured	Credit Cards - Unsecured	Cash Collateral - Secured	Total
Allowance for Loan Losses:				
Balance at beginning of year	$ 3,064,818	$ -	$ -	$ 3,064,818
Recoveries	$ 2,866	$ -	$ -	2,866
Provision for loan losses	285,104	-	-	285,104
Ending Balance	**$ 3,352,788**	**$ -**	**$ -**	**$ 3,352,788**
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	$ 3,352,788	$ -	$ -	$ 3,352,788
Loans:				
Ending balance	$ 332,970,145	$ 557,419	$ 14,002,573	$ 347,530,137
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	$ 332,970,145	$ 557,419	$ 14,002,573	$ 347,530,137

Changes in the allowances for loan losses and the recorded investment in loans as of December 31, 2015 are as follows:

As of December 31, 2015

	Commercial - Unsecured	Credit Cards - Unsecured	Cash Collateral - Secured	Total
Allowance for Loan Losses:				
Balance at beginning of year	$ 3,268,394	$ -	$ -	$ 3,268,394
Recovery of loan losses	(203,576)			(203,576)
Ending Balance	**$ 3,064,818**	**$ -**	**$ -**	**$ 3,064,818**
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	$ 3,064,818	$ -	$ -	$ 3,064,818
Loans:				
Ending balance	$ 304,246,668	$ 555,921	$ 12,947,159	$ 317,749,748
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	$ 304,246,668	$ 555,921	$ 12,947,159	$ 317,749,748

7. ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The grading analysis estimates the capability of the borrower to repay the contractual obligation of the loan agreement as scheduled or at all. The Branch's internal credit risk grading system is based on experiences with similarly graded loans. Credit risk grades are refreshed each quarter as they become available, at which time management analyzes the resulting scores, as well as other external statistics and factors, to track loan performance.

The Branch's internally assigned grades are as follows:

Pass – Loans indicate different levels of satisfactory financial condition and performance.
Special Mention – Loans are exhibiting potential weaknesses deserving management's close attention.
Substandard – Loans are exhibiting well-defined weaknesses that jeopardize repayment of the debt.
Doubtful – Loans where the possibility of loss is extremely high.
Loss – Loans are considered uncollectible.

Loan credit exposures by internally assigned grades are as follows:

As of December 31, 2016

Credit Risk Profile by Internally Assigned Grade by Loan Segment	Commercial - Unsecured	Credit Cards - Unsecured	Cash Collateral - Secured	Total
Pass	$ 327,902,479	$ 557,419	$ 14,002,573	$ 342,462,471
Substandard	5,067,666	-	-	5,067,666
	$ 332,970,145	$ 557,419	$ 14,002,573	$ 347,530,137

As of December 31, 2015

Credit Risk Profile by Internally Assigned Grade by Loan Segment	Commercial - Unsecured	Credit Cards - Unsecured	Cash Collateral - Secured	Total
Pass	$ 304,246,668	$ 555,921	$ 12,947,159	$ 317,749,748

Performing and nonperforming loans based on payment activity are as follows:

As of December 31, 2016

Credit Risk Profile Based on Payment Activity	Commercial - Unsecured	Credit Cards - Unsecured	Cash Collateral - Secured	Total
Performing	$ 332,970,145	$ 557,419	$ 14,002,573	$ 347,530,137

As of December 31, 2015

Credit Risk Profile Based on Payment Activity	Commercial - Unsecured	Credit Cards - Unsecured	Cash Collateral - Secured	Total
Performing	$ 304,246,668	$ 555,921	$ 12,947,159	$ 317,749,748

Nonperforming loans also include certain loans that have stopped paying under modified terms where economic concessions have been granted to borrowers who have experienced financial difficulties.

At December 31, 2016 and 2015, the Branch had no impaired or nonaccrual loans. There were no loans that have been modified in a troubled debt restructuring as of December 31, 2016 and 2015.

7. ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered to be nonperforming when the loan is greater than 90 days delinquent or when management determines that all amounts due under the terms of the loan note will not be collected, whichever occurs first.

The following table includes an aging analysis of the recorded investment of past due loans as of December 31, 2016 and 2015. Also, included are loans that are 90 days or more past due as to interest and principal and still accruing, due to loans which have matured and are being renewed.

As of December 31, 2016

Age Analysis of Past Due Loans by Loan Segment	30-90 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans	Loans > 90 days and Accruing
Commercial - Unsecured	$ -	$ -	$ -	$ 332,970,145	$ 332,970,145	$ -
Cash Collateral - Secured	-	-	-	14,002,573	14,002,573	-
Credit Cards - Unsecured	-	-	-	557,419	557,419	-
Total	**$ -**	**$ -**	**$ -**	**$ 347,530,137**	**$ 347,530,137**	**$ -**

As of December 31, 2015

Age Analysis of Past Due Loans by Loan Segment	30-90 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans	Loans > 90 days and Accruing
Commercial - Unsecured	$ -	$ -	$ -	$ 304,246,668	$ 304,246,668	$ -
Cash Collateral - Secured	-	-	-	12,947,159	12,947,159	-
Credit Cards - Unsecured	-	-	-	555,921	555,921	-
Total	**$ -**	**$ -**	**$ -**	**$ 317,749,748**	**$ 317,749,748**	**$ -**

8. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, are as follows as of December 31:

	2016	**2015**
Furniture, fixtures and equipment	$ 661,347	$ 667,239
Software and EDP equipment	1,609,822	1,541,288
Leasehold improvements	832,445	832,445
Artwork	12,962	12,962
	3,116,576	3,053,934
Accumulated depreciation and amortization	(2,379,880)	(2,142,958)
Property and equipment, net	**$ 736,696**	**$ 910,976**

Depreciation and amortization expense amounted to approximately $251,000 and $296,000 for the years ended December 31, 2016 and 2015, respectively.

9. DEPOSITS

As of December 31, 2016, the Branch's time deposits totaled $242,073,191 of which approximately $229,465,000 mature in 2017 and approximately $12,608,000 mature in 2018.

Interest expense on deposits includes:

	2016	2015
Time deposits	$ 2,309,430	$ 2,373,338
Money market accounts	141,051	270,050
Total	**$ 2,450,481**	**$ 2,643,388**

Time deposits taken in denominations of $100,000 or more amounted to $239,011,922 and $186,563,639 as of December 31, 2016 and 2015, respectively.

10. BORROWINGS

The Branch had borrowings totaling $86,000,000 and $117,000,000 at December 31, 2016 and 2015, respectively. The Branch's borrowings were as follows as of December 31, 2016:

Maturity date	Interest rate	Amount
March, 2017	1.91%	$ 3,000,000
May, 2017	2.18%	30,000,000
July, 2018	3.43%	30,000,000
November, 2019	2.84%	23,000,000
		$ 86,000,000

11. INCOME TAXES

As of December 31, 2016 and 2015, there were no Federal or state income tax expense.

The actual income tax expense for 2016 and 2015 differs from the statutory tax expense for the year (computed by applying the U.S. federal corporate tax rate of 34% to income before provision for income taxes) as follows:

	2016	2015
Federal taxes at statutory rate	$ 1,115,925	$ 834,066
Change in valuation allowance	265,113	321,350
State income taxes, net of federal tax benefit	(18,486)	(29,820)
Other permanent differences	(1,362,552)	(1,125,596)
	$ -	**$ -**

11. INCOME TAXES (CONTINUED)

Deferred tax assets and liabilities relate principally to unrealized gains and losses on securities available for sale, net operating loss and credit carryforwards, depreciation and the allowance for loan losses. The Branch's deferred tax assets and deferred tax liabilities are as follows at December 31:

	2016	2015
Deferred tax assets		
Net operating loss and credit carryforwards	$ 2,219,359	$ 2,124,601
Allowances for loan losses	385,072	261,288
Alternative minimum tax credit	46,523	46,523
Unrealized losses on trading securities	57,695	117,672
Unrealized book holding gain on securities available for sale	(18,325)	(19,896)
Depreciation	(51,944)	(138,487)
Deferred rent	118,053	99,619
Other	1,392	1,392
	2,757,825	2,492,712
Less valuation allowance	2,757,825	2,492,712
Deferred tax asset	**$ -**	**$ -**

In assessing the realizability of deferred tax assets, management considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax assets and liabilities, projected future taxable income, and tax planning strategies in making the assessment. As of December 31, 2016, management has recorded a valuation allowance of $2,757,825 since there is not enough evidence that the benefit of the deferred tax assets are more likely than not to be realized. During 2016, the valuation allowance increased by $265,113.

The Branch has $5,742,000 and $7,358,000 of Federal and State net operating loss carryforwards, respectively, at December 31, 2016. Their utilization is limited to future taxable earnings of the Branch. The carryforwards expire in varying amounts starting in 2028 for Federal and 2021 for state.

The U.S. Federal jurisdiction and the State of Florida are the major tax jurisdictions where the Branch files income tax returns. The Branch is no longer subject to U.S. Federal or State examinations by tax authorities for years beginning before 2013.

For the years ended December 31, 2016 and 2015, the Branch did not have any unrecognized tax benefits as a result of tax positions taken during a prior period or during the current period. No interest or penalties have been recorded as a result of tax uncertainties.

12. RETIREMENT PLAN

The Branch has a contributory 401(k) retirement savings plan, which covers all employees 18 years of age or older who have been employed for at least one year. Eligible employees can contribute between 1% and 15% of their salary on an annual basis, up to a maximum of $18,000. The Branch may, at its discretion, match the employees' annual contributions up to 3% of their annual salary. The Branch's contribution expense to this plan totaled $74,598 and $75,105 for the years ended December 31, 2016 and 2015, respectively.

13. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISKS

The Branch's financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit, interest rate and liquidity risk. Such off-balance-sheet financial instruments primarily consist of unfunded commitments under lines of credit, commercial and standby letters of credit. Letters of credit in favor of the Branch are letters of credit issued by the Head Office or other affiliates in favor of the Branch. A summary of the notional amounts outstanding follows:

	2016	2015
Unfunded commitments under lines of credit	$ 583,000	$ 3,226,000
Irrevocable letters of credit	6,168,000	3,881,000
Letters of credit in favor of the Branch	25,696,000	23,170,000
Commercial letters of credit	-	3,000

The Branch's irrevocable standby letters of credit and commercial letters of credit are under a credit facility that is unadvised and uncommitted. To adequately control the global exposure to each borrower the Branch's credit facilities fall under the approvals granted by Head Office and all extension of credit consolidated with those of Head Office. The Branch's lines of credit ultimately may not be drawn upon, since the Head Office must approve all loan disbursements before they are funded and are subject to availability.

Commercial and irrevocable letters of credit include exposure to some credit loss in the events of nonperformance of the customer. The Branch's credit policies and procedures to approve letters of credit are the same as those for extension of credit that are recorded on the accompanying balance sheets. Since standby of credit have fixed maturity dates and many of them expire without being drawn upon, they do not generally present a significant liquidity risk to the Branch. While a significant portion of commercial letters of credit are utilized, the majority of such utilization are on an immediate-payment basis. The remainders are secured by collateral or the goods acquired by the customer with the letter of credit.

Commercial and standby letters of credit secured by cash collateral amounted to approximately $4,884,000 and $2,999,000 at December 31, 2016 and 2015, respectively.

14. COMMITMENTS AND CONTINGENCIES

Litigation

The Branch may be involved in various claims and legal actions arising in the ordinary course of business. The Branch does not believe there are any current litigations that will have a material effect on the Branch.

Operating Leases

The Branch entered into two operating leases with a related party in 2012 that expire on October 31, 2022. Rent expense totaled approximately $914,000 and $860,000 as of December 31, 2016 and 2015, respectively, which is included in occupancy in the accompanying statements of operations.

The following is a schedule of approximate minimum annual office rent commitments under the aforementioned leases:

Years ending December 31:

2017	$ 880,000
2018	904,000
2019	930,000
2020	956,000
2021	982,000
Thereafter	838,000
	$ 5,490,000

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB Accounting Standards Codification ("ASC") 820, *Fair Value Measurement*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Branch has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of the observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

The fair value of the following instruments approximates their carrying value because of the short maturity of these instruments: cash and due from banks, Interest-bearing deposits in other financial institutions, accrued interest receivable, accrued interest payable, and borrowings.

<u>Securities</u>- The fair value is estimated based on quoted market prices. When instruments are traded in secondary markets and quoted market prices do not exist for such securities, management generally relies on prices obtained from independent vendors or third party broker-dealers. Management reviews pricing methodologies provided by the vendors and third party broker-dealers in order to determine if observable market information is being utilized. Securities measured with pricing provided by independent vendors or third party broker-dealers are classified within Level 2 of the hierarchy and often involve using quoted market prices for similar securities, pricing models or discounted cash flow analyses utilizing inputs observable in the market where available. As of December 31, 2016 and 2015, the Branch's Eurobonds are classified in Level 2 since quoted market prices do not exist for the securities and the prices obtained were from an independent vendor.

<u>Loans</u>- The carrying amount for loans secured by cash collateral and floating-rate loans and fixed-rate loans due in three months approximate fair value due to their short-term nature, repricing frequency, or proximity to maturity. All other loans fair value are calculated based on estimated market discount rates that reflect the terms, conditions, and credit risk inherent in the loans at the balance sheet date.

<u>Deposits</u>- noninterest-bearing and interest-bearing - The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits and money market accounts, is equal to the amount payable at December 31, 2016 and 2015. The carrying amount of time deposits estimates the fair value due to the short maturities.

<u>Off-balance-sheet credit related financial instruments</u>- The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For floating rate commitments, fair value is the carrying amount. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Borrowings- The carrying amount of borrowings maturing within a year approximates fair value. The carrying amount of borrowings estimates the fair value due to their variable rate.

Items Measured at Fair Value on a Recurring Basis

The following table presents the Branch's financial assets that are measured at fair value on a recurring basis as of December 31, 2016 and 2015, for each fair value hierarchy level.

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Trading securities - Eurobonds	$ -	$ 48,478,179	$ -	$ 48,478,179
Securities available for sale - Eurobonds	$ -	$ 540,950	$ -	$ 540,950

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Trading securities - Eurobonds	$ -	$ 49,175,280	$ -	$ 49,175,280
Securities available for sale - Eurobonds	$ -	$ 3,543,537	$ -	$ 3,543,537

Items Measured at Fair Value on a Non-recurring Basis

The Branch does not have any financial assets or liabilities that are measured at fair value on a non-recurring basis as of December 31, 2016 and 2015.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The table below presents the carrying or notional amounts and estimated fair values of the Branch's financial instruments at December 31:

	2016	
	Carrying Amount	Fair Value
December 31, 2016		
Financial assets:		
Cash and due from banks	$ 3,961,529	$ 3,961,529
Interest-bearing deposits in other financial institutions	130,609,434	130,609,434
Trading securities	48,478,179	48,478,179
Securities available for sale	540,950	540,950
Loans, net	341,916,868	342,508,536
Accrued interest receivable	3,047,359	3,047,359
Financial liabilities:		
Deposits:		
Noninterest-bearing - demand	96,042,699	96,042,699
Interest-bearing:		
Money market accounts	86,963,243	86,963,243
Time deposits	242,073,191	242,073,191
Accrued interest payable	2,716,293	2,716,293
Borrowings	86,000,000	85,215,000
Off-balance sheet credit related financial instruments:		
Irrevocable standby letters of credit	-	-

	2015	
	Carrying Amount	Fair Value
December 31, 2015		
Financial assets:		
Cash and due from banks	$ 2,421,543	$ 2,421,543
Interest-bearing deposits in other financial institutions	97,989,691	97,989,691
Trading securities	49,175,280	49,175,280
Securities available for sale	3,543,537	3,543,537
Loans, net	312,461,183	313,671,775
Accrued interest receivable	3,135,921	3,135,921
Financial liabilities:		
Deposits:		
Noninterest-bearing - demand	70,957,798	70,957,798
Interest-bearing:		
Money market accounts	79,170,264	79,170,264
Time deposits	188,759,129	188,759,129
Accrued interest payable	1,472,373	1,472,373
Borrowings	117,000,000	117,000,000
Off-balance sheet credit related financial instruments:		
Irrevocable standby letters of credit	-	-