



# 2016

ANNUAL REPORT



# INNOVATION IS THE ONLY WAY FORWARD

**Banesco USA** is proud to support local economic growth in our communities, leaving a mark of innovation and commitment. We work closely with our customers to understand them and create innovative banking solutions that meet their needs.



PUERTO RICO



SOUTH FLORIDA



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# A DECADE OF GROWTH AND ACHIEVEMENTS

“WE CONTINUE TO GROW AS ONE OF THE STRONGEST BANKS IN SOUTH FLORIDA, AND WE COULDN’T HAVE DONE SO WITHOUT YOUR SUPPORT”

Dear Banesco USA family,

In 2016, we celebrated an entire decade of growth and achievements at Banesco USA. We continue to grow as one of the strongest banks in South Florida, and we couldn’t have done so without your support. With great honor and continuous appreciation for all our customers, investors and friends, I would like to present our Annual Report for the year 2016.

Over the past decade, Banesco USA has become a reference point for banking in South Florida. We are placed at number 12 out of 44 banks operating in the region, and our client base continues to grow both locally and internationally. Florida is a global leader of international commerce and South Florida has a bustling industry for health and technology, making it a richly diverse region for economic growth. Miami plays a pivotal role in the success of the region due to its unique location as a gateway to investment for the rest of the country. This has become the ideal location to start or grow a business, and even more so for international ventures.

More than 50% of start-ups in Miami are international companies, and in recent years the investment opportunities have skyrocketed.

Recognized as one of the strongest financial institutions of the region, Banesco USA has a key role to provide support for local businesses and leave a mark of innovation and commitment in South Florida. Behind a decade of achievements in one of the most competitive markets on the planet, we boast a dedicated management team and independent Board of Directors with a shared vision of success and drive for the future. In 2016, we made notable technological advancements to improve customer experience through our services. Our exceptional team worked tirelessly to provide necessary innovations such as BanescoMobile Check Deposit and Online Account Opening, which have greatly improved the accessibility and convenience of banking. We also strive to empower our local community with investment opportunities for the future.

Reaching the 10-year mark has allowed us to reflect on just how far we’ve come as a leading financial institution within the region, and in what specific areas we’ve seen the most growth. At the end of 2016, Banesco USA’s total assets amounted to \$979,424,619, a 3.9% increase compared to the previous year. Total deposits reached a high of \$839,450,274, a 2.7% increase while. The net loan portfolio continued to grow with an increase of 6.7% compared to 2015, reaching \$733,804,531.

We’re looking forward to another year of growth, one that marks the beginning of a new decade of innovation and success that wouldn’t be possible without you.



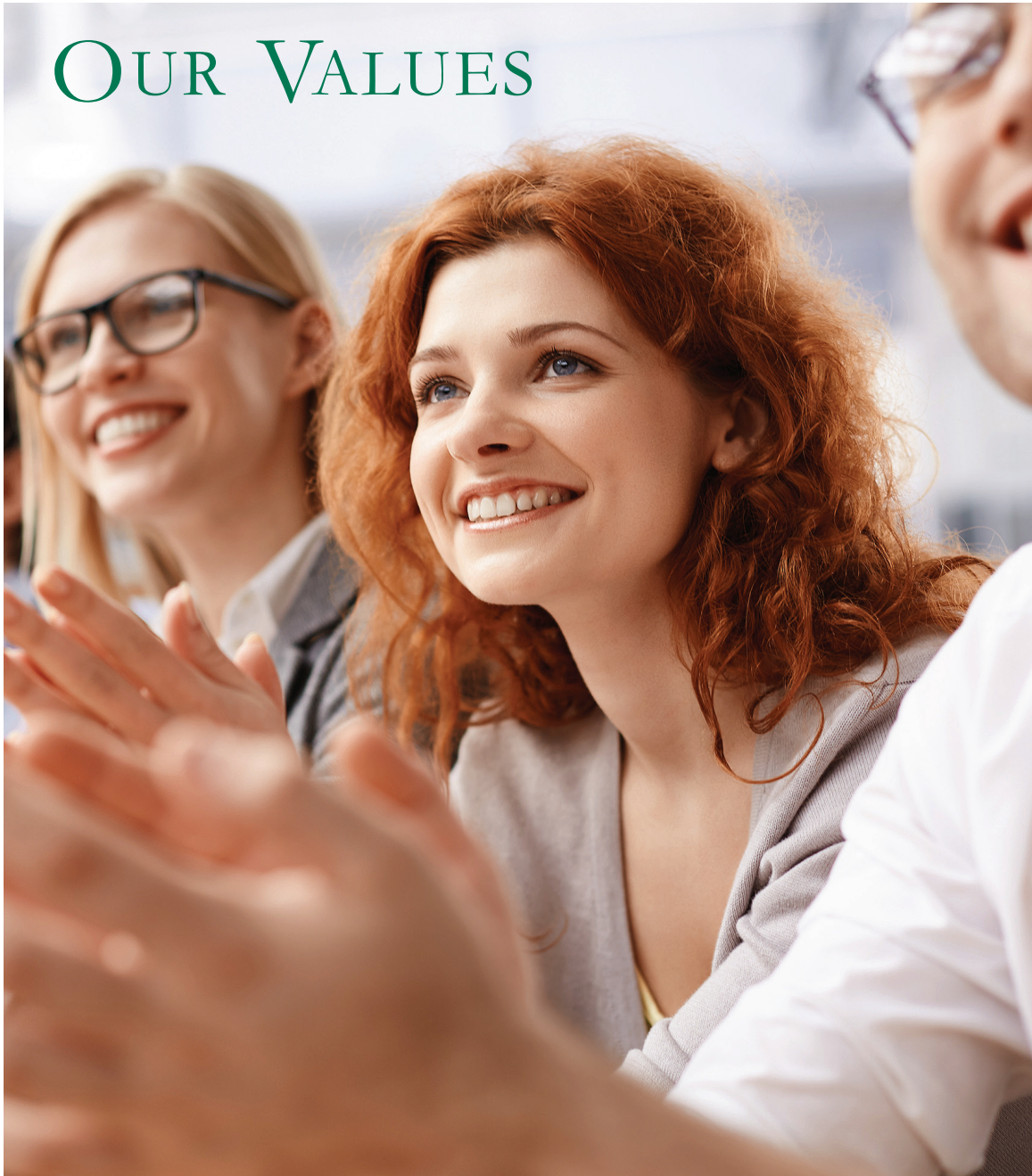
Best Regards,

**Jorge Salas**  
President and CEO





# OUR VALUES



## MAKING OUR VALUES COUNT

Representing one of the strongest banks in the region comes with a responsibility and commitment to uphold the values we were founded upon. With over a decade of experience and growth since our start in South Florida, we continue to work towards the ideals that define us as an organization. **Together with a diverse and talented staff and dedicated management team, we always aim to reflect our following core values:**



### Responsibility

We stand by our commitment to provide the best banking services possible. Our team responds to obligations with accuracy, passion and conscience.



### Quality

We perform every task with the utmost care and security. We intend to be the best. We strive to exceed the expectations of our stakeholders.



### Reliability

We hold ourselves accountable to our commitments and uphold the virtue of honesty. We acknowledge our mistakes, and ask for assistance when necessary.



### Innovation

We use the latest technology to offer the most convenient, secure banking available. We actively seek ideas and technologies to improve user experience in online banking.



# INNOVATION + SERVICE

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THE SECRET  
TO OUR SUCCESS





# FINANCIAL SOLUTIONS FOR YOUR PERSONAL AND BUSINESS GROWTH



## PERSONAL BANKING

Banescousa USA offers domestic and international Personal Banking, both of which offer checking accounts, interest checking accounts NOW, money market accounts, savings accounts and certificate of deposit. Banescousa USA is proud to support individuals by offering an array of loans to fit their needs including residential mortgage loans, home equity loans, as well as boat and auto loans.

Banescousa USA is also proud to offer BanescousaPremium Banking which provides personalized attention, superior service and comprehensive banking support.



## BUSINESS BANKING

Banescousa USA offers domestic and international Business Banking, which include checking accounts, money market accounts, savings accounts and certificate of deposit. Furthermore, Banescousa USA offers a variety of commercial loans designed specifically for business needs. These include commercial real estate mortgage loans, term commercial loans, commercial line of credit, asset guaranteed loans and owner occupied / SBA 504.

To help business owners save time and money, we offer the Banescousa USA Visa Business Check Card, which allows access to various services, such as giving local businesses the advantage of making online purchases.



# OUR SERVICES



## ONLINE ACCOUNT OPENING

Now you can open a Certificate of Deposit online in just a few steps. This is where your money makes more money.

### **Banesc***ONLINE*

Enjoy the convenience of connecting to your accounts online with free, secure, easy access from any computer connected to the Internet.

### **Banesc***Mobile*

Our must-have app allows clients to access their accounts from anywhere at anytime via their smartphones.

## BANESCO VISA<sup>®</sup> CHECK CARD

Enjoy a wide range of services so you can easily and safely manage your Personal Checking and Business Accounts.

## PERSON TO PERSON TRANSFER

Send and receive electronic payments to friends and family using just their email address or mobile phone number, and without sharing any confidential information.

## **Banesc***Mobile* CHECK DEPOSIT

For individuals and businesses: Our easy-to-use service lets you deposit checks from virtually anywhere at anytime by using the feature on the BanescMobile app for iPhone®, Ipad® and Android™ devices.

## MERCHANT SERVICES

In collaboration with First Data, one of the leading credit and debit card processors in the world, Banesco USA offers a Merchant Services program for Business customers.

## CASH MANAGEMENT SOLUTIONS

You can control your Business Account 24/7 securely and conveniently from anywhere in the world:

- Remote Deposit Capture
- ACH Origination
- E-Wires
- Lock Box
- Positive Pay



# PEOPLE MAKE THE DIFFERENCE





# BOARD OF DIRECTORS



## CARLOS PALOMARES

Chairman of the Board

- Banking executive with over 40 years experience in U.S. and international financial markets
- Former Chairman of Miami Dade County's Beacon Council
- Member of Greater Miami Chamber of Commerce Executive Committee
- Graduate of New York University



## SENO BRIL

Director

- Owner of real estate firm The Decorus Group
- Has more than 35 years of experience in senior management roles in the consumer financial services industry in the U.S. and international markets
- Graduate of the Institute of International Studies in Geneva



## JORGE SALAS

President and CEO

- Banking executive with extensive experience as an international banker and a member of the Banesco Group for 18 years
- Graduate of Universidad Metropolitana, Caracas and the University of Chicago



## FRANCISCO J. PAREDES

Director

- Retired Senior Partner of Deloitte & Touche, LLP with Regional Executive responsibilities for Latin America and the Caribbean.
- 40 years of public accounting experience serving domestic and International clients in diversified industries and with transactions in the capital markets.
- Former Chairman of the State of Florida Board of Accountancy.
- Graduate of Florida State University.



## LUIS XAVIER LUJAN

Director

- Economist with more than 30 years of experience in the financial sector
- Founding partner of the Banesco Financial Organization; currently serving as Banesco Seguros Board Chairman
- Graduate of the Universidad Católica Andrés Bello



## FREDERICK BRENNER

Director Emeritus

- Banking executive with more than 45 years of senior-level commercial bank management experience, holding management positions in banks in Latin America and the U.S.
- Graduate of the University of California (Berkeley)



## RICARDO AYALA

Director

- Banking executive with over 25 years of experience in the financial sector, where he has held several senior-level management positions
- Served on the boards of several large financial institutions, Chairman of Banesco Panama
- Graduate of the University of Miami



## MERCEDES ESCOTET

Secretary of the Board

- Executive with more than 30 years of executive management experience in both international and domestic banking; one of the key executives responsible for the organization of Banesco USA
- Graduate of Simón Bolívar University and the University of West Virginia



## AUGUSTO J. SIGARRETA

Director

- Banking executive with more than 45 years of experience who has held key positions at a multinational bank level
- Graduate of the University of Puerto Rico



# MANAGEMENT TEAM



**JORGE SALAS**  
President and CEO

Mr. Salas has extensive experience as an international banker and has been a member of the Banesco Group for 18 years. A former executive with the Inter-American Investment Corporation, Mr. Salas holds Masters degrees in Business Administration and Public Policy from the University of Chicago.



**LUIS ALFREDO GRAU**  
Senior Vice President, Head of International Department

Mr. Grau is responsible for the relationship with all International Customers. Mr. Grau applies his expertise in International Markets to provide clients with financial and investment solutions that are aligned with the values of Banesco USA.



**MARITZA ABADIA**  
Executive Vice President, Puerto Rico Country Manager

Ms. Abadia is a professional banker and certified public accountant with more than 35 years experience in Corporate Banking.



**LETICIA PINO**  
Executive Vice President, Operations & Administrative Officer

Ms. Pino currently serves as the Executive Vice President & Operations Officer who brings over 35 years of experience from both international and domestic operations. She is responsible for the daily operations of the Bank as well as Human Resources and other administrative areas.



**MERCEDES ESCOTET**  
Executive Vice President, Chief Financial Officer

Ms. Escotet is responsible for directing Banesco's overall financial, accounting, budget, credit, tax, and treasury functions, as well as serving as Secretary to the Board of Directors.



**ALBA PRESTAMO**  
Executive Vice President, Chief Compliance & Risk Officer

Ms. Prestamo brings over 37 years of experience, with vast expertise in risk management, which includes overseeing the Bank Secrecy Act and anti-money laundering compliance.



**ALINA D. GARCIA-DUANY**  
Executive Vice President, Chief Lending Officer

Ms. Garcia-Duany has been a Banker for over 35 years. She is responsible for the production of the Bank's commercial, residential, construction and consumer loans as well as Trade Business and Correspondent Banking.



# BANESCO USA WAS ESTABLISHED IN MIAMI 10 YEARS AGO WITH A CLEAR VISION:

Becoming a reference point for banking in South Florida and Puerto Rico. Thanks to our committed team and the support of our parent company, BanESCO International, we have seen continuous growth throughout the years.





# BANESCO INTERNATIONAL

**Multinational Loan Portfolio:**  
\$127,842.55 million

**Multinational Deposit Portfolio:**  
\$232,480.62 million

**More than 16,000** staff members





10

YEARS HERE  
WITH YOU



WE ARE  
PROUD TO  
HAVE 10 YEARS  
OF CONTINUOUS  
GROWTH  
IN THE US



**Venture capital investment across the state yielded the best year for Florida since 2001 despite a nationwide drop in VC funding, according to the MoneyTree Report - South Florida Business Journal**

<http://www.bizjournals.com/southflorida/news/2017/01/11/venture-capital-rises-in-florida-despite.html>

**“[Companies have] bypassed hubs like Silicon Valley and New York City in favor of South Florida. The region is emerging as a hotbed for startups, local entrepreneurs say, with 139 companies on the Inc. Magazine 5000 list based in the Miami-Fort Lauderdale-Pompano Beach metro area.”**

<http://www.inc.com/kerry-close/why-south-florida-has-emerged-as-a-startup-hub.html>





# 10 YEARS OF ACHIEVEMENTS

2006 - 2016



INAUGURATION OF FIRST BBU BANK BRANCH IN CORAL GABLES, FL



Merging of Banescou USA & Banescou Puerto Rico



LAUNCH OF **Banescou**ONLINE's BILINGUAL PLATFORM

SECURITY BANK ACQUISITION



Launch of Remote Deposit Capture (RDC)

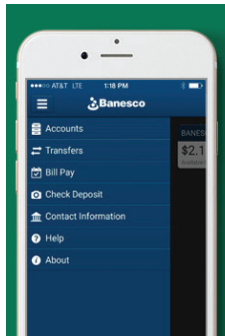


Opening of LPO Hialeah

Acquisition of Flagler Bank and Great Florida Bank

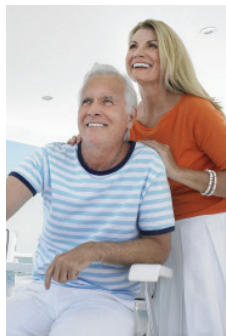
THE CITY OF CORAL GABLES PROCLAIMED JANUARY 23RD TO BE "BANESCO'S DAY"

**Banescou**Mobile was released



BBU BANK CHANGED ITS NAME TO BANESCO USA

Alliance with Allpoint to connect with over 55,000 ATMs worldwide



Creation of **Banescou**Premium

Launch of **Banescou**Mobile for businesses



THE U.S. SMALL BUSINESS ADMINISTRATION AWARDED BANESCO USA AS SBA'S EXPORT WORKING CAPITAL LENDER OF THE YEAR

LAUNCH OF PERSON-TO-PERSON TRANSFER



LAUNCH OF BANESCO MOBILE CHECK DEPOSIT FOR PERSONAL AND BUSINESS ACCOUNTS



Launch of opening CD accounts online



The Spanish Chamber of Commerce in the United States awarded Banescou USA with the "Ponce de León" Excellence in Business Award for the successful globalization of Spanish and American businesses.





The following management's discussion and analysis (MD&A) is intended to assist readers in understanding the financial condition and results of operations of the Bank as of December 31, 2016 and for the year then ended. This discussion should be read in conjunction with the audited financial statements, accompanying footnotes and other supplemental financial data included in this annual report.

## FINANCIAL STATEMENTS

The Bank prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. In this section, we review the main variations of the summary balance sheets and statements of operations at the close of 2016 with respect to the amounts presented at the close of 2015.





# MANAGEMENT DISCUSSION AND ANALYSIS

Financial Condition and Results of Operations





## NET INCOME

Net income of \$0.4 million in 2016 represents a decrease from the net income of \$2.8 million in 2015. The main driver contributing to these results was a significant increase to the allowance for loan losses due to one loan which was classified as impaired at year end and resulted in an addition of \$9.5 million to the allowance. The impairment was due to an isolated incident and not due to weaknesses of a particular industry or due to economic conditions. Excluding the isolated allowance expense, net income for 2016 would have been approximately \$6 million. Net interest income increased by \$0.9 million or 2.8 percent, non-interest income increased by \$2.4 million or 35 percent, personnel expenses decreased by \$0.5 million or 2.4 percent and other operating expenses decreased by \$0.7 million or 2.1 percent.

## NET INTEREST INCOME

Net interest income before provision for loan losses increased by \$0.9 million, or 2.8 percent, to \$34.3 million in 2016, from \$33.3 million in 2015. This was mainly a result of an 7% growth in the gross loan portfolio.

## PROVISION FOR LOAN LOSSES

The provision for loan losses totaled \$9 million in 2016, an increase of \$8.2 million from 2015. The increase was mainly due to one loan which was classified as impaired at year end.

The South Florida real estate sector continued to show signs of improvement and unemployment is stabilizing, however, challenges persist.





## NON-INTEREST INCOME

In 2016, total non-interest income increased by \$2.4 million, or 35 percent. The factors leading to this result were mainly for higher service charges, commissions and other fees gains on securities; partially offset by lower gain on acquired assets.

Gain on securities for 2016 was \$1.3 million; the sales of investment securities available for sale stem from the Treasury Unit's ongoing assessment of the total return profile of each security versus the market for investments of similar risk, the mitigation of the significant risk to equity arising from prepayments (beyond contractual) on investment securities with material market appreciation, and management of the duration of the balance sheet.

## NON- INTEREST EXPENSE

Total non-interest expense decreased by \$0.7 million, or 2 percent, during the year. The bank's continued efforts in increasing its efficiency were vital to reduce non-interest expenses in 2016.

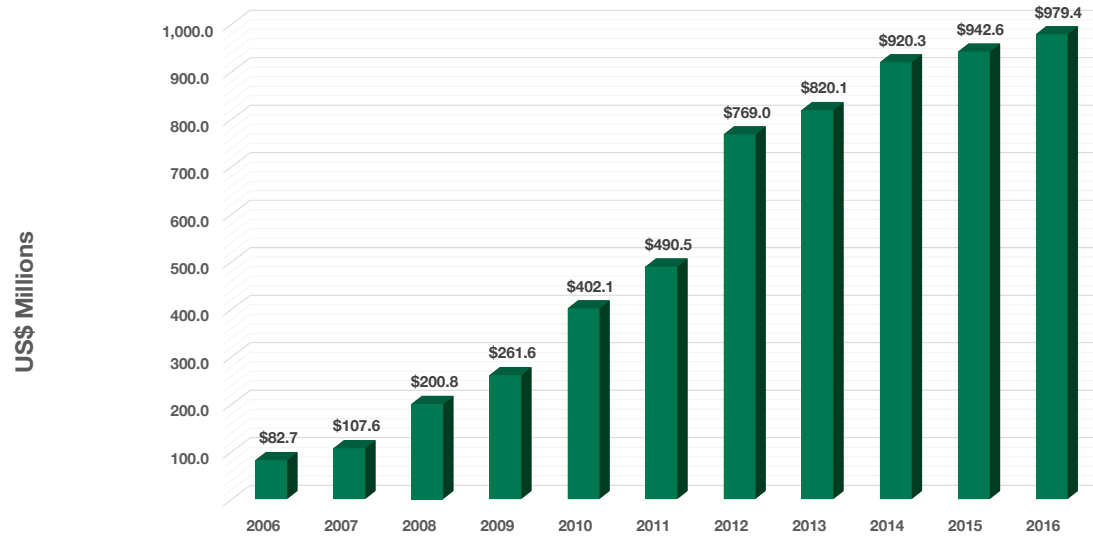
## INCOME TAXES

In 2016, the Bank recorded an income tax benefit of \$0.3 million, compared to an income tax expense of \$1.6 million the prior year. This change is mainly associated to lower income before taxes and due to an adjustment of the tax accrual from prior years.

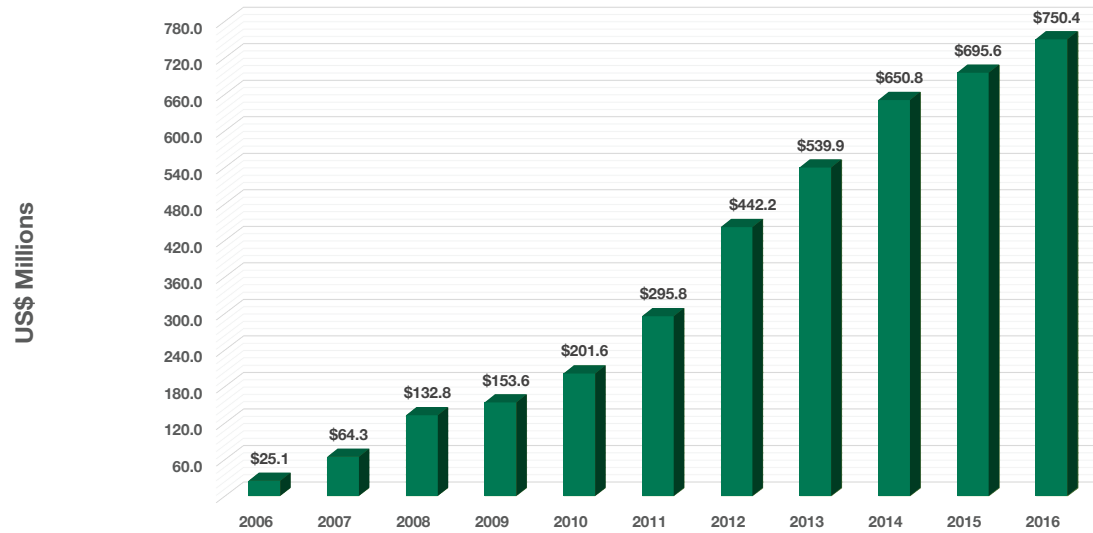


# CHARTS

## Total Assets



## Total Gross Loans

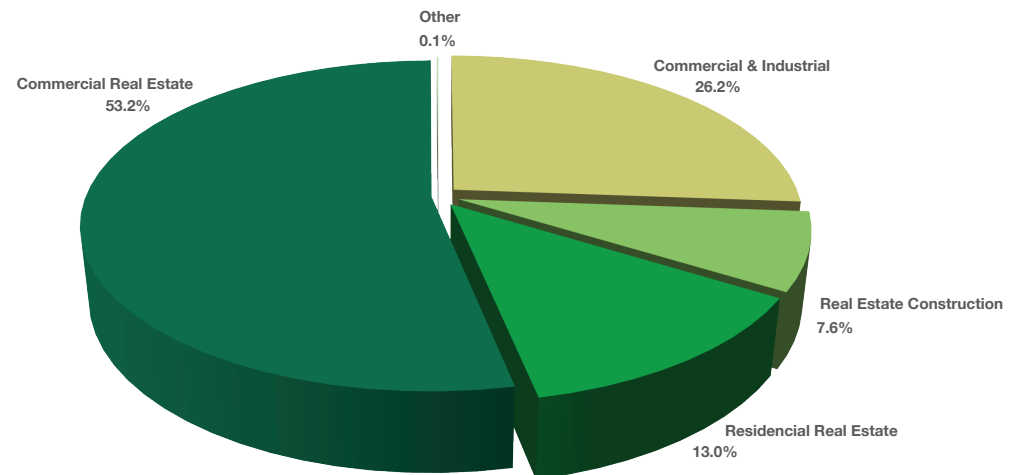




## Total Deposit

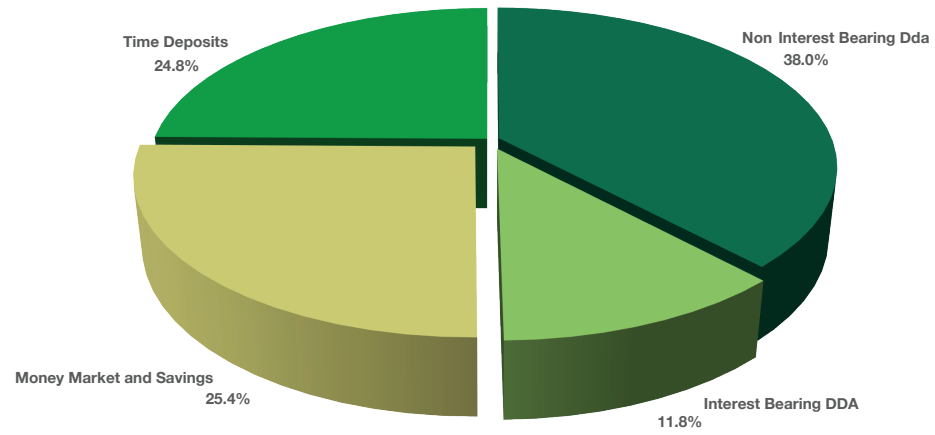


## Loan Portfolio

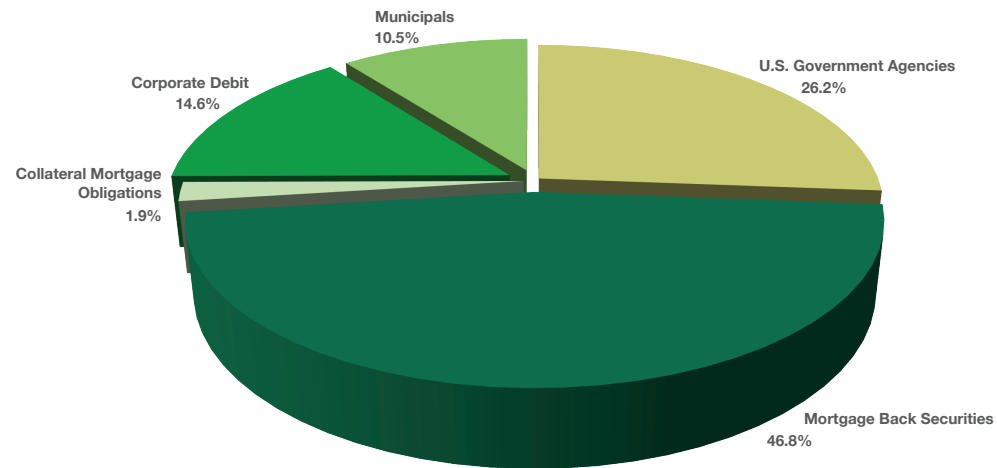




## Deposit Portfolio



## Investment Portfolio





# TOTAL ASSETS



Total assets closed the year 2016 at \$979.4 million, an increase of \$36.9 million, or 4 percent, compared to the previous year. The net loan portfolio, which closed the year at \$733.8 million, or 75 percent of total assets, grew by 7 percent since the end of 2015. The investment securities portfolio of \$170.6 million at the end of 2016, or 17 percent of total assets, decreased by 10 percent compared to the previous year. Cash and cash equivalents showed an increase of \$7.5 million, or 16 percent, compared to 2015.

## CASH AND CASH EQUIVALENTS

The Bank continues to maintain significantly high liquidity levels as part of its asset-liability management strategies. A significant part of those strategies is holding liquid assets in the form of cash and cash equivalents, primarily deposits with the Federal Reserve Bank. At the close of 2016, cash and cash equivalents reached \$53.9 million, 5.5 percent of total assets, an increase of 16 percent compared to the close of 2015.

## INVESTMENT SECURITIES

The investment portfolio, which represents approximately 17 percent of total assets, is composed of high-quality debt instruments issued by U.S. Government Agencies (26 percent), U.S. Government Sponsored Enterprises MBSs (47 percent), U.S. Government Sponsored Enterprises CMOs (2 percent), Municipal Securities (11 percent) and Corporate Securities (15 percent).

The composition of the investment securities portfolio at December 31, 2016 is illustrated in the chart on page 24.

The Bank manages its investment portfolio with strategies designed to provide the optimum combination of liquidity, interest income, credit risk and market risk. The investment portfolio's market and credit risks are managed on a continuous basis by the Bank's Treasury Unit and monitored by the bank's ALCO Committee.

## OTHER ASSETS

Other assets increased \$2.3 million compared to prior year. Other assets consist of:

- \$2.4 million in Property and equipment, net, which decreased \$1 million from prior year mostly attributed to depreciation expense.
- \$2.6 million in accrued interest receivable which increased \$0.17 million compared to prior year.
- \$9.2 million in Deferred Tax Assets which increased \$3.6 million compared to prior year. This increase is mainly attributed to an increase in the Allowance for Loan Losses.
- \$2.8 million in foreclosed assets that is a net decrease of \$0.02 million in other real estate owned from prior year.
- \$1.5 million in prepaid and other assets, which decreased by \$0.4 million compared to prior year.





# LIABILITIES



## DEPOSITS AND SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

Deposits and securities sold under agreements to repurchase (repo accounts, including customer's overnight sweep repo accounts) reached an all-time high of \$840.7 million at the close of 2016, representing an increase of \$21.4 million from 2015.

There was an increase in interest bearing accounts of \$42.4 million which helped stimulate the growth in 2016. Repo accounts decreased \$0.9 million compared to the previous year.

## ADVANCES FROM THE FEDERAL HOME LOAN BANK

The Federal Home Loan Bank offers its member institutions fixed or variable rate secured lines of credit based on the institution's condition and creditworthiness. The Bank utilizes short to medium-term fixed rate advances as one of its pools to manage balance sheet interest rate sensitivity risk. Advances from the Federal Home Loan Bank closed the year at \$40 million, which increased \$10 million compared to 2015. Only \$5 million in advances mature over 1 year and mature within the next 2 years.

At December 31, 2016 the Bank had a credit line of approximately \$242 million, with an unused borrowing capacity of approximately \$202 million.

## STOCKHOLDER'S EQUITY

Stockholder's equity grew by \$1 million or 1.2 percent during the year. Other comprehensive income of \$0.6 million, primarily the after-tax net unrealized fair value losses in the available for sale investment portfolio were lower than in 2015 and Net income of \$0.4 million were the contributing factors for this increase in shareholder's equity.

Tier 1 Risk-Based Capital as a percentage of Risk-Weighted Assets decreased to 11.5 percent in 2016 from 12.1 percent a year earlier. Total Risk-Based Capital to Risk-Weighted Assets decreased to 12.7 percent in 2016 from 13.3 percent in 2015. These decreases are the result of an increase of 6 percent in total Risk-Weighted Assets, coupled with a less proportionate increase of 0.5 percent and 2 percent in Tier 1 Risk-Based Capital and Total Risk-Based Capital respectively.

Total Risk-Weighted Assets increased approximately \$45 million, as a result of the growth in the portion of the loan portfolio allocated to a higher risk weight category for regulatory capital computation purposes.





# BANESCO USA FINANCIAL STATEMENTS





**BANESCO USA**

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FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015





## BANESCO USA

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### **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors and Stockholders  
of Banesco USA

We have audited the accompanying financial statements of Banesco USA (the "Bank") (a Florida corporation), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, statements of comprehensive income, changes in stockholders' 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 of 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 Bank'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 Bank'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 Banesco USA 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.

*Morrison, Brown, Argiz & Farra*

Miami, Florida  
March 31, 2017

An Independent Member of Baker Tilly International

MIAMI 1450 Brickell Avenue, 18th Floor, Miami FL 33131 | T 305 373 5500 F 305 373 0056 | [www.mbafcpa.com](http://www.mbafcpa.com)



**BANESCO USA**

BALANCE SHEETS  
DECEMBER 31,

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Cash and due from banks	\$ 3,428,788	\$ 5,284,185
Restricted cash	-	892,326
Interest bearing deposits in other financial institutions	50,506,653	40,269,792
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>53,935,441</b>	<b>46,446,303</b>
Investment securities available for sale	169,425,739	188,945,154
Investment securities held to maturity	1,199,290	1,233,050
Federal Home Loan Bank stock, at cost	2,548,400	2,103,500
Loans, net	733,804,531	687,666,775
Property and equipment, net	2,376,311	3,382,564
Accrued interest receivable	2,589,878	2,417,076
Foreclosed assets, net	2,775,700	2,796,500
Deferred tax assets	9,228,821	5,612,454
Prepaid expenses and other assets	1,540,508	1,961,096
<b>TOTAL ASSETS</b>	<b>\$ 979,424,619</b>	<b>\$ 942,564,472</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>DEPOSITS:</b>		
Noninterest bearing demand deposits	\$ 318,954,162	\$ 339,082,289
Interest bearing demand deposits	98,695,347	103,580,398
Money market and savings accounts	213,334,206	214,638,764
Time deposits of \$100,000 or more	190,976,031	143,518,083
Time deposits of less than \$100,000	17,490,528	16,330,754
<b>TOTAL DEPOSITS</b>	<b>839,450,274</b>	<b>817,150,288</b>
Securities sold under agreements to repurchase	1,241,524	2,136,907
Federal Home Loan Bank advances	40,000,000	30,000,000
Accrued interest payable	710,696	704,954
Accrued expenses and other liabilities	9,653,735	5,226,846
<b>TOTAL LIABILITIES</b>	<b>891,056,229</b>	<b>855,218,995</b>
<b>COMMITMENTS AND CONTINGENCIES (NOTES 13 AND 15)</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, \$5 par value; 6,000,000 shares authorized; 5,926,304 shares issued and outstanding in 2015 and 2014	29,631,520	29,631,520
Additional paid-in capital	50,842,927	50,842,927
Retained earnings	10,243,110	9,817,510
Accumulated other comprehensive loss, net of taxes	(2,349,167)	(2,946,480)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>88,368,390</b>	<b>87,345,477</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 979,424,619</b>	<b>\$ 942,564,472</b>

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



## BANESCO USA

### STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31,

	2016	2015
<b>INTEREST AND DIVIDEND INCOME:</b>		
Loan and fees on loans	\$ 34,416,091	\$ 32,441,913
Investment securities	4,004,230	4,307,770
Federal funds sold	255,186	95,878
Federal Home Loan Bank stock	151,767	104,748
<b>TOTAL INTEREST AND DIVIDEND INCOME</b>	<b>38,827,274</b>	<b>36,950,309</b>
<b>INTEREST EXPENSES:</b>		
Deposits	3,991,873	3,151,809
Federal Home Loan Bank advances	558,139	451,779
Other borrowed funds	7,160	13,045
<b>TOTAL INTEREST EXPENSES</b>	<b>4,557,172</b>	<b>3,616,633</b>
<b>NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES</b>	<b>34,270,102</b>	<b>33,333,676</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>9,070,759</b>	<b>831,542</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>25,199,343</b>	<b>32,502,134</b>
<b>NONINTEREST INCOME:</b>		
Service fees on loans and deposits	5,330,337	3,948,699
Gain on sales of investment securities, (includes \$1,266,574 and \$337,908 accumulated other comprehensive income reclassifications for unrealized net gains on available for sale securities, respectively)	1,266,574	337,908
Gain on resolution of acquired assets	58,891	330,490
Commissions and other	2,401,635	2,080,793
<b>TOTAL NONINTEREST INCOME</b>	<b>9,057,437</b>	<b>6,697,890</b>
<b>NONINTEREST EXPENSES:</b>		
Salaries and employee benefits	22,036,225	22,587,496
Occupancy	2,944,699	3,068,981
Professional fees	1,691,085	1,597,569
Electronic data processing	1,706,844	1,584,469
FDIC insurance	526,599	1,289,481
Depreciation and amortization	1,277,447	1,533,386
Advertising	513,096	473,962
Communication	537,730	573,537
Travel and entertainment	225,826	341,236
Insurance and license fees	389,645	380,795
Office supplies	112,542	122,562
Foreclosed assets, net	89,069	123,531
Provision for off-balance sheet	757,486	228,266
Other	1,278,163	926,925
<b>TOTAL NONINTEREST EXPENSES</b>	<b>34,086,456</b>	<b>34,832,196</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>170,324</b>	<b>4,367,828</b>
(BENEFIT) PROVISION FOR INCOME TAXES, (includes approximately \$477,000 and \$127,000 of income tax expenses from reclassification items, respectively)	(255,276)	1,599,402
<b>NET INCOME</b>	<b>\$ 425,600</b>	<b>\$ 2,768,426</b>

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



**BANESCO USA**

STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**2016**

NET INCOME		\$ 425,600
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Unrealized gains (losses) on securities		
Unrealized holding gains arising during period (net of income taxes of approximately \$837,000)	\$ 1,387,276	
Less: reclassification adjustment for gains included in net income (net of income taxes of approximately \$477,000)	<u>(789,963)</u>	<u>597,313</u>
COMPREHENSIVE INCOME		<b><u>\$ 1,022,913</u></b>

**2015**

NET INCOME		\$ 2,768,426
OTHER COMPREHENSIVE LOSS, NET OF TAX		
Unrealized gains (losses) on securities		
Unrealized holding losses arising during period (net of income taxes of approximately \$600,000)	\$ (993,021)	
Less: reclassification adjustment for gains included in net income (net of income taxes of approximately \$127,000)	<u>(210,753)</u>	<u>(1,203,774)</u>
COMPREHENSIVE INCOME		<b><u>\$ 1,564,652</u></b>

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



## BANESCO USA

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income(Loss), Net of Taxes	Total
	Shares	Par Value				
BALANCES AT JANUARY 1, 2015	5,926,304	\$ 29,631,520	\$ 50,842,927	\$ 7,049,084	\$ (1,742,706)	\$ 85,780,825
Net income	-	-	-	2,768,426	-	2,768,426
Other comprehensive loss	-	-	-	-	(1,203,774)	(1,203,774)
BALANCES AT DECEMBER 31, 2015	<u>5,926,304</u>	<u>29,631,520</u>	<u>50,842,927</u>	<u>9,817,510</u>	<u>(2,946,480)</u>	<u>87,345,477</u>
Net income	-	-	-	425,600	-	425,600
Other comprehensive income	-	-	-	-	597,313	597,313
BALANCES AT DECEMBER 31, 2016	<u>5,926,304</u>	<u>\$ 29,631,520</u>	<u>\$ 50,842,927</u>	<u>\$ 10,243,110</u>	<u>\$ (2,349,167)</u>	<u>\$ 88,368,390</u>

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

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**BANESCO USA**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 425,600	\$ 2,768,426
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	9,070,759	831,542
Provision for foreclosed assets	20,800	54,221
Depreciation and amortization	1,277,447	1,533,386
Net amortization of discounts on investment securities available for sale	2,004,605	1,689,974
Net amortization of discounts on investment securities held to maturity	3,446	1,990
Gain on sales of investment securities available for sale	(1,266,574)	(337,908)
Amortization of deferred loan fees	(135,700)	369,312
Amortization of intangible assets	93,670	93,670
Deferred income tax benefit	(3,976,746)	(863,342)
Changes in operating assets and liabilities:		
Accrued interest receivable	(172,802)	(248,384)
Prepaid expenses and other assets	326,918	(678,757)
Accrued interest payable	5,742	132,172
Accrued expenses and other liabilities	4,426,889	1,985,537
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>12,104,054</b>	<b>7,331,839</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investment securities available for sale	(111,279,990)	(50,656,265)
Purchase of investment held to maturity	-	(1,249,411)
(Purchase) reduction of Federal Home Loan Bank stock	(444,900)	884,800
Maturities and principal repayments on investment securities available for sale	28,021,149	18,468,225
Principal repayments on investment securities held to maturity	30,314	14,370
Proceeds from sales of investment securities available for sale	102,997,917	65,801,135
Net increase in loans	(55,072,815)	(45,285,154)
Net purchase of property and equipment	(271,194)	(349,968)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(36,019,519)</b>	<b>(12,372,268)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase in deposits	22,299,986	40,409,785
Net decrease in securities sold under agreements to repurchase	(895,383)	(1,813,106)
Net increase (decrease) in Federal Home Loan Bank advances	10,000,000	(20,000,000)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>31,404,603</b>	<b>18,596,679</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>7,489,138</b>	<b>13,556,250</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>46,446,303</b>	<b>32,890,053</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 53,935,441</b>	<b>\$ 46,446,303</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Change in unrealized gains on available for sale securities, net of tax	\$ 597,313	\$ (1,203,774)
Interest paid on deposits and borrowed funds	\$ 4,551,429	\$ 3,484,461
Cash paid for income taxes	\$ 3,712,798	\$ 2,032,100

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



## BANESCO USA

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

#### 1. GENERAL

Banescoua USA (the "Bank"), a state-chartered bank, incorporated in the State of Florida. The Bank currently operates in Southeast Florida and Puerto Rico, having seven offices in operation at December 31, 2016 and 2015. The Bank is a member of the Federal Deposit Insurance Corporation ("FDIC"), is supervised and regulated by the Office of the Financial Regulation of the State of Florida and by the FDIC.

The Bank offers a variety of banking services to individual and corporate customers through its banking offices located in South Florida and Puerto Rico.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Accounting Policies

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The following is a summary of the significant accounting policies followed by the Bank.

The accounting policies and reporting practices of the Bank conform to the predominant practices in the banking industry and are based on U.S. GAAP.

##### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly 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, determination of fair values of acquired assets and assumed liabilities, loss estimates related to acquired loans and foreclosed assets, valuation of deferred tax assets and the fair value of financial instruments.

##### Acquisitions

The Bank accounts for all business combinations under the acquisition method of accounting in accordance with Accounting Standard Codification ("ASC") Topic 805. Accordingly, the acquiring institution should recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interests in the acquiree, if any.

The Bank purchased substantially all the assets and assumed substantially all the liabilities of Security Bank, N.A (SBNA) headquartered in Fort Lauderdale, Florida on May 4, 2012. The acquired assets and assumed liabilities of this transaction are measured at estimated fair value.

##### Bargain Purchase and Intangible Assets

Bargain purchase represents the excess of the fair value of net assets acquired over cost of the acquired assets. Intangible assets consist primarily of core deposit intangibles, which represent the excess of the fair value of deposits acquired over their carrying values and are amortized over the period in which the Bank expects to derive benefit from the deposits. Intangible assets other than goodwill, which are determined to have finite lives, are amortized over the period benefited, generally five to fifteen years and are periodically reviewed for reasonableness. The recoverability of other intangibles is evaluated if events or circumstances indicate possible impairment. Intangible assets amounted to \$34,049 and \$127,719, as of December 31, 2016 and 2015, respectively, and are included in prepaid expenses and other assets on the accompanying balance sheets.



## BANESCO USA

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Cash and Cash Equivalents

The Bank considers cash and cash equivalents with a maturity of three months or less from their original purchase date to be cash equivalents. Cash equivalents include cash and due from banks and interest bearing deposits in other financial institutions.

#### Restricted Cash

Cash and cash equivalents include funds that are restricted as to withdrawal or use under the terms of certain contractual agreements. As of December 31, 2016, the Bank did not hold restricted cash. As of December 31, 2015, the Bank's restricted cash amounted to \$892,326 and is held as collateral for standby letters of credit with its longest maturity being in March 2016.

#### Investment Securities

Investment securities consist of U.S. government agencies issued securities, U.S. government agencies sponsored, collateralized mortgage obligations, mortgage-backed securities, corporate bonds, and municipal 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 (loss) income. As of December 31, 2016 and 2015, the Bank's investment securities were all classified as available for sale, except for one U.S. government sponsored mortgage backed security which was classified as held to maturity.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the 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 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 Bank to retain its investments in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. As of December 31, 2016, there was one security that was purchased in 2016 which settled in January 2017 in the amount of \$3,370,563 and is included in accrued expenses and other liabilities.

#### Federal Home Loan Bank Stock

Federal Home Loan Bank ("FHLB") stock is a restricted asset, carried at cost, and evaluated for impairment. As of December 31, 2016 and 2015, FHLB stock amounted to \$2,548,400 and \$2,103,500, respectively.

#### Loans

The Bank's accounting methods for loans differ depending on whether the loans are originated or purchased, and for purchased loans, whether the loans were acquired as a result of a business combination or purchased individually or as a portfolio.

#### Legacy Loans and Leases:

Loans are reported at their principal outstanding balance net of deferred loan fees or costs, unearned income and the allowance for loan losses. Loan origination and commitment fees and the costs associated with the origination of loans are deferred and amortized using the straight-line method over the term of the related loan. Interest income is generally recognized when income is earned using the simple interest or effective yield method.



## BANESCO USA

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Loans (continued)

##### Legacy Loans and Leases: (continued)

In many lending transactions, collateral is obtained to provide an additional measure of security. Generally, the cash flow and earnings power of the borrower represent the primary source of repayment and collateral is considered as an additional safeguard on an acceptable credit risk. The need for collateral is determined on a case by case basis after considering the current and prospective creditworthiness of the borrower, terms of the lending transaction and economic conditions.

The Bank classifies all loans and leases past due when the payment of principal and interest, based upon contractual terms, is not made as of its due date. Charge offs on commercial loans are recorded when available information confirms the loan is not fully collectible and the loss is reasonably quantifiable. Consumer loans are subject to mandatory charge off at a specified delinquency date consistent with regulatory guidelines.

##### Purchased Loans:

Loans acquired in a business combination are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded at the acquisition date.

The Bank considers substantially all loans acquired via FDIC assisted transactions to meet the criteria of loans acquired with evidence of impairment, unless the loan type is specifically excluded from the scope of Accounting Standard Codification ("ASC") 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, such as loans with active revolver features or because management has minimal doubt of the collection of the loan. Loans acquired with evidence of impairment are classified as Purchased Credit Impaired ("PCI") loans.

The Bank makes an estimate of the loans' contractual principal and contractual interest payments as well as the total cash flows it expects to collect from the pools of loans, which includes undiscounted expected principal and interest. The excess of contractual amounts over the total cash flows expected to be collected from the loans is referred to as non-accretable difference, which is not accreted into income. The excess of the expected undiscounted cash flows over the fair value of the loans is referred to as accretable discount. Accretable discount is recognized as interest income on a level-yield basis over the life of the loans. Management has not included prepayment assumptions in its modeling of contractual or expected cash flows. The Bank continues to estimate cash flows expected to be collected over the life of the loans. Subsequent increases in total cash flows expected to be collected are recognized as an adjustment to the accretable yield with the amount of periodic accretion adjusted over the remaining life of the loans. Subsequent decreases in cash flows expected to be collected over the life of the loans are recognized as impairment in the current period through allowance for loan losses. Gain on resolution of acquired assets represents the net settlement amount between the proceeds received and the carrying amount of the loans.

##### Non-accrual Loans, Impaired Loans and Restructured Loans:

The Bank 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 90 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.



## BANESCO USA

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Loans (continued)

##### Non-accrual Loans, Impaired Loans and Restructured Loans: (continued)

The Bank 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 non-accrual status, if applicable.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal 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 the amount of the 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 less selling costs, if the loan is collateral dependent. If management determines that the value of the impaired loan is less than the recorded investment in the loan (outstanding principal balance, net of previous charge-offs, and net of deferred loan fees or cost), impairment is recognized through an allowance estimate or a charge-off to the allowance.

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.

In situations where, due to a borrower's financial difficulties, management grants a concession for other than an insignificant period of time to the borrower that would not otherwise be granted, the loan is classified as a troubled debt restructuring ("TDR"). Management attempts to identify borrowers in financial difficulty early and work with them to modify terms before their loan reaches nonaccrual status. However, due to the complexity of modifying terms, many loans are modified after nonaccrual status has been established. The modified terms may include rate reductions, payment forbearance, principal forbearance, principal forgiveness and other actions intended to minimize the economic loss to the Bank and avoid foreclosure of the collateral. In cases where the borrowers are granted new terms that provide for a reduction of either interest or principal, management measures the impairment on the restructuring as detailed above for impaired loans.

In addition to the allowance for the pooled portfolios, management has developed a separate allowance for loans that are identified as impaired through a TDR and is included in the Bank's allowance for loan losses. These loans are excluded from pooled loss forecast and a separate reserve is provided under the accounting guidance for loan impairment. Residential loans whose terms have been modified in a TDR are also individually analyzed for estimated impairment.

Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.



## BANESCO USA

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Allowance for Loan Losses (“ALL”)

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 losses each quarter. To determine the total allowance for loan losses, the Bank estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis.

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.

The following is how management determines the balance of the general component for the allowance for loan losses account for each segment of the loans:

Land and Land Development; Real Estate Construction; Commercial Real Estate; Commercial and Industrial Loans; Residential Real Estate, and Other Loans.

All loans are grouped by collateral type with similar risk characteristics and a historical charge-off rate for the last twelve quarters is used. A weighted average loss factor is calculated and applied to the loan balance for each group.

Qualitative factors are applied to historical loss rate based on management’s experience. Due to the static nature of the portfolio, the nine factors used are:

- Lending Policies and Procedures
- International, National, Regional, and Local Economic Conditions
- Nature or Volume of the Portfolio and Terms of Loans
- Experience, Ability, and Depth of Lending and Credit Management
- Levels and trends in delinquencies, non-accruals, and Risk Rating
- Quality of Loan Review System
- Value of Underlying Collateral
- Existences and Effect of Credit Concentrations
- Other External Consequences

The adjusted loss rates are applied to the outstanding balances of each loan grouping.

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

The Bank 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.

In addition to the allowance for loan losses, the Bank also estimates probable losses related to unfunded lending commitments, such as letters of credit, financial guarantees and unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and the Bank applies the same adjusted loss rates as those applied to similar loan pools based on risk classification in calculating the overall allowance for loan losses. These risk classifications, in conjunction with an analysis of historical loss experience, current economic conditions, performance trends within specific portfolio segments, and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments. Provision for credit losses related to the loan portfolio and unfunded lending commitments are reported in the statements of operations. At December 31, 2016 and 2015, the allowance for unfunded lending commitments amounts to \$1,426,355 and \$668,869 respectively, and is included in other liabilities, on the accompanying balance sheets.



**BANESCO USA**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Allowance for Loan Losses (“ALL”) (continued)**

Also, various regulatory agencies, as an integral part of their examination process, periodically review the Bank’s allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance for loan losses based on their judgments of information available to them at the time of their examination.

For PCI loans, a valuation allowance is established when it is probable that the Bank will be unable to collect all the cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition. A specific allowance is established when subsequent evaluations of expected cash flows from PCI loans reflect a decrease in those estimates. The Bank reassesses cash flows on its loan portfolio based on current circumstances and events. Occasionally, external factors non-controllable by the Bank could result in cash flows not performing in line with expectations. If a pool of loans has paid in excess of its carrying value and management considers that the information on the pool is such that it can no longer estimate an expectation of cash flows in a manner that is reliable, the Bank discontinues the accrual of income on that portfolio and recognizes income on a cash basis based on the payments of interest for the pool. A gain is recognized for the amount of excess cash collected on the pool when all loans in the pool have been disposed of.

The Bank uses assumptions and methodologies that are relevant to estimating the level of impairment and probable losses in the loan portfolio. To the extent that the data supporting such assumptions has limitations, management’s judgment and experience play a key role in recording the allowance estimates. Additions to the allowance for loan losses are made by provisions charged to earnings. Furthermore, an improvement in the expected cash flows related to PCI loans would result in a reduction of the required specific allowance with a corresponding credit to the provision.

Risk grading:

The grading analysis estimates the capability of the borrower to repay the contractual obligation of the loan agreement as scheduled or at all. The Bank’s internal credit risk grading system is based on experiences with similarly graded loans. Credit risk grades for classified loans are refreshed each quarter, and pass grades are done annually.

The Bank’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.

**Interest Income**

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

**Property and Equipment, Net**

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the remaining term of the applicable leases or their useful lives, whichever is shorter. Estimated useful lives of these assets are as follows:

Computer equipment and software	3 to 5 years
Furniture and equipment	3 to 7 years
Leasehold improvements	Shorter of life or term of lease



## BANESCO USA

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Property and Equipment, Net (continued)

Maintenance and repairs are charged to expense as incurred; improvements and betterments are capitalized. When items are retired or are 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 income.

#### Foreclosed Assets

Assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less cost to sell. At December 31, 2016 and 2015, foreclosed assets amounted to \$2,775,700 and \$2,796,500, respectively.

#### Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are classified as secured borrowings and are reflected at the amount of cash in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying securities (NOTE 8).

#### 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 basis 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 Bank recognizes positions taken or expected to be taken in a tax return in accordance with existing accounting guidance on income taxes which prescribes a recognition threshold and measurement process. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other noninterest expense, respectively.

#### Impairment of Long-Lived Assets

The Bank'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 Bank did not recognize an impairment charge during the years ended December 31, 2016 and 2015.

#### Advertising Costs

Advertising Costs are expenses as incurred. At December 31, 2016 and 2015, advertising costs amounted to \$513,096 and \$473,962, respectively.





## BANESCO USA

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Interest Rate Risk

The Bank's performance is dependent to a large extent on its net interest income, which is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. The Bank, 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 Bank has implemented asset and liability management strategies to mitigate the impact to net interest income resulting from changes in market interest rates.

#### Concentration 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 Bank does not have a significant exposure to any individual customer or counterparty.

Most of the Bank's business activity is with customers located within its primary market area, which includes Miami-Dade and Broward Counties, Florida. The Bank's loan portfolio is concentrated largely in real estate and commercial loans in South Florida. Circumstances, which negatively impact the South Florida real estate industry or the South Florida economy, in general, could adversely impact the Bank's loan portfolio.

At various times during the year, the Bank has maintained deposits with other financial institutions in excess of amounts received. The exposure to the Bank from these transactions is solely dependent upon daily balances and the financial strength of the respective institution.

#### Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains (losses) on securities available for sale, and unrealized losses related to factors other than credit on debt securities.

#### Fair Value Measurement

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

#### Subsequent Events

The Bank has evaluated subsequent events through March 31, 2017 which is the date the financial statements were available to be issued.



## BANESCO USA

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Recent Accounting Pronouncements

##### Troubled Debt Restructurings by Creditors - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

In January 2014, the Financial Accounting Standard Board ("FASB") issued an accounting standard update which intends to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the related real estate recognized. The update also requires additional disclosures and is to be applied either prospectively or with a modified retrospective method. The update was effective for annual periods beginning after December 15, 2014 and interim periods within annual periods beginning after December 15, 2015. The adoption of this accounting standard update did not have a material impact on the Bank's financial statements.

##### 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 Bank is currently evaluating the effect the update will have on its financial statements.

##### Revenue From Contracts With Customers

In May 2014, the 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 Bank 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 Bank 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 US GAAP. The Bank is currently evaluating the effect the update will have on its financial statements but expects upon adoption that the update will have a material effect on the Bank's financial condition due to the recognition of a right-of-use asset and related lease liability. The Bank does not anticipate the update having a material effect on the Bank's results of operations or cash flows, though such an effect is possible. 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.



## BANESCO USA

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Recent Accounting Pronouncements (continued)

##### 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 US 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 Bank is currently evaluating the effect the update will have on its financial statements.

##### Restricted Cash

In November 2016, the FASB issued an accounting standards update which amends cash flow statement presentation of restricted cash. The update requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update is effective retrospectively for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The Bank is currently evaluating the effect the update will have on its financial statements.

##### Clarifying the Definition of a Business

In January 2017, the FASB issued an accounting standards update to clarify the definition of a business to assist entities evaluating whether transactions should be accounted for as involving assets or of a business. As the update notes, the definition of a business affects many areas of accounting under US GAAP including acquisitions and disposals, goodwill, and consolidation. The update is effective prospectively for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early application permitted in certain circumstances. The Bank is currently evaluating the effect the update will have on its financial statements.

#### Reclassification

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.



## BANESCO USA

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

#### 3. INVESTMENT SECURITIES

##### Available for Sale

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of investment securities available for sale, by major security, as of December 31, 2016 and 2015 are as follows:

	December 31, 2016			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Securities available for sale:				
U.S. government agencies issued securities	\$ 44,892,951	\$ 1,614	\$ (570,129)	\$ 44,324,436
Collateralized mortgage obligations	3,342,960	-	(121,447)	3,221,513
Mortgage-backed securities	81,269,694	-	(1,968,585)	79,301,109
Municipals	18,396,289	91,727	(689,911)	17,798,105
Corporate bonds	25,290,347	31,170	(540,941)	24,780,576
	<b>\$ 173,192,241</b>	<b>\$ 124,511</b>	<b>\$ (3,891,013)</b>	<b>\$ 169,425,739</b>
	December 31, 2015			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Securities available for sale:				
U.S. government agencies issued securities	\$ 39,040,284	\$ 42,419	\$ (468,912)	\$ 38,613,791
U.S. government agencies sponsored	9,000,000	-	(224,151)	8,775,849
Collateralized mortgage obligations	4,163,465	-	(141,000)	4,022,465
Mortgage-backed securities	80,347,449	-	(1,681,205)	78,666,244
Municipals	23,094,813	236,815	(307,734)	23,023,894
Corporate bonds	38,023,337	-	(2,180,426)	35,842,911
	<b>\$ 193,669,348</b>	<b>\$ 279,234</b>	<b>\$ (5,003,428)</b>	<b>\$ 188,945,154</b>

Investment securities pledged to secure borrowings under securities sold under agreements to repurchase had a fair value of approximately \$1,660,000 and \$2,498,000 at December 31, 2016 and 2015, respectively.

Proceeds from the sales of investment securities available for sale for the years ended December 31, 2016 and 2015 amounted to \$102,997,917 and \$65,801,135, respectively. For the years ended December 31, 2016 and 2015, there were net gains of \$1,266,574 and \$337,908, respectively.



**BANESCO USA**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**3. INVESTMENT SECURITIES (CONTINUED)**

**Available for Sale (continued)**

Expected maturities of securities available for sale will differ from contractual maturities because borrowers have the right to call or repay obligations with or without call or repayment penalties. The amortized cost and fair value of securities available for sale by contractual maturity are as follows, as of December 31:

	2016	
	Securities Available for Sale	
	Amortized Cost	Fair Value
Due after one year through five years	\$ 7,001,464	\$ 6,996,055
Due after five years through ten years	36,502,691	35,750,627
Due after ten years	129,688,086	126,679,057
	<b>\$ 173,192,241</b>	<b>\$ 169,425,739</b>

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

	Less than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
	December 31, 2016					
U.S. government agencies issued securities	\$ 13,273,480	\$ (140,755)	\$ 26,187,362	\$ (429,374)	\$ 39,460,842	\$ (570,129)
Collateralized mortgage obligations	1,036,978	(31,467)	2,184,536	(89,980)	3,221,514	(121,447)
Mortgage-backed securities	68,546,037	(1,514,111)	10,755,072	(454,474)	79,301,109	(1,968,585)
Municipals	14,283,683	(689,911)	-	-	14,283,683	(689,911)
Corporate bonds	8,215,095	(221,819)	10,531,459	(319,122)	18,746,554	(540,941)
	<b>\$ 105,355,273</b>	<b>\$ (2,998,063)</b>	<b>\$ 49,658,429</b>	<b>\$ (1,292,950)</b>	<b>\$ 155,013,702</b>	<b>\$ (3,891,013)</b>
December 31, 2015						
U.S. government agencies issued securities	\$ 14,690,179	\$ (127,633)	\$ 18,449,022	\$ (341,279)	\$ 33,139,201	\$ (468,912)
U.S. government agencies sponsored	6,831,993	(168,007)	1,943,856	(56,144)	8,775,849	(224,151)
Collateralized mortgage obligations	-	-	4,022,465	(141,000)	4,022,465	(141,000)
Mortgage-backed securities	42,303,089	(620,096)	36,341,431	(1,061,109)	78,644,520	(1,681,205)
Municipals	4,237,934	(102,591)	3,523,698	(205,143)	7,761,632	(307,734)
Corporate bonds	29,808,574	(1,244,806)	6,034,336	(935,620)	35,842,910	(2,180,426)
	<b>\$ 97,871,769</b>	<b>\$ (2,263,133)</b>	<b>\$ 70,314,808</b>	<b>\$ (2,740,295)</b>	<b>\$ 168,186,577</b>	<b>\$ (5,003,428)</b>

The Bank is proactive in determining what possible negative effects could impact their investment portfolio. The Bank performs assessments to determine whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired on an other-than-temporary basis. Management considers many factors in their analysis including the (1) severity and duration of the impairment, (2) the specific credit rating of the security, (3) the intent and ability to hold these securities for a period of time until the value of the security recovers, (4) whether the current market is considered an inactive market where most sales are considered distressed sales or disorderly transactions, and most importantly (5) management estimates the portion of loss attributable to credit using a discounted cash flow model. The Bank estimates the expected cash flows of the underlying collateral using interest rate and prepayment risk models that incorporate management's best estimate of current key assumptions, such as default rates, loss severity and prepayment rates. Based on the expected cash flows derived from the model, the Bank expects to recover the remaining unrealized losses on the securities.





**BANESCO USA**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**3. INVESTMENT SECURITIES (CONTINUED)**

**Available for Sale (continued)**

As of December 31, 2016, the Bank had \$1,968,585 in unrealized losses relating to its mortgage-backed securities. Recent changes in interest rates and central bank activity in financial markets have caused changes in the value of mortgage backed securities to fluctuate unsteadily. The contractual cash flows of these securities are from U.S. government sponsored agencies. As of December 31, 2016, the Bank does not consider those investments to be other-than-temporarily impaired because the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

At December 31, 2016, the Bank had unrealized losses on U.S. government agencies issued securities and collateralized mortgage obligations; totaling \$691,576, respectively. The losses relate principally to interest rate changes, credit spread widening and reduced liquidity in applicable markets. However, without recovery in the near term such that liquidity returns to the applicable markets and spreads return to levels that reflect underlying credit characteristics, other-than-temporary impairments may occur in future periods. The contractual cash flows of these securities are guaranteed by an agency of the U.S. government. As of December 31, 2016, the Bank does not consider those investments to be other-than-temporarily impaired because the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

At December 31, 2016, the Bank had an unrealized loss on corporate bonds totaling \$540,941. As of December 31, 2016, the Bank does not consider the corporate bonds to be other-than-temporarily impaired because the decline in market value is mainly attributable to changes in interest rates and not credit quality, the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

At December 31, 2016, the Bank had an unrealized loss on municipal bonds totaling \$689,911. As of December 31, 2016, the Bank does not consider the municipal bonds to be other-than-temporarily impaired because the decline in market value is attributable to changes in interest rates and not credit quality, the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

**Held to Maturity**

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of investment securities held to maturity, by major security, as of December 31, 2016 and 2015 are as follows:

	December 31, 2016			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. government sponsored mortgage-backed securities	\$ 1,199,290	\$ -	\$ (27,240)	\$ 1,172,050
	December 31, 2015			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. government sponsored mortgage-backed securities	\$ 1,233,050	\$ -	\$ (21,724)	\$ 1,211,326



## BANESCO USA

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

#### 4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a summary of loans outstanding as of December 31:

- (1) Purchase Non-Credit Impaired Loans ("PNCI"), shown at carrying value;
- (2) Purchased Credit Impaired Loans ("PCI"), shown at carrying.

	2016					2015
	Legacy Loans	PNCI (1)	Total Loans	PCI (2)	Grand Total	
Land and land development	\$ 4,212,528	\$ -	\$ 4,212,528	\$ -	\$ 4,212,528	\$ 3,028,490
Real estate construction	56,717,888	-	56,717,888	-	56,717,888	76,678,957
Residential real estate	90,714,103	728,315	91,442,418	6,091,923	97,534,341	109,117,131
Commercial real estate	392,138,009	252,820	392,390,829	3,943,644	396,334,473	329,746,665
Commercial and Industrial	196,679,850	-	196,679,850	-	196,679,850	178,229,175
Consumer	377,718	-	377,718	-	377,718	344,322
	740,840,096	981,135	741,821,231	10,035,567	751,856,798	697,144,740
Less:						
Allowance for loan and lease losses	(16,627,840)	-	(16,627,840)	(11,146)	(16,638,986)	(7,955,737)
Deferred loan fees/unamortized discount	(1,413,281)	-	(1,413,281)	-	(1,413,281)	(1,522,228)
<b>Net Loans</b>	<b>\$ 722,798,975</b>	<b>\$ 981,135</b>	<b>\$ 723,780,110</b>	<b>\$ 10,024,421</b>	<b>\$ 733,804,531</b>	<b>\$ 687,666,775</b>

A reconciliation of the recorded investment in loans, is as follows:

	2016	2015
Gross loans	\$ 751,856,798	\$ 697,144,740
Plus: Accrued interest receivable	1,773,019	1,445,174
Less: Unearned income	1,413,281	1,522,228
Recorded investments in loans	<b>\$ 752,216,536</b>	<b>\$ 697,067,686</b>

The Bank has pledged approximately \$253,250,000 and \$254,157,000 of mortgage loans as collateral for advances from the Federal Home Loan Bank of Atlanta as of December 31, 2016 and 2015, respectively.

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 Bank has segmented the loans in the portfolio by product type. Loans are segmented into the following pools: land and land development, real estate construction, residential real estate, commercial real estate, commercial and industrial and consumer.

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Bank considers the allowance for loan losses of \$16,638,986 and \$7,955,737 adequate to cover the loan losses inherent in the loan portfolio at December 31, 2016 and 2015, respectively.



**BANESCO USA**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)**

The following tables summarize the Bank's loans acquired during 2012, the outstanding balance and related carrying amount as of December 31, 2016 and 2015.

	December 31, 2016					
	PCI		PNCI		Total Portfolio	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
<b>Real Estate</b>						
1-4 single family residential	\$ 8,105,068	\$ 6,091,923	\$ 799,846	\$ 728,315	\$ 8,904,914	\$ 6,820,238
Commercial real estate	4,843,148	3,943,644	252,820	252,820	5,095,968	4,196,464
<b>Total real estate</b>	<b>\$ 12,948,216</b>	<b>\$ 10,035,567</b>	<b>\$ 1,052,666</b>	<b>\$ 981,135</b>	<b>\$ 14,000,882</b>	<b>\$ 11,016,702</b>
	December 31, 2015					
	PCI		PNCI		Total Portfolio	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
<b>Real Estate</b>						
1-4 single family residential	\$ 10,593,684	\$ 7,205,373	\$ 1,475,656	\$ 1,379,754	\$ 12,069,340	\$ 8,585,127
Commercial real estate	5,424,075	5,637,443	258,205	258,205	5,682,280	5,895,648
<b>Total real estate</b>	<b>16,017,759</b>	<b>12,842,816</b>	<b>1,733,861</b>	<b>1,637,959</b>	<b>17,751,620</b>	<b>14,480,775</b>
<b>Other Loans</b>						
Cash collateral loans	-	-	84,873	84,873	84,873	84,873
<b>Total other loans</b>	<b>-</b>	<b>-</b>	<b>84,873</b>	<b>84,873</b>	<b>84,873</b>	<b>84,873</b>
<b>Total PCI loans</b>	<b>\$ 16,017,759</b>	<b>\$ 12,842,816</b>	<b>\$ 1,818,734</b>	<b>\$ 1,722,832</b>	<b>\$ 17,836,493</b>	<b>\$ 14,565,648</b>

The following table summarizes the Bank's amount of accretable yield discount at the beginning and end of the period, reconciled for additions, accretion, disposals of loans, and reclassifications to or from "non-accretable difference" as of December 31, 2016:

	PCI	PNCI	Total
Balance at December 31, 2015	\$ 9,116,429	\$ 95,903	\$ 9,212,332
Accretable discount arising from acquisition of PCI loans	-	-	-
Accretion during the period	(1,131,077)	(9,315)	(1,140,392)
Reclassification from non-accretable difference	1,087,449	-	1,087,449
Loan resolution	(1,488,757)	(15,057)	(1,503,814)
Balance as of December 31, 2016	<b>\$ 7,584,044</b>	<b>\$ 71,531</b>	<b>\$ 7,655,575</b>

The following table summarizes the allowance for loan losses associated with PCI loans as of as of December 31, 2016:

	2016	2015
Beginning Balance	\$ 46,062	\$ 42,916
(Reverse of) Provision for loan losses	(34,916)	3,146
Ending Balance at December 31,	<b>\$ 11,146</b>	<b>\$ 46,062</b>



**BANESCO USA**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)**

Changes in the allowance for loan losses and the outstanding balances in Legacy and PNCI loans are follows for:

**For the Year Ended December 31, 2016**

	Land and Land Development	Real Estate Construction	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
<b>Allowance for Loan Losses:</b>								
Balance at beginning of year	\$ 344,652	\$ 965,277	\$ 107,134	\$ 3,062,011	\$ 2,609,652	\$ 21,950	\$ 798,999	\$ 7,909,675
(Reversal of) Provision for loan losses	(305,112)	(219,677)	(42,444)	935,527	9,542,158	(5,778)	(798,999)	9,105,675
Recoveries	-	-	-	404	8,565	-	-	8,967
Chargeoffs	-	-	-	-	(380,623)	(15,854)	-	(396,477)
<b>Ending Balance</b>	<b>\$ 39,540</b>	<b>\$ 745,600</b>	<b>\$ 64,690</b>	<b>\$ 3,997,942</b>	<b>\$ 11,779,750</b>	<b>\$ 318</b>	<b>\$ -</b>	<b>\$ 16,627,840</b>
Ending balance: individually evaluated for impairment	\$ 1,997	\$ -	\$ 56,935	\$ 89,455	\$ 9,470,967	\$ -	\$ -	\$ 9,619,354
Ending balance: collectively evaluated for impairment	\$ 37,543	\$ 745,600	\$ 7,755	\$ 3,908,487	\$ 2,308,783	\$ 318	\$ -	\$ 7,008,486
<b>Loans:</b>								
Ending balance	\$ 4,212,528	\$ 56,717,888	\$ 91,442,418	\$ 392,390,829	\$ 196,679,850	\$ 377,718	\$ -	\$ 741,821,231
Ending balance: individually evaluated for impairment	\$ 72,232	\$ 204,705	\$ 1,029,456	\$ 4,926,440	\$ 11,199,201	\$ -	\$ -	\$ 17,432,034
Ending balance: collectively evaluated for impairment	\$ 4,140,296	\$ 56,513,183	\$ 90,412,962	\$ 387,464,389	\$ 185,480,649	\$ 377,718	\$ -	\$ 724,389,197

**For the Year Ended December 31, 2015**

	Land and Land Development	Real Estate Construction	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
<b>Allowance for Loan Losses:</b>								
Balance at beginning of year	\$ 176,457	\$ 1,356,090	\$ -	\$ 3,316,106	\$ 1,902,756	\$ -	\$ 450,237	\$ 7,201,646
Provision for/(reversal of) loan losses	168,195	(390,813)	107,884	(912,197)	1,484,615	21,950	348,762	828,396
Recoveries	-	-	-	658,102	-	-	-	658,102
Chargeoffs	-	-	(750)	-	(777,719)	-	-	(778,469)
<b>Ending Balance</b>	<b>\$ 344,652</b>	<b>\$ 965,277</b>	<b>\$ 107,134</b>	<b>\$ 3,062,011</b>	<b>\$ 2,609,652</b>	<b>\$ 21,950</b>	<b>\$ 798,999</b>	<b>\$ 7,909,675</b>
Ending balance: individually evaluated for impairment	\$ 331,923	\$ -	\$ 4,150	\$ 63,860	\$ 739,056	\$ -	\$ -	\$ 1,138,989
Ending balance: collectively evaluated for impairment	\$ 12,729	\$ 931,039	\$ 61,170	\$ 2,967,771	\$ 1,870,596	\$ -	\$ 927,382	\$ 6,770,686
<b>Loans:</b>								
Ending balance	\$ 3,028,490	\$ 76,678,957	\$ 101,911,758	\$ 324,109,222	\$ 178,229,175	\$ 344,322	\$ -	\$ 684,301,924
Ending balance: individually evaluated for impairment	\$ 1,838,898	\$ 231,115	\$ 882,424	\$ 5,263,246	\$ 5,041,169	\$ 4,424	\$ -	\$ 13,261,276
Ending balance: collectively evaluated for impairment	\$ 1,189,592	\$ 76,447,842	\$ 101,029,334	\$ 318,845,976	\$ 173,188,006	\$ 339,898	\$ -	\$ 671,040,648

The increase in the allowance in 2016 was mainly due to one loan which was classified as impaired at year end. The impairment was due to an isolated incident and not due to weaknesses of a particular industry or due to economic conditions.



**BANESCO USA**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)**

During the year ended December 31, 2016, the provision for loan losses amounted to \$9,070,759 and is comprised of \$9,105,675 for legacy and PNCI loans and a reversal of provision of \$34,916 for PCI loans. During the year ended December 31, 2015, the provision for loan losses amounted to \$831,542 and is comprised of \$828,396 for legacy and PNCI loans and \$3,146 for PCI loans.

Legacy and PNCI loan credit exposures by internally assigned grades are as follows:

<b>December 31, 2016</b>		<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Total</b>
Land and land development and real estate construction					
Land and land development	\$	4,140,296	\$ 72,232	\$ -	\$ 4,212,528
Real estate construction		56,513,183	-	204,705	56,717,888
Residential real estate					
1-4 family first lien		88,418,154	1,574,122	690,387	90,682,663
1-4 family second lien		759,755	-	-	759,755
Commercial real estate					
Commercial real estate term		286,027,432	4,267,059	895,776	291,190,267
Owner occupied commercial real estate		99,632,278	-	1,568,284	101,200,562
Commercial and industrial		180,704,433	4,776,216	11,199,201	196,679,850
Consumer		377,718	-	-	377,718
<b>Total loans</b>	<b>\$</b>	<b>716,573,249</b>	<b>\$ 10,689,629</b>	<b>\$ 14,558,353</b>	<b>\$ 741,821,231</b>
<b>December 31, 2015</b>					
Land and land development and real estate construction					
Land and land development	\$	1,114,000	\$ 175,089	\$ 1,739,401	\$ 3,028,490
Real estate construction		76,447,842	-	231,115	76,678,957
Residential real estate					
1-4 family first lien		98,956,399	1,558,465	338,477	100,853,341
1-4 family second lien		990,435	-	67,982	1,058,417
Commercial real estate					
Commercial real estate term		233,178,586	2,352,335	1,114,492	236,645,413
Owner occupied commercial real estate		85,846,150	-	1,617,659	87,463,809
Commercial and industrial		168,848,551	4,339,454	5,041,170	178,229,175
Consumer		339,898	-	4,424	344,322
<b>Total loans</b>	<b>\$</b>	<b>665,721,861</b>	<b>\$ 8,425,343</b>	<b>\$ 10,154,720</b>	<b>\$ 684,301,924</b>





**BANESCO USA**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)**

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

**December 31, 2016**

	<u>Performing</u>	<u>Non Performing</u>	<u>Total</u>
Land and land development and real estate construction			
Land and land development	\$ 4,212,528	\$ -	\$ 4,212,528
Real estate construction	56,513,183	204,705	56,717,888
Residential real estate			
1-4 family first lien	90,066,379	616,284	90,682,663
1-4 family second lien	759,755	-	759,755
Commercial real estate			
Commercial real estate term	290,373,070	817,197	291,190,267
Owner occupied commercial real estate	101,200,562	-	101,200,562
Commercial and industrial	185,480,649	11,199,201	196,679,850
Other Loans			
Consumer	377,718	-	377,718
<b>Total loans</b>	<b>\$ 728,983,844</b>	<b>\$ 12,837,387</b>	<b>\$ 741,821,231</b>

**December 31, 2015**

	<u>Performing</u>	<u>Non Performing</u>	<u>Total</u>
Land and land development and real estate construction			
Land and land development	\$ 1,289,089	\$ 1,739,401	\$ 3,028,490
Real estate construction	76,447,842	231,115	76,678,957
Residential real estate			
1-4 family first lien	100,688,223	165,118	100,853,341
1-4 family second lien	990,435	67,982	1,058,417
Commercial real estate			
Commercial real estate term	236,645,413	-	236,645,413
Owner occupied commercial real estate	87,463,809	-	87,463,809
Commercial and industrial	173,630,196	4,598,979	178,229,175
Other Loans			
Consumer	344,322	-	344,322
<b>Total loans</b>	<b>\$ 677,499,329</b>	<b>\$ 6,802,595</b>	<b>\$ 684,301,924</b>

Nonperforming loans also include certain loans that have been modified in TDRs where economic concessions have been granted to borrowers who have experienced financial difficulties.

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. Certain TDR's that are greater than 90 days past due are considered performing, based on their adherence with their modified terms.

Nonperforming loans, non-accrual loans and 90 days or more past due loans represent 1.70% and 0.99% of total loans as of December 31, 2016 and 2015.



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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)**

The following tables includes an aging analysis of the outstanding balances of past due Legacy and PNCI loans as of December 31, 2016 and 2015. Certain loans over 90 days or more past due with interest and principal are still accruing.

**As of December 31, 2016**

Age Analysis of Past Due Loans by Loan Class	30-90 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans	Loans > 90 days and Accruing
Land and land development and real estate construction						
Land and land development	\$ -	\$ -	\$ -	\$ 4,212,528	\$ 4,212,528	\$ -
Real estate construction	-	-	-	56,717,888	56,717,888	-
Residential real estate						
1-4 family first lien	-	-	-	90,682,663	90,682,663	-
1-4 family second lien	-	-	-	759,755	759,755	-
Commercial real estate						
Commercial real estate term	-	817,197	817,197	290,373,070	291,190,267	817,197
Owner occupied commercial real estate	-	-	-	101,200,562	101,200,562	-
Commercial and industrial	353,777	-	353,777	196,326,073	196,679,850	-
Other Loans						
Consumer	-	-	-	377,718	377,718	-
<b>Total loans</b>	<b>\$ 353,777</b>	<b>\$ 817,197</b>	<b>\$ 1,170,974</b>	<b>\$ 740,650,257</b>	<b>\$ 741,821,231</b>	<b>\$ 817,197</b>

**As of December 31, 2015**

Age Analysis of Past Due Loans by Loan Class	30-90 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans	Loans > 90 days and Accruing
Land and land development and real estate construction						
Land and land development	\$ 1,739,401	\$ -	\$ 1,739,401	\$ 1,289,089	\$ 3,028,490	\$ -
Real estate construction	-	-	-	76,678,957	76,678,957	-
Residential real estate						
1-4 family first lien	523,812	-	523,812	100,329,529	100,853,341	-
1-4 family second lien	-	67,982	67,982	390,435	1,058,417	-
Commercial real estate						
Commercial real estate term	-	-	-	236,645,413	236,645,413	-
Owner occupied commercial real estate	-	-	-	87,463,809	87,463,809	-
Commercial and industrial	61,024	37,567	98,591	178,130,584	178,229,175	-
Other Loans						
Consumer	-	-	-	344,322	344,322	-
<b>Total loans</b>	<b>\$ 2,324,237</b>	<b>\$ 105,549</b>	<b>\$ 2,429,786</b>	<b>\$ 681,872,138</b>	<b>\$ 684,301,924</b>	<b>\$ -</b>



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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)**

The following table includes the recorded investment and unpaid principal balances for impaired Legacy loans with the associated allowance amount, if applicable. Management determined the specific valuation allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the specific valuation allowance recorded.

Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired. The average balances are calculated based on the month-end balances of the financing receivables of the period reported.

December 31, 2016

Impaired Loans by Class	Recorded Investment	Unpaid Principal Balance	Valuation Allowance	Average Recorded Investment	Interest Income Recognized
<b>With No Specific Allowance Recorded:</b>					
Real estate construction	\$ 204,705	\$ 204,705	\$ -	\$ 216,810	\$ -
1-4 family first lien	690,393	690,387	-	738,720	3,268
Commercial real estate term	-	-	-	79,717	-
Owner occupied commercial real estate	1,579,586	1,568,284	-	1,604,848	69,004
Commercial and industrial	262,704	272,219	-	1,428,118	-
<b>Total</b>	<b>\$ 2,737,388</b>	<b>\$ 2,735,595</b>	<b>\$ -</b>	<b>\$ 4,068,213</b>	<b>\$ 72,272</b>
<b>With an allowance recorded:</b>					
Land and land development	\$ 72,250	\$ 72,232	\$ 1,997	\$ 1,245,639	\$ 3,365
1-4 family first lien	339,119	339,069	56,935	64,410	6,267
Commercial real estate term	2,414,350	2,405,660	64,526	2,442,167	99,877
Owner occupied commercial real estate	954,315	952,496	24,929	969,538	61,671
Commercial and industrial	10,926,982	10,926,982	9,470,967	3,755,884	-
<b>Total</b>	<b>\$ 14,707,016</b>	<b>\$ 14,696,439</b>	<b>\$ 9,619,354</b>	<b>\$ 8,477,638</b>	<b>\$ 171,180</b>
<b>Impaired Loans by Class</b>					
<b>Total</b>	\$ 17,444,404	\$ 17,432,034	\$ 9,619,354	\$ 12,545,851	\$ 243,452

December 31, 2015

Impaired Loans by Class	Recorded Investment	Unpaid Principal Balance	Valuation Allowance	Average Recorded Investment	Interest Income Recognized
<b>With No Specific Allowance Recorded:</b>					
Land and land development	\$ -	\$ -	\$ -	\$ 50,334	\$ -
Real estate construction	231,115	231,115	-	243,219	-
1-4 family first lien	307,318	312,330	-	501,463	3,481
Commercial real estate term	1,116,541	1,114,491	-	4,459,592	192,078
Owner occupied commercial real estate	1,624,956	1,617,659	-	1,376,267	83,791
Commercial and industrial	1,837,721	1,836,964	-	3,702,687	28,828
Consumer	4,436	4,424	-	1,841	520
<b>Total</b>	<b>\$ 5,122,087</b>	<b>\$ 5,116,983</b>	<b>\$ -</b>	<b>\$ 10,335,403</b>	<b>\$ 308,698</b>
<b>With an allowance recorded:</b>					
Land and land development	\$ 1,839,199	\$ 1,838,898	\$ 331,923.00	\$ 1,800,007	\$ 3,550.00
Real estate construction	-	-	-	-	-
1-4 family first lien	571,814	570,094	4,150	47,651	20,680
Commercial real estate term	1,550,870	1,545,796	27,456	213,171	63,036
Owner occupied commercial real estate	987,181	985,300	36,404	1,001,500	66,981
Commercial and industrial	3,206,900	3,204,205	739,056	689,464	329
<b>Total</b>	<b>\$ 8,155,964</b>	<b>\$ 8,144,293</b>	<b>\$ 1,138,989</b>	<b>\$ 3,751,793</b>	<b>\$ 154,576</b>
<b>Impaired Loans by Class</b>					
<b>Total</b>	\$ 13,278,051	\$ 13,261,276	\$ 1,138,989	\$ 14,087,196	\$ 463,274



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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)**

Legacy and PNCI loans on non-accrual status by loan segment are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Land and land development and real estate construction		
Real estate construction	\$ 204,705	\$ 1,970,516
Residential real estate		
1-4 family first lien	616,284	165,118
1-4 family junior lien	-	67,982
Commercial and industrial	<u>11,199,201</u>	<u>4,598,979</u>
<b>Total loans</b>	<b><u>\$ 12,020,190</u></b>	<b><u>\$ 6,802,595</u></b>

The following tables present troubled debt restructurings as of December 31, 2016 and 2015:

	<u>Accrual Status</u>	<u>Non-Accrual Status</u>	<u>Total Troubled Debt Restructured</u>
<b>2016</b>			
Land and land development and real estate construction			
Land and land development	\$ 72,232	\$ -	\$ 72,232
Residential real estate			
1-4 family first lien	339,069	131,741	470,810
Commercial real estate			
Commercial real estate term	2,405,661	-	2,405,661
Owner occupied commercial real estate	952,496	-	952,496
Commercial and industrial	-	210,750	210,750
<b>Total</b>	<b><u>\$ 3,769,458</u></b>	<b><u>\$ 342,491</u></b>	<b><u>\$ 4,111,949</u></b>
<b>2015</b>			
Land and land development and real estate construction			
Land and land development	\$ 99,498	\$ 1,739,401	\$ 1,838,899
Residential real estate			
1-4 family first lien	570,094	165,117	735,211
Commercial real estate			
Commercial real estate term	2,467,847	-	2,467,847
Owner occupied commercial real estate	985,300	-	985,300
<b>Total</b>	<b><u>\$ 4,122,739</u></b>	<b><u>\$ 1,904,518</u></b>	<b><u>\$ 6,027,257</u></b>





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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)**

The following table presents newly restructured Legacy and PNCl loans that occurred during the year ended December 31, 2016 and 2015.

2016	Number of Modifications	Recorded Investment	Recorded Investment
		Prior to Modification	After Modification
Residential real estate			
1-4 family first lien	<u>1</u>	<u>\$ 138,856</u>	<u>\$ 138,856</u>
2015	Number of Modifications	Recorded Investment	Recorded Investment
		Prior to Modification	After Modification
Land and land development and real estate construction			
Land and land development	1	\$ 101,524	\$ 99,798
Residential real estate			
1-4 family first lien	1	584,931	571,814
Commercial and industrial	<u>4</u>	<u>4,209,650</u>	<u>4,514,417</u>
<b>Total</b>	<u>6</u>	<u>\$ 4,896,105</u>	<u>\$ 5,186,029</u>

As of December 31, 2016 and 2015, there were no troubled debt restructuring loans in which a concession was made and the loan re-defaulted during the same year.

As of December 31, 2016 and 2015, there were no commitments to lend additional funds to borrowers with an impaired loan.

**5. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net, is summarized as follows at December 31:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 4,332,007	\$ 4,372,339
Furniture and equipment	3,142,117	3,142,134
Computer equipment and software	2,220,723	2,090,115
Work in progress	66,977	37,150
Art work	<u>12,911</u>	<u>12,911</u>
	9,774,735	9,654,649
Less:		
Accumulated depreciation and amortization	<u>7,398,424</u>	<u>6,272,085</u>
Property and equipment, net	<u>\$ 2,376,311</u>	<u>\$ 3,382,564</u>

Depreciation and amortization of property and equipment amounted to \$1,277,447 and \$1,533,386 for the years ended December 31, 2016 and 2015, respectively.



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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**6. FORECLOSED ASSETS, NET**

The Bank's inventory of foreclosed assets, net by property type, is listed below at December 31, 2016 and 2015:

	<u>2016</u> Amount	<u>2015</u> Amount
Land and land development	<u>\$ 2,775,700</u>	<u>\$ 2,796,500</u>

Foreclosed assets are presented net of an allowance for losses. An analysis of the allowance for losses on foreclosed assets is as follows at December 31:

	<u>2016</u>	<u>2015</u>
Balance at beginning of year	\$ 214,191	\$ 159,970
Provision for losses	<u>20,800</u>	<u>54,221</u>
Balance at end of year	<u>\$ 234,991</u>	<u>\$ 214,191</u>

Expenses applicable to foreclosed assets include the following at December 31:

	<u>2016</u>	<u>2015</u>
Provision for losses	\$ 20,800	\$ 54,221
Operating expenses	<u>68,269</u>	<u>69,310</u>
Balance at end of year	<u>\$ 89,069</u>	<u>\$ 123,531</u>

**7. DEPOSITS**

At December 31, 2016, the scheduled maturities of time deposits are as follows:

2017	\$ 148,572,808
2018	40,199,110
2019	14,794,167
2020	3,759,311
2021	1,141,163
Thereafter	<u>-</u>
	<u>\$ 208,466,559</u>

At December 31, 2016 and 2015, overdrafts amounting to \$112,507 and \$103,697, respectively, were reclassified from demand deposits to loans on the balance sheets.



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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**8. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE**

The following sets forth information concerning securities sold under agreements to repurchase as of December 31:

	<u>2016</u>	<u>2015</u>
Securities sold under agreements to repurchase	\$ 1,241,524	\$ 2,136,907
Fair value of securities pledged for repurchase agreements	\$ 1,659,849	\$ 2,497,653
Maximum amount outstanding at any month-end during the year	\$ 5,885,004	\$ 9,322,936
Average amount outstanding during the year	\$ 3,738,254	\$ 6,866,871
Weighted-average interest rate for the year	0.18%	0.09%

All securities sold under agreements to repurchase matured within 30 days of December 31, 2016 and 2015.

**9. FEDERAL HOME LOAN BANK ADVANCES**

At December 31, 2016 and 2015, the Bank had Federal Home Loan Bank ("FHLB") advances as follows:

<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>2016</u>	<u>2015</u>
2016	0.34%	\$ -	\$ 20,000,000
2017	3.90%	5,000,000	5,000,000
2017	0.61%	30,000,000	-
2018	3.64%	5,000,000	5,000,000
		<u>\$ 40,000,000</u>	<u>\$ 30,000,000</u>

The FHLB advances agreement requires the Bank to maintain certain loans as collateral for these advances (NOTE 4). At December 31, 2016 and 2015, the Bank was in compliance with this requirement of the FHLB membership agreement. At December 31, 2016 and 2015, FHLB stock held by the Bank amounted to \$2,548,400 and \$2,103,500, respectively.

The Bank has a line of credit with FHLB of Atlanta that allows drawing up to 20% of total assets. As of December 31, 2016 and 2015, the unused portion of the line amounted to approximately \$202,485,000 and \$156,982,000, respectively. Additionally, the Bank maintains unused lines of credits with other financial institutions for approximately \$25,000,000.



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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**10. INCOME TAXES**

The provision for (benefit from) income taxes is as follows as of December 31:

	<u>2016</u>	<u>2015</u>
Current:		
Federal	\$ 3,014,824	\$ 2,034,486
State	527,160	335,758
Foreign	179,486	92,500
	<u>3,721,470</u>	<u>2,462,744</u>
Deferred:		
Federal	\$ (3,588,221)	\$ (750,556)
State	(388,525)	(112,786)
	<u>(3,976,746)</u>	<u>(863,342)</u>
<b>Total</b>	<b>\$ (255,276)</b>	<b>\$ 1,599,402</b>

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 (benefit from) income taxes) as follows:

	<u>2016</u>	<u>Effective Tax Rate</u>
Federal taxes at statutory rate	\$ 57,910	34.0%
State income taxes, net of federal tax benefit	8,937	5.3%
Tax exempt interest	(119,981)	(70.4%)
Other permanent differences	<u>(202,142)</u>	<u>(118.7%)</u>
Total	<b>\$ (255,276)</b>	<b>(149.9%)</b>
	<u>2015</u>	<u>Effective Tax Rate</u>
Federal taxes at statutory rate	\$ 1,485,062	34.0%
State income taxes, net of federal tax benefit	155,675	3.6%
Tax exempt interest	(164,701)	(3.8%)
Other permanent differences	123,366	2.8%
Total	<b>\$ 1,599,402</b>	<b>36.6%</b>





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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**10. INCOME TAXES (CONTINUED)**

The Bank's deferred tax assets and deferred tax liabilities are as follows as of December 31:

	<u>2016</u>	<u>2015</u>
Deferred tax assets:		
Net unrealized loss		
on securities available-for-sale	\$ 1,417,335	\$ 1,777,714
Allowance for loan losses	6,292,884	3,004,425
Other real estate owned	235,714	227,887
Accruals	222,726	57,928
Loan fees	513,416	564,480
Organizational and start-up costs	56,407	70,510
Non-accrual interest	56,457	12,805
Core deposit intangibles	31,084	50
Provision for off balance sheet risk	536,737	251,696
Deferred tax assets	<u>9,362,760</u>	<u>5,967,495</u>
Deferred tax liabilities:		
Depreciable property	<u>133,939</u>	<u>355,041</u>
Deferred tax liability	<u>133,939</u>	<u>355,041</u>
<b>Net deferred tax asset</b>	<b><u>\$ 9,228,821</u></b>	<b><u>\$ 5,612,454</u></b>

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 liabilities, projected future taxable income, and tax planning strategies in making this assessment.

The U.S. Federal jurisdiction, Florida, and Puerto Rico are the major tax jurisdictions where the Bank files income tax returns. The Bank is generally no longer subject to U.S. Federal, State, or foreign examinations by tax authorities for years before 2013.

For the year ended December 31, 2016 and 2015, the Bank 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.



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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**11. RELATED PARTY TRANSACTIONS**

In the ordinary course of business, the Bank grants loans to and accepts deposits from its executive officers, principal shareholders, directors, and its affiliates. At December 31, these amounts are summarized as follows:

<b>2016</b>		
	<b>Range of Interest Rate</b>	<b>Balance</b>
Loans	4.75%	\$ 297,228
Deposits	0.00% to 0.45%	15,448,238
Securities sold under agreements to repurchase	0.30% to 0.40%	858,455

<b>2015</b>		
	<b>Range of Interest Rate</b>	<b>Balance</b>
Loans	4.75%	\$ 536,689
Deposits	0.00% to 1.15%	41,721,326
Securities sold under agreements to repurchase	0.15%	1,754,162

As of December 31, 2016 and 2015, interest income and interest expense for the years ended December 31, 2016 and 2015 amounted to \$20,719 and \$22,828 and \$25,741 and \$55,600, respectively. For the years ended December 31, 2016 and 2015 loan servicing fees from affiliates amounted to \$1,183,250 and \$791,460, respectively.

**12. EMPLOYEE BENEFIT PLAN**

The Bank has adopted a retirement savings plan (the "Retirement Plan") (a 401k plan) covering substantially all eligible employees effective January 1, 2005. The Retirement Plan includes a provision that the Bank may contribute to the accounts of eligible employees for whom a salary deferral is made. Employees may contribute up to 90% of their compensation subject to certain limits based on federal tax laws. The Bank contributed \$465,786 and \$452,870 towards the Retirement Plan in 2016 and 2015, respectively.

**13. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK**

The Bank is a party to 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, unused lines of credit and standby letters of credit.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit, unused lines of credit, standby letters of credit are represented by the contractual amount of those instruments. The Bank uses the same credit policies in making these commitments as it does for on-balance-sheet instruments.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are usually collateralized and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Bank is committed.



**BANESCO USA**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**13. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK (CONTINUED)**

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed-expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, 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 deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Bank's standby letters of credit are secured by cash collateral at December 31, 2016 and 2015 in the amount of \$26,756,300 and \$19,233,054, respectively. A summary of the amounts of the Bank's financial instruments, with off-balance sheet risk, is as follows at December 31:

	<u>2016</u>	<u>2015</u>
	Contract Amount	Contract Amount
Unused lines of credit	\$ 166,634,328	\$ 155,948,452
Commitment to extend credit	2,250,000	780,000
Standby letters of credit	29,588,232	22,307,312

**14. REGULATORY MATTERS**

The Bank, as a state-chartered bank, is subject to various regulatory capital requirements administered by the 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 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 the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Effective January 1, 2015 (with some changes transitioned into full effectiveness over two to four years), the Bank became subject to new capital requirements adopted by the FDIC. These new requirements create a new required ratio for common equity tier 1 capital, increase the tier 1 capital ratios, change the risk weight of certain assets for purposes of the risk-based capital ratios, create an additional capital conservation buffer over the required capital ratios and change what qualifies as capital for purposes of meeting these various capital requirements. Beginning in 2016, failure to maintain the required capital conservation buffer will limit the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses.

Under the new capital regulations, the minimum capital ratios are: (1) common equity tier 1 capital ratio of 4.5% of risk-weighted assets, (2) a tier 1 capital ratio of 6.0% of risk-weighted assets, (3) a total capital ratio of 8.0% of risk-weighted assets, and (4) a tier 1 capital to average assets ratio of 4.0%. Common equity tier 1 capital generally consists of common stock and retained earnings, subject to applicable regulatory adjustments and deductions.

The Bank has elected to permanently opt-out of the inclusion of accumulated other comprehensive income in our capital calculations, as permitted by the regulations. This opt-out will reduce the impact of market volatility on our regulatory capital levels.



## BANESCO USA

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

#### 14. REGULATORY MATTERS (CONTINUED)

The Bank is required to maintain a capital conservation buffer consisting of additional common equity tier 1 capital greater than 2.5% to risk-weighted assets above the required minimum levels. This capital conservation buffer requirement began to be phased in in January 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented in January 2019.

The FDIC's prompt corrective action standards also changed effective January 1, 2015. Under the new standards, in order to be considered well-capitalized, the Bank must have a common equity tier 1 capital ratio of 6.5% (new), a tier 1 ratio of 8.0% (increased from 6.0%), a total risk-based capital ratio of 10.0% (unchanged) and a leverage ratio of 5.0% (unchanged). The Bank meets all these new requirements, including the full capital conservation buffer.

As of December 31, 2015, the Bank was well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since December 31, 2015 that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios as of December 31, 2016 and 2015 are presented in the following table:

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016						
Total risk-based capital (to risk-weighted assets)	\$ 100,690,326	12.7%	\$ 63,189,710	8.0%	\$ 78,987,137	10.0%
Tier 1 capital (to risk-weighted assets)	\$ 90,715,799	11.5%	\$ 47,392,282	6.0%	\$ 63,189,710	8.0%
Common equity tier 1 capital (to risk-weighted assets)	\$ 90,715,799	11.5%	\$ 35,544,212	4.5%	\$ 51,341,639	6.5%
Tier 1 capital (to average total assets)	\$ 90,715,799	9.3%	\$ 38,998,271	4.0%	\$ 48,747,839	5.0%
As of December 31, 2015						
Total risk-based capital (to risk-weighted assets)	\$ 98,737,095	13.3%	\$ 59,592,096	8.0%	\$ 74,490,120	10.0%
Tier 1 capital (to risk-weighted assets)	\$ 90,240,871	12.1%	\$ 44,694,072	6.0%	\$ 59,592,096	8.0%
Common equity tier 1 capital (to risk-weighted assets)	\$ 90,240,871	12.1%	\$ 33,520,554	4.5%	\$ 48,418,578	6.5%
Tier 1 capital (to average total assets)	\$ 90,240,871	9.7%	\$ 37,286,510	4.0%	\$ 46,608,138	5.0%

Bank regulations limit the amount of dividends that may be paid without prior approval of the Bank's regulatory agency. Payment of dividends is restricted for a minimum of three years from the commencement date of operations.



**BANESCO USA**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**14. REGULATORY MATTERS (CONTINUED)**

In December 2013, the Bank entered into a Consent Agreement with the Federal Deposit Insurance Corporation (FDIC) and the Florida Office of Financial Regulation (OFR), in connection with certain deficiencies in its compliance with the Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) laws and regulations. On April 1, 2016 the FDIC terminated the Consent Agreement issued to the Bank on December 5, 2013.

**15. COMMITMENTS AND CONTINGENCIES**

**Operating Leases**

The Bank is obligated under noncancellable operating leases for office space and for the rental of office equipment expiring on various date through 2023. Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease. These leases contain escalation clauses providing for increased rent expense based on either a fixed rate or an increase in the average consumer price index. Rental expense for office space and for office equipment was \$2,637,393 and \$2,635,863 for the years ended December 31, 2016 and 2015, respectively, and is included in occupancy expense in the accompanying statements of operations.

At December 31, 2016, future minimum rental commitments under these noncancellable leases were approximately as follows:

	<u>Year ending December 31,</u>	
2017		\$ 2,012,389
2018		1,948,363
2019		1,558,082
2020		1,370,271
2021		1,199,338
Thereafter		<u>272,346</u>
		<b>\$ 8,360,789</b>

**Loss Contingencies**

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the financial statements.





## BANESCO USA

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

### 16. FAIR VALUE MEASUREMENTS

#### Determination of Fair Value

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

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

#### Fair Value Hierarchy

In accordance with this guidance, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

**Level 1** – Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

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

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

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



## BANESCO USA

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

#### 16. FAIR VALUE MEASUREMENTS (CONTINUED)

##### Fair Value Hierarchy (continued)

The following methods and assumptions were used to estimate the fair value of each significant class of financial instruments for which it is practicable to estimate fair value:

Cash and Cash Equivalents - For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment Securities - 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. The specific investment holdings which are included in the Level 2 classification are U.S. government issued securities; U.S. government agencies collateralized mortgage obligations, mortgage-backed securities, corporate bonds and municipal securities.

FHLB Stock - The carrying value of the FHLB stock approximates fair value based on the redemption provisions of the FHLB.

Loans - For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for certain fixed-rate mortgage (e.g. one-to-four family residential), commercial real estate and commercial 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.

Accrued Interest Receivable and Payable - Carrying amounts of accrued interest receivable and payable approximates its fair value due to the short-term nature of these financial instruments.

Deposits - Fair value of demand deposits, money market and saving accounts is the amount payable on demand (carrying amount) at December 31, 2016 and 2015. The fair value of fixed-maturity time deposits are estimated using discounted cash flow analysis, using the rates currently offered for deposits of similar remaining maturities.

Borrowed Funds - Borrowings under repurchase agreements and other short-term borrowings maturing within ninety days approximate their fair values. Fair values of other long-term borrowings are estimated using discounted cash flow analysis based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

Unused Lines of Credit, Commitments to Extend Credit, and Standby Letters of Credit - The fair value of off-balance-sheet, credit-related financial instruments are 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.



**BANESCO USA**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**16. FAIR VALUE MEASUREMENTS (CONTINUED)**

**Items Measured at Fair Value on a Recurring Basis**

The following table represents the Bank's financial instruments measured at fair value on a recurring basis for each of the fair value hierarchy levels:

	Level 1	Level 2	Level 3	Total
<u>December 31, 2016</u>				
U.S. government agencies issued securities	\$ -	\$ 44,324,436	\$ -	\$ 44,324,436
Collateralized mortgage obligations	-	3,221,513	-	3,221,513
Mortgage-backed securities	-	79,301,109	-	79,301,109
Corporate bond	-	17,798,105	-	17,798,105
Municipal securities	-	24,780,576	-	24,780,576
	<u>\$ -</u>	<u>\$ 169,425,739</u>	<u>\$ -</u>	<u>\$ 169,425,739</u>
<u>December 31, 2015</u>				
U.S. government agencies issued securities	\$ -	\$ 38,613,791	\$ -	\$ 38,613,791
U.S. government agencies	-	8,775,849	-	8,775,849
Collateralized mortgage obligations	-	4,022,465	-	4,022,465
Mortgage-backed securities	-	78,666,244	-	78,666,244
Corporate bond	-	23,023,894	-	23,023,894
Municipal securities	-	35,842,911	-	35,842,911
	<u>\$ -</u>	<u>\$ 188,945,154</u>	<u>\$ -</u>	<u>\$ 188,945,154</u>

There were no financial liabilities measured at fair value on a recurring basis at December 31, 2016 and 2015.

**Items Measured at Fair Value on a Nonrecurring Basis**

*Impaired Loans*

Certain assets that are considered impaired are not measured at fair value on an ongoing basis but are subject to fair value measurements. These instruments are measured at fair value on a nonrecurring basis and include certain loans that have been deemed to necessitate an impairment analysis.

When a loan is deemed impaired, the Bank's management measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical method, impairment may be measured based on the fair value of the loan or on the fair value of the underlying collateral if the loan is collateral dependent. As of December 31, 2016 and 2015, loans deemed to be impaired based on fair value measurement totaled \$5,088,000 and \$8,324,000, respectively, with the portion deemed to be impaired included in the allowance for loan losses.

Collateral dependent loans and loans based on the present value of expected future cash flows discounted at the loan's effective interest rate are classified in Level 3 of the fair value hierarchy as the valuation technique requires inputs that are both significant and unobservable.



**BANESCO USA**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**16. FAIR VALUE MEASUREMENTS (CONTINUED)**

**Items Measured at Fair Value on a Nonrecurring Basis (continued)**

*Foreclosed Assets*

Foreclosed assets are valued at the lesser of the third party appraisals less management's estimate of the costs to sell or the carrying cost of the foreclosed asset. Appraisals generally use the market approach valuation technique and use market observable data to formulate an opinion of the fair value of the properties. However, the appraiser uses professional judgment in determining the fair value of the property and the Bank may also adjust the value for changes in market conditions subsequent to the valuation date when current appraisals are not available. As a consequence of the carrying cost or the third party appraisal and adjustments therein, the fair values of the properties are considered a Level 3 valuation.

The following table represents the Bank's financial instruments measured at fair value on a nonrecurring for each of the fair value hierarchy levels:

December 31, 2016		December 31, 2015	
Impaired loans	\$ -	\$ -	\$ 5,088,000
Foreclosed assets	-	-	2,775,700
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,863,700</u>

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Impaired loans	\$ -	\$ -	\$ 8,324,000	\$ 8,324,000
Foreclosed assets	-	-	2,796,500	\$ 2,796,500
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,120,500</u>	<u>\$ 11,120,500</u>

There were no financial liabilities measured at fair value on a nonrecurring basis at December 31, 2016 and 2015.

The carrying amounts and estimated fair values of the Bank's financial instruments were as follows at December 31, 2016:

	2016	
	Carrying Amount	Fair Value
<b>Financial assets:</b>		
Cash and cash equivalents	\$ 53,935,441	\$ 56,931,685
Investment securities available for sale	169,425,739	169,425,739
Investment securities held to maturity	1,199,290	1,172,050
Federal Home Loan Bank stock	2,548,400	2,548,400
Loans, net	733,804,531	745,780,789
Accrued interest receivable	2,589,878	2,589,878
<b>Financial liabilities:</b>		
Demand, money market and saving accounts	\$ 630,983,715	\$ 630,983,715
Time deposits	208,466,559	208,691,733
Securities sold under agreements to repurchase	1,241,524	1,241,524
Federal Home Loan Bank advance	40,000,000	40,293,817
Accrued interest payable	710,696	710,696



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NOTES TO FINANCIAL STATEMENTS  
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**16. FAIR VALUE MEASUREMENTS (CONTINUED)**

**Items Measured at Fair Value on a Nonrecurring Basis (continued)**

The carrying amounts and estimated fair values of the Bank's financial instruments were as follows at December 31, 2015:

	2015	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	\$ 46,446,303	\$ 46,446,626
Investment securities available for sale	188,945,154	188,945,154
Investment securities held to maturity	1,233,050	1,211,326
Federal Home Loan Bank stock	2,103,500	2,103,500
Loans, net	687,666,775	697,149,915
Accrued interest receivable	2,417,076	2,417,076
Financial liabilities:		
Demand, money market and saving accounts	\$ 657,301,451	\$ 657,301,451
Time deposits	159,848,837	160,185,215
Securities sold under agreements to repurchase	2,136,907	2,136,907
Federal Home Loan Bank advance	30,000,000	30,529,665
Accrued interest payable	704,954	704,954





# CONTACT US

## USA CUSTOMERS

**Customer Service:**  
T. 786-552-0524  
**Automated Voice Response System:**  
T. 1-888-228-1576  
**Email:**  
customerservice@BanescoUSA.com

## CASH MANAGEMENT DEPARTMENT

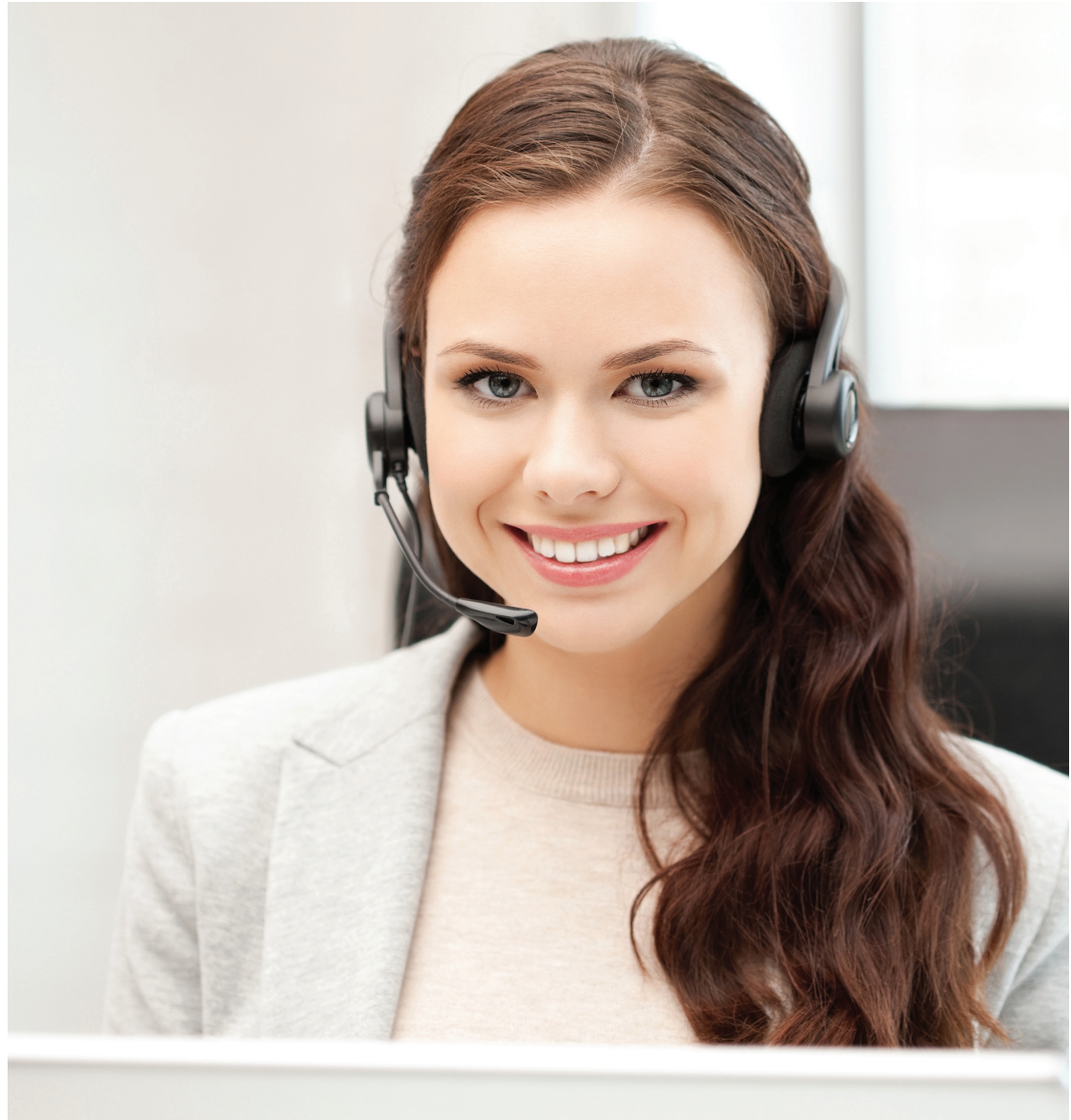
**Customer Service:**  
T. 786-552-0414  
**Email:**  
cm@BanescoUSA.com

## INTERNATIONAL CUSTOMERS

**Customer Service:**  
T. 0-800-1BanescoBAN (0-800-1228226)  
**Automated Voice Response System:**  
T. 0-800-1BanescoIVR (0-800-1228487)  
**Email:**  
internationaldept@BanescoUSA.com

## LENDING DEPARTMENT

**Residential & Consumer Lending**  
T. 786-552-0570  
**Email:**  
residentiallending@BanescoUSA.com  
**Consumer Real Estate Lending**  
T. 786-552-0562  
**Email:**  
commerciallending@BanescoUSA.com  
**Commercial Loans**  
T. 786-552-0587  
**Email:**  
commercialloans@BanescoUSA.com  
**Construction Lending**  
T. 786-552-0590  
**Email:**  
constructionlending@BanescoUSA.com



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# BANESCO USA LOCATIONS



## CORAL GABLES

Banesco Center  
150 Alhambra Circle, Suite 100  
Coral Gables, FL 33134



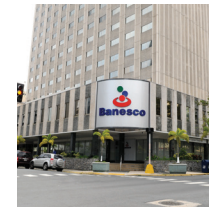
## DORAL

9500 NW 41st Street, Suite 100  
Doral, FL 33178



## WESTON

316 Indian Trace, Weston Lakes Plaza  
Weston, FL 33326



## PUERTO RICO

255 Ponce de León Ave. Suite 124  
Hato Rey, PR 00917