Banco de Credito e Inversiones, S.A., Miami Branch

Financial Statements as of and for the years ended December 31, 2022 and 2021, with Independent Auditors' Report Thereon

BANCO DE CREDITO E INVERSIONES, S.A., MIAMI BRANCH

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Independent Auditors' Report

Board of Directors
Banco de Creditos e Inversiones, S.A.:

Opinion

We have audited the financial statements of Banco de Creditos e Inversiones, S.A., Miami Branch (the Branch), which comprise the statements of assets, liabilities, and Head Office equity as of December 31, 2022 and 2021, and the related statements of operations and comprehensive income, changes in Head Office equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Branch as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Branch and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

The Branch is part of Banco de Credito e Inversiones, S.A., whose Head Office is located in Chile, and as such, is not a separately incorporated legal entity. Because the Branch is part of the Head Office, its financial statements do not necessarily reflect all allocations or other financial matters that may be applicable to the Branch. Further, as discussed in Note 10 to the financial statements, the Branch has extensive transactions and relationships with its Head Office and affiliated entities. As a result of these relationships, it is possible that the terms of these transactions are not the same as those which would result from transactions among wholly unrelated parties. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Branch's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Branch's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

February 27, 2023

BANCO DE CREDITO E INVERSIONES, S.A., MIAMI BRANCH

STATEMENTS OF ASSETS, LIABILITIES, AND HEAD OFFICE EQUITY
AS OF DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
CASH AND DUE FROM BANKS	$ 17,996,587	$ 54,600,979
DUE FROM RELATED INSTITUTION—Pledged	250,000,000	250,000,000
FEDERAL FUNDS SOLD AND OVERNIGHT INVESTMENTS	2,226,730,395	1,548,484,112
TIME DEPOSITS DUE FROM RELATED INSTITUTIONS	30,000,000	-
Total cash, cash equivalents and restricted cash	2,524,726,982	1,853,085,091
TIME DEPOSITS DUE FROM HEAD OFFICE, BRANCHES, AND AFFILIATES WITH ORIGINAL MATURITIES IN EXCESS OF 90 DAYS	253,485,875	706,975,000
SECURITIES AVAILABLE FOR SALE	705,755,243	699,038,481
LOANS—Net	2,571,444,899	2,348,641,428
ACCRUED INTEREST RECEIVABLE	39,475,406	16,316,473
PREMISES AND EQUIPMENT—Net	3,173,030	3,940,757
DERIVATIVE INSTRUMENTS	100,472,254	15,181,481
DEFERRED TAX ASSET—Net	9,162,983	1,173,688
OTHER ASSETS	43,645,786	6,076,824
TOTAL ASSETS	$ 6,251,342,458	$ 5,650,429,223
LIABILITIES AND HEAD OFFICE EQUITY		
DEPOSITS:		
Demand:		
Noninterest bearing	$ 760,428,723	$ 593,025,403
Interest bearing	145,157,274	279,796,787
Time	3,603,876,926	2,392,215,306
Total deposits	4,509,462,923	3,265,037,496
AMOUNTS DUE TO HEAD OFFICE, BRANCHES, AND AFFILIATES	777,499,703	1,385,309,163
BORROWINGS	608,829,056	746,695,783
DERIVATIVE INSTRUMENTS	10,783,598	25,172,536
ACCRUED INTEREST PAYABLE	28,411,339	6,585,757
PURCHASED LOAN LIABILITIES	37,380,027	4,979,098
OTHER LIABILITIES	32,992,602	7,241,928
Total liabilities	6,005,359,248	5,441,021,761
COMMITMENTS AND CONTINGENCIES (Note 13)		
HEAD OFFICE EQUITY:		
Assigned capital	19,413,389	19,413,389
Accumulated earnings	230,614,396	190,546,578
Accumulated other comprehensive loss	(4,044,575)	(552,505)
Total Head Office equity	245,983,210	209,407,462
TOTAL LIABILITIES AND HEAD OFFICE EQUITY	$ 6,251,342,458	$ 5,650,429,223

See accompanying notes to financial statements.

BANCO DE CREDITO E INVERSIONES, S.A., MIAMI BRANCH

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
INTEREST INCOME:		
Loans	$ 90,008,632	$ 41,320,523
Federal funds sold and overnight investments	32,462,931	1,086,759
Securities	21,407,817	8,724,461
Time deposits due from banks, head office, branches and affiliates	10,199,129	3,465,294
Total interest income	154,078,509	54,597,037
INTEREST EXPENSE:		
Deposits	72,608,643	5,359,859
Borrowings	20,411,534	4,980,589
Total interest expense	93,020,177	10,340,448
NET INTEREST INCOME	61,058,332	44,256,589
PROVISION FOR LOAN LOSSES	2,564,716	3,041,240
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	58,493,616	41,215,349
NONINTEREST INCOME (LOSS):		
Service fees and charges	6,751,875	5,723,874
Securities and derivative instruments gains —net	1,862,618	3,875,326
Other	(898,527)	(745,483)
Total noninterest income	7,715,966	8,853,717
NONINTEREST EXPENSE:		
Salaries and employee benefits	23,992,430	18,958,022
Occupancy	2,134,970	1,806,111
Depreciation and amortization	1,319,921	1,098,071
Communications	426,551	444,450
Professional fees—legal	189,099	220,981
Professional fees—other fees	1,959,807	1,335,162
Other operating	1,597,024	2,580,357
Total noninterest expense	31,619,802	26,443,154
NET INCOME BEFORE INCOME TAX BENEFIT	34,589,780	23,625,912
INCOME TAX BENEFIT	(5,478,038)	(2,002,572)
NET INCOME	$ 40,067,818	$ 25,628,484
OTHER COMPREHENSIVE LOSS:		
Change in net unrealized holding loss on securities available for sale	(1,629,452)	(856,169)
Reclassification adjustment for gain —net included in net income	(1,862,618)	(3,875,326)
Total other comprehensive loss	(3,492,070)	(4,731,495)
COMPREHENSIVE INCOME	$ 36,575,748	$ 20,896,989

See accompanying notes to financial statements.

BANCO DE CREDITO E INVERSIONES, S.A., MIAMI BRANCH

STATEMENTS OF CHANGES IN HEAD OFFICE EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Assigned Capital	Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Total Head Office Equity
BALANCE—December 31, 2020	$ 19,413,389	$ 164,918,094	$ 4,178,990	$ 188,510,473
Net income	-	25,628,484	-	25,628,484
Other comprehensive loss	-	-	(4,731,495)	(4,731,495)
BALANCE—December 31, 2021	19,413,389	190,546,578	(552,505)	209,407,462
Net income	-	40,067,818	-	40,067,818
Other comprehensive loss	-	-	(3,492,070)	(3,492,070)
BALANCE—December 31, 2022	$ 19,413,389	$ 230,614,396	$ (4,044,575)	$ 245,983,210

See accompanying notes to financial statements.

BANCO DE CREDITO E INVERSIONES, S.A., MIAMI BRANCH

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 40,067,818	$ 25,628,484
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of right of use asset under operating leases	1,342,636	-
Depreciation and amortization	1,319,921	1,098,071
Deferred tax benefit	(8,938,804)	(2,002,572)
Provision for loan losses	2,564,716	3,041,240
Provision for off-balance sheet credit loss	970,035	562,976
Securities and derivative instruments gain —net	(1,862,618)	(3,875,326)
Loss on sales of loans—net	329,669	468,600
Unrealized loss (gain) on derivatives	253,797	(178,365)
Gain on repurchase of liabilities	74,394	-
Net premium amortization on securities	1,663,874	1,164,096
Amortization of discounts on borrowings	8,712,053	4,137,512
Net accretion of deferred loan fees and discounts	(11,470,510)	(5,231,603)
Changes in assets and liabilities:		
Accrued interest receivable	(23,158,933)	83,694
Derivative instruments	3,913,961	2,485,662
Other assets	(24,911,474)	(2,776,839)
Accrued interest payable	21,825,582	430,916
Other liabilities	4,361,105	1,081,920
Net cash provided by operating activities	17,057,222	26,118,466
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease (increase) in time deposits due from related institutions	453,489,125	(307,826,000)
Purchases of securities available for sale	(145,897,176)	(253,284,317)
Maturities, sales, and calls of investment securities	32,917,500	100,605,675
Proceeds from sales of loans	28,233,422	32,978,581
Net increase in loans	(203,568,801)	(703,373,819)
Net decrease in customers' acceptance liability	213,510	10,029,979
Purchase of premises and equipment	(552,194)	(512,224)
Net cash provided by (used in) investing activities	164,835,386	(1,121,382,125)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	1,244,351,033	1,528,096,090
(Decrease) increase in amounts due to Head Office, branches, and affiliates	(607,809,460)	648,886,566
Net decrease in acceptances outstanding	(213,510)	(10,029,979)
Net change in short term borrowings with maturities less than 90 days	70,098,349	(116,947,732)
Short term borrowings:		
Proceeds from short term borrowings	617,554,789	1,339,775,323
Payments of short term borrowings	(834,117,000)	(1,891,324,000)
Long term borrowings:		
Proceeds of long term borrowings	3,685,082	-
Payments of long term borrowings	(3,800,000)	(25,000,000)
Net cash provided by financing activities	489,749,283	1,473,456,268
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	671,641,891	378,192,609
CASH, CASH EQUIVALENTS AND RESTRICTED CASH:		
Beginning of year	1,853,085,091	1,474,892,482
End of year	$ 2,524,726,982	$ 1,853,085,091

(Continued)

BANCO DE CREDITO E INVERSIONES, S.A., MIAMI BRANCH

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 71,194,596	$ 9,909,531
Taxes paid	$ 385,000	$ -
Capitalization of right of use asset under operating leases	$ 14,213,634	$ -
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITY:		
Loans purchased pending payment	$ 6,491,038	$ 4,979,098

See accompanying notes to financial statements.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Banco de Credito e Inversiones, S.A., Miami Branch (the "Branch") is a branch of Banco de Credito e Inversiones, S.A. (the "Head Office"), a commercial bank incorporated in Santiago, Chile. The Branch was originally licensed as an international banking agency by the Department of Banking and Finance of the State of Florida (the "Department") on May 10, 1999, and began operations on May 17, 1999. On December 3, 2001, the Department approved the conversion of the existing international banking agency license to an international banking branch license. The rights of an international banking branch differ from an international agency, in that an international branch has the flexibility to receive qualified deposits from citizens and residents of the United States of America. The Branch is not a separately incorporated legal entity and conducts general banking business providing a range of banking services to domestic and foreign individuals and corporate customers principally from Latin America.

The following is a description of the significant accounting policies and practices followed by the Branch, which conform to U.S. generally accepted accounting principles ("U.S. GAAP") and banking industry practices.

Basis of Presentation—The financial statements have been prepared from the records of the Branch, which contain evidence that transactions have been entered into and recorded locally. As the Branch is part of the Head Office, its financial statements do not necessarily reflect all allocations to or from the Head Office or other financial matters that may be applicable to the Branch. Further, because of the relationship with the Head Office, it is possible that the transactions recorded locally may not be the same as transactions among wholly unrelated parties.

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. Estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of certain securities available for sale (Level 3), and the valuation of derivative instruments. Management believes that these estimates are reasonable. Actual results could differ from these estimates.

Cash and Cash Equivalents—The Branch has defined cash equivalents as those highly liquid financial instruments purchased with a maturity of three months or less at the time of acquisition.

Securities Available for Sale—Securities to be held for unspecified periods of time, including securities that management intends to use as part of its asset/liability strategy or that may be sold in response to changes in interest rates, changes in prepayment risk, or other similar factors, are classified as securities available for sale and are carried at fair value. The appreciation or decline in value of these securities is included in accumulated other comprehensive income (loss) within Head Office equity.

Premium or discount on securities available for sale is amortized or accreted over the life of the securities using the effective interest method as an adjustment to the yield.

Loans and Allowance for Loan Losses—Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses, and adjusted by unamortized deferred loan fees and costs on originated loans. Interest on loans is calculated using the interest method on the daily balances of the outstanding principal amount. Accrual of interest is typically discontinued on a loan when management believes, after considering economic and business conditions and the results of collection efforts, that the borrower's financial condition is such that collection of interest or principal is doubtful or when a loan becomes contractually past due 90 days or more with respect to interest or principal.

Individually identified impaired loans, which are defined as loans where it is probable that a creditor will not be able to collect both the contractual interest and principal payments, are measured at the present value of expected future cash flows discounted at the loan's effective rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses. Cash receipts on nonaccrual loans are applied to reduce the principal amount of such loans until the entire principal balance has been recovered and are thereafter recognized as interest income.

The allowance for loan losses is established through a provision charge to expense. Loans are charged off against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Recoveries of amounts previously charged off are credited to the allowance for loan losses.

The provision for loan losses is the amount that is required to bring the allowance for loan losses to a level that, in management's judgment, will be adequate to absorb losses on existing loans. If future events result in deterioration of the loan portfolio, additional provisions will be made as the facts become evident.

Loans for which modifications of their original terms meet the criteria for troubled debt restructuring ("TDR") classification are reported as such.

Premises and Equipment—Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets or the expected term of the leases, if shorter.

Leases—The Branch evaluates the classification of leases as operating or finance at inception. Leases that meet one or more of the following criteria are classified as finance leases:

- The lease agreement contains a provision where the lessee has the option to purchase the asset, and the portion is reasonably certain to be exercised.
- The ownership of the leased asset is transferred to the Branch at the end of the lease period.
- The duration of the lease encompasses at least 75% of the useful life of the leased asset.
- The present value of the minimum lease payments under the lease represent at least 90% of the fair value of the leased asset.

- The asset is so specialized in nature that it provides no alternative use to the lessor after the lease term.

The Branch has determined all leases, under which it is the lessee, to be operating leases.

Operating lease right-of-use ("ROU") assets represent the Branch’s right to use an underlying asset for the lease term, and lease liabilities represent the Branch’s obligation to make lease payments arising from the lease, both of which are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. The Branch determines the lease term by assuming the exercise of renewal options that are reasonably certain. As most of the Branch’s leases do not provide an implicit interest rate, the Branch uses its local incremental borrowing rate for financing over the period of the lease based on the information available at the commencement date in determining the present value of future payments. ROU assets are included in other assets, while operating lease liabilities are included in other liabilities in the accompanying statements of assets, liabilities, and Head Office equity (see Note 9).

The Branch made an accounting policy election to separate lease and non-lease components of a contract. Non-lease components include operating expenses, such as repairs and maintenance, real estate taxes, insurance and utilities. These expenses are recognized when incurred.

Leases with a lease term of 12 months or less at inception are not recorded on the Branch’s statements of assets, liabilities, and Head Office equity, unless these are evergreen leases, and are expensed on a straight-line basis over the lease term in the Branch’s statements of operations and comprehensive income.

Derivative Financial Instruments—The Branch manages its exposure to interest rate and foreign currency movements in investment securities and loans by seeking to match asset and liability balances within maturity categories, both directly and through the use of derivative financial instruments. The derivative instruments are interest rate swaps and cross-currency swaps (together, “swaps”) and a forward foreign exchange contract. While these instruments are subject to fluctuations in value, such fluctuations are generally offset by the change in value of the underlying exposures being hedged. The net interest received or paid on swaps is reflected as interest income or expense of the related hedged position.

These derivative financial instruments are designated as hedges against the changes in variable cash flows or fair value of identified assets as long as certain criteria are met. However, if the derivative financial instrument fails or ceases to qualify for hedge accounting, it is accounted for at fair value with changes in fair value recorded in noninterest income in the statements of operations and comprehensive income.

If the instrument qualifies for fair value hedge accounting, the market gains and losses of the derivative as well as the portion of the unrealized gains or losses of the hedged instrument that was attributable to the risk being hedged are recorded in noninterest income (loss). Gains and losses resulting from the termination of swaps are recognized over the shorter of the remaining contract lives of the swaps or the lives of the related hedged positions or, if the hedged positions are sold, are recognized in the current period as noninterest income.

If the instrument qualified for cash flow hedge accounting, the change in fair value of the derivative is recorded in other comprehensive income and reclassified into earnings in the same period which the hedged transaction affects earnings and is reported in noninterest income in the statements of operations and comprehensive income.

If the instrument is an embedded derivative in a hybrid contract, the instrument is accounted for at fair value, with changes in the value of the instrument being recognized in noninterest income in the statements of operations and comprehensive income.

Income Recognition—Interest income is generally recognized on the accrual basis using the interest method. Deferred loan fees are amortized over the term of the related loan using the effective yield method. Commissions and fees on letters of credit are deferred and recognized using a method that approximates the level yield method.

Loan Fees—Nonrefundable fees for loan commitments and loan originations, net of expenses, are deferred and amortized using a method that approximates the level-yield method as an adjustment of loan yield over the term of the loan.

Foreign Currency Transactions—Substantially all operational financial instruments of the Branch are denominated in U.S. dollars. Foreign currencies are translated into U.S. dollars using year-end rates of exchange. Income and expense amounts are translated based on the rate in effect at the end of the month in which the individual transactions are recorded.

Disclosure of Significant Concentrations of Credit Risk—Concentrations of credit risk arise when assets are concentrated in similar instruments, business activities, or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Branch has securities available for sale and loans primarily in the U.S. and Latin America (see Notes 2 and 3, respectively).

The Branch provides a range of banking services to foreign individuals and foreign and domestic financial institutions and corporations within the public, private, and financial sectors. Latin American and Caribbean deposits are an important component of the Branch’s liquidity. Accordingly, the Branch’s fundings are susceptible to changes in certain Latin American countries’ economies.

Transfers of Financial Assets—Transfers of financial assets are accounted for as sales or purchases when control over the assets has been surrendered by the transferor. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the transferor, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the transferor does not maintain effective control over the transferred assets through an agreement to repurchase them. If the above criteria are not met, the Branch accounts for the transfer as a secured borrowing.

Income Taxes—The Branch is subject to federal and state income taxes. The Branch utilizes an asset and liability approach to accounting for income taxes. The asset and liability approach requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences between the carrying amounts and tax bases of other assets and liabilities. Deferred tax assets are required to be reduced by a valuation allowance to the extent that, based on the weight of available evidence, it is more likely than not that the deferred tax assets will not be realized. In making such determinations, the Branch considers all positive and negative evidence, including future reversals of existing temporary differences, prior and projected future taxable income, and tax planning strategies.

For positions taken or expected to be taken in a tax return, the Branch recognizes the effect of such tax positions in its financial statements when it is more likely than not (i.e., a likelihood of more than 50%) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

Interest Rate Risk—The Branch'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 Branch 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 and is measured in terms of the ratio of the interest-rate-sensitivity gap to total assets. More assets repricing or maturing than liabilities over a given time frame is considered asset sensitive or a positive gap and 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 affect earnings in a falling interest rate environment, while a liability sensitive position will generally enhance earnings in a falling interest rate environment and negatively affect earnings in a rising interest rate environment. Fluctuations in interest rates are not predictable or controllable.

Fair Value Measurements—Financial instruments are classified based on three-level valuation hierarchy required by U.S. GAAP. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1—Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the company has the ability to access.

Level 2—Inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3—Inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability (the unobservable inputs should be developed based on the best information available in the circumstances and may include the Branch's own data).

Recently Adopted Accounting Pronouncements—In February 2016, and clarified from 2018 through 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases ("Topic 842")*, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. The new guidance also aligns many of the underlying principles of the new lessor model with those of the FASB's new revenue recognition standard (e.g., those related to evaluating when profit can be recognized). Furthermore, the guidance addresses other concerns for an entity to use bright-line tests in determining lease classification. The standard also requires lessors to increase the transparency of their exposure to changes in value of their residual assets and how they manage that exposure. The Branch adopted Topic 842 effective January 1, 2022. As a result of the adoption, the Branch recorded an operating lease ROU asset and operating lease liability of $13,729,291 and $14,041,107, respectively, at implementation.

During August 2017, the FASB issued guidance on the targeted improvements to the accounting for hedging activities, which is intended to better align risk management activities and financial reporting for hedging relationships. The new guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. It also eases certain documentation and assessment requirements. Further, multiple clarification ASU's have been issued since the original pronouncement. *ASU 2018-16, Derivatives and Hedging*, was issued in October 2018, which clarified the original ASU and added the Overnight Index Swap ("OIS") rate as an acceptable benchmark rate for assessing hedge accounting of derivatives. ASU 2019-04, issued in April 2019, clarified certain aspects of the ASU, while ASU 2019-10, issued in November 2019, and deferred the effective date for the adoption of the standard. The guidance is effective for fiscal years beginning after December 15, 2020. The guidance was adopted by the Branch for the year ended December 31, 2021, and the adoption did not have a material impact on the Branch's financial position, results of operations, cash flows, or financial statement disclosure.

During April 2019, the FASB issued ASU 2019-12, *Income Taxes ("Topic 740"), Simplifying the Accounting for Income Taxes*. The amendments to this topic reduce the complexity in accounting for income taxes by removing certain exceptions and changing or clarifying certain recognition and other requirements. The Branch adopted the amendments on January 1, 2022. The adoption of the guidance did not have a material effect on the Branch's financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform ("Topic 848"), Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The amendments in this update provide optional guidance to ease the potential burden in accounting for (or recording the effects of) reference rate reform on financial reporting. Under this ASU, companies are provided with optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships that currently utilize the London Interbank Offered Rate ("LIBOR") as their benchmark rate, subject to certain criteria being met. The guidance only applies to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of the reference rate reform. The amendments in this update are effective for all entities as of March 12, 2020 and will only be in effect through December 31, 2022. The Branch adopted the amendments as of the March 12, 2020 issuance date. There have not been any such contracts modified as of December 31, 2022.

New Accounting Pronouncements— In June 2016, the FASB issued *ASU 2016-13, Measurement of Credit Losses on Financial Instruments*, which amends the guidance on the impairment of financial instruments. The guidance adds an impairment model (known as the current expected credit loss ("CECL") model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses. The ASU is also intended to reduce the complexity of the guidance of impairment of financial instrument by decreasing the number of credit impairment models that entities use to account for debt instruments. The CECL model applies to most debt instruments (other than those measured at fair value), trade receivables, lease receivables, reinsurance receivables that result from insurance transactions, financial guarantee contracts, and loan commitments. However, securities available for sale are outside the model's scope. Further, multiple clarification ASU's have been issued since the original pronouncement. ASU 2018-19, *Codification Improvements to Topic 326*, *Financial Instruments—Credit Losses*, issued in November 2018, and ASU 2019-04, *Codification improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, issued in April 2019, clarify the scope of the ASU and refine the treatment of specific activities under the new standard. ASU 2019-05, issued in May 2019, allows the option to irrevocably elect the fair value option for debt instruments measured at amortized cost, aside from held to maturity investments. ASU 2019-10, issued in November 2019, deferred the effective date for the adoption of the standard. The changes, as amended, are effective for the Branch for periods beginning after December 15, 2022. The adoption of this guidance is not expected to have a material impact on the Branch's financial statements.

2. SECURITIES

The amortized cost and estimated fair value of securities available for sale, with gross unrealized gains and losses, at December 31, 2022 and 2021, are summarized as follows:

	2022			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Available for sale:				
Student loan asset-backed securities	$ 4,050,000	$ -	$ (223,155)	$ 3,826,845
Corporate debt securities	68,879,109	-	(7,643,487)	61,235,622
Corporate capital equivalency deposit debt securities	106,499,161	-	(14,564,886)	91,934,275
Chilean government debt securities	508,826,360	-	(66,363,950)	442,462,410
U.S. Treasury bonds	110,921,038	-	(4,624,947)	106,296,091
	$799,175,668	$ -	$(93,420,425)	$705,755,243

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
Student loan asset-backed securities	$ 4,050,000	$ -	$ (81,810)	$ 3,968,190
Corporate debt securities	69,270,360	1,433,402	(1,077,921)	69,625,841
Corporate capital equivalency deposit debt securities	107,741,869	49,933	(2,689,740)	105,102,062
Chilean government debt securities	509,045,583	17,975,942	(6,679,137)	520,342,388
	$ 690,107,812	$ 19,459,277	$ (10,528,608)	$ 699,038,481

Securities available for sale with unrealized losses less than and greater than 12 months at December 31, 2022 and 2021, are as follows:

2022	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or Longer Fair Value	12 Months or Longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
Available for sale:						
Student loan asset-backed securities	$ -	$ -	$ 3,826,845	$ (223,155)	$ 3,826,845	$ (223,155)
Corporate debt securities	24,197,300	(1,167,310)	37,038,322	(6,476,177)	61,235,622	(7,643,487)
Corporate capital equivalency deposit debt securitites	5,324,255	(546,422)	86,610,020	(14,018,464)	91,934,275	(14,564,886)
Chilean government debt securities	265,362,824	(22,147,027)	177,099,586	(44,216,923)	442,462,410	(66,363,950)
U.S. Treasury bonds	106,296,091	(4,624,947)	-	-	106,296,091	(4,624,947)
	$ 401,180,470	$ (28,485,706)	$ 304,574,773	$ (64,934,719)	$ 705,755,243	$ (93,420,425)

2021	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or Longer Fair Value	12 Months or Longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
Available for sale:						
Student loan asset-backed securities	$ -	$ -	$ 3,968,190	$ (81,810)	$ 3,968,190	$ (81,810)
Corporate debt securities	37,737,512	(977,775)	5,008,050	(100,146)	42,745,562	(1,077,921)
Corporate capital equivalency deposit debt securities	88,097,044	(2,312,166)	11,022,778	(377,574)	99,119,822	(2,689,740)
Chilean government debt securities	238,406,078	(5,706,117)	16,461,586	(973,020)	254,867,664	(6,679,137)
	$ 364,240,634	$ (8,996,058)	$ 36,460,604	$ (1,532,550)	$ 400,701,238	$ (10,528,608)

In evaluating whether an other-than-temporary decline in value has occurred in its securities portfolio at December 31, 2022 and 2021, management considers these unrealized losses to be related to normal fluctuations in interest rates and market conditions. Management considers these declines in values to be temporary in nature. In reaching this decision, management considered factors, including the severity of the declines below cost, recent trends in fair values, and the existence of guarantees behind the underlying collateral of the instruments. The Branch does not intend to sell the securities in an unrealized loss position, and it is more likely than not that the Branch will not be required to sell the securities. In addition, management expects that these would not be settled at a price less than the carrying amount.

As of December 31, 2022 and 2021, the Branch held $4,050,000 par value of investments in student loan asset-backed securities that are considered auction rate securities (ARS). ARS are entirely comprised of student loans that have long-term nominal maturities for which the interest rates are supposed to be reset through auction process each month. The Branch continues to earn interest on the ARS at the contractual rate.

Contractual maturities of student loan asset-backed securities, corporate debt securities, corporate capital equivalency deposit debt securities, Chilean government securities and U.S. Treasury bonds classified as available for sale at December 31, 2022, are as follows:

	Amortized Cost	Fair Value
Due within one year	$ 2,038,381	$ 1,997,498
Due within one and five years	240,750,586	225,163,845
Due within five and ten years	478,117,213	414,397,790
Due after 10 years	78,269,488	64,196,110
	$ 799,175,668	$ 705,755,243

The Branch manages its exposure to interest rate and foreign currency movements for its portfolio of securities available for sale through the use of derivative financial instruments. At December 31, 2022 and 2021, securities available for sale totaling $758,075,278 and $654,584,147, respectively, are hedged by derivative financial instruments. Unrealized (losses) gains related to hedged available for sale securities totaled ($128,822) and $197,038 for the years ended December 31, 2022 and 2021, respectively, and are included in noninterest income – other in the accompanying statements of operations and comprehensive income.

The Branch recognized gross realized losses on the sale of available for sale securities during the year ended December 31, 2022 of approximately $2,176,000. The Branch recognized gross realized gains and losses on the sale of available for sale securities during the year ended December 31, 2021 of approximately $3,191,000 and $1,802,000, respectively.

At December 31, 2022 and 2021, securities available for sale totaling $200,000,000 and $262,889,731, respectively, are pledged as collateral to secure potential borrowing capacity with the Federal Reserve Bank.

3. LOANS AND ALLOWANCE FOR LOAN LOSSES

At December 31, 2022 and 2021, the Branch had loans outstanding as follows:

	2022	2021
Commercial	$ 2,256,623,208	$ 1,691,699,728
Financial institutions	343,999,752	681,844,309
Individual	2,460,000	2,928,000
	2,603,082,960	2,376,472,037
Less:		
Allowance for loan losses	(23,429,423)	(24,864,707)
Deferred loan fees	(8,706,330)	(3,781,376)
Premiums—net	497,692	815,474
	$ 2,571,444,899	$ 2,348,641,428

As of December 31, 2022 and 2021, the Branch's loan portfolio consists mainly of working capital loans, trade financing loans, personal loans, syndicated loans, and discounted acceptances.

At December 31, 2022, the Branch had loans outstanding with risk in the following countries:

	Commercial	Financial Institutions	Individual	Total
United States	$ 875,667,110	$ -	$ -	$ 875,667,110
Chile	760,310,030	9,000,000	2,460,000	771,770,030
Peru	452,145,346	-	-	452,145,346
Brazil	21,614,688	84,999,999	-	106,614,687
Colombia	7,071,143	74,999,920	-	82,071,063
Panama	6,000,000	54,999,957	-	60,999,957
Mexico	59,991,234	-	-	59,991,234
Guatemala	5,539,160	34,999,876	-	40,539,036
Anguilla	-	40,000,000	-	40,000,000
Ecuador	39,424,910	-	-	39,424,910
Spain	-	25,000,000	-	25,000,000
Dominican Republic	-	20,000,000	-	20,000,000
Luxembourg	16,228,008	-	-	16,228,008
Switzerland	12,631,579	-	-	12,631,579
	$ 2,256,623,208	$ 343,999,752	$ 2,460,000	$ 2,603,082,960

At December 31, 2021, the Branch had loans outstanding with risk in the following countries:

	Commercial	Financial Institutions	Individual	Total
United States	$ 810,579,287	$ 31,025,182	$ 1,240,000	$ 842,844,469
Chile	416,272,424	21,840,000	1,688,000	439,800,424
Brazil	10,130,145	255,005,134	-	265,135,279
Peru	228,199,561	-	-	228,199,561
Colombia	8,170,000	180,848,994	-	189,018,994
Denmark	150,000,000	-	-	150,000,000
Panama	-	113,499,999	-	113,499,999
Mexico	63,779,969	9,625,000	-	73,404,969
Guatemala	1,634,130	40,000,000	-	41,634,130
Anguilla	-	30,000,000	-	30,000,000
Ecuador	2,934,212	-	-	2,934,212
	$ 1,691,699,728	$ 681,844,309	$ 2,928,000	$ 2,376,472,037

Risk Management—The Branch has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies, and nonperforming and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Commercial, financial institution, and individual loans are subject to underwriting standards that are designed to promote relationship banking. Once it is determined that the borrower's management possesses sound ethics and solid business acumen, the loans are underwritten and submitted for approval. For loans that are underwritten by the Head Office, the Head Office's management examines the relevant information for each respective loan and presents the loan for approval within the loan review committee at Head Office. For loans that are underwritten by the Branch, the Branch's management examines the relevant information for each respective loan and presents to the Head Office for approval for substantially all of these.

Commercial, financial institution, and individual loans are primarily approved based on the identified cash flows of the borrower and secondarily on the guarantees provided by the borrower. Commercial, financial institution, and individual loans are secured by the assets being financed or other business assets, such as accounts receivable, inventory or real estate, and the Branch may incorporate a personal guarantee. In the case of loans secured by an operating asset, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Nonaccrual and Past-Due Loans—Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when management believes the borrower may be unable to meet payment obligations as they become due, which is typically when loans are 90 days past due, as well as when required by regulatory provisions.

Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

At December 31, 2022 and 2021, the Branch did not have any nonaccrual loans.

An analysis of past due loans, segregated by class of loans, at December 31, 2022 and 2021, is as follows:

	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
December 31, 2022						
Commercial	$ 850,000	$ -	$ 850,000	$ 2,602,232,960	$ 2,603,082,960	$ -
Financial institutions	-	-	-	-	-	-
Individual	-	-	-	-	-	-
	$ 850,000	$ -	$ 850,000	$ 2,602,232,960	$ 2,603,082,960	$ -

	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
December 31, 2021						
Commercial	$ 11,963,114	$ 7,000,000	$ 18,963,114	$ 2,357,508,923	$ 2,376,472,037	$ 7,000,000
Financial institutions	-	-	-	-	-	-
Individual	-	-	-	-	-	-
	$ 11,963,114	$ 7,000,000	$ 18,963,114	$ 2,357,508,923	$ 2,376,472,037	$ 7,000,000

Impaired Loans—Loans are considered impaired when, based on current information and events, it is probable that the Branch will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Impaired loans at December 31, 2022 and 2021, are as follows:

2022	Unpaid Contractual Principal Balance	Recorded Investment with no Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial	$ 6,041,143	$ -	$ 6,041,143	$ 6,041,143	$ 906,171	$ 6,520,572
Financial institutions	-	-	-	-	-	-
Individual	-	-	-	-	-	-
Total	$ 6,041,143	$ -	$ 6,041,143	$ 6,041,143	$ 906,171	$ 6,520,572

2021	Unpaid Contractual Principal Balance	Recorded Investment with no Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial	$ 7,000,000	$ -	$ 7,000,000	$ 7,000,000	$ 1,050,000	$ 7,000,000
Financial institutions	-	-	-	-	-	-
Individual	-	-	-	-	-	-
Total	$ 7,000,000	$ -	$ 7,000,000	$ 7,000,000	$ 1,050,000	$ 7,000,000

The Branch recorded a provision for loan losses related to impaired loans of $3,856,171 and $2,795,255 during the years ended December 31, 2022 and 2021, respectively.

During the years ended December 31, 2022 and 2021, the Branch recorded approximately $534,000 and $303,000 in interest income from impaired loans, respectively.

Loan Modifications—A restructuring of a loan constitutes a TDR if the Branch, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. The loan modifications that are considered a TDR by the Branch pertain to restructuring the terms of the loan to alleviate the burden of the borrower's near-term cash requirements, which include modifying the terms to reduce or defer cash payments required of the borrower in the near future to help the borrower attempt to improve its financial condition and eventually be able to pay the loan. The concession is granted by the Branch as an attempt to protect the Branch's investment on the loan as much as possible. The primary concessions provided by the Branch are a reduction of the stated interest rate for the remaining original life of the loan, extension of the maturity date or dates at a stated interest rate lower than the current market rate for a new loan with similar risk, reduction of the face amount or maturity amount of the loan as stated in the loan agreement and reduction of accrued interest.

At December 31, 2022 and 2021, the Branch had one loan with a balance of $6,041,143 and $7,000,000, respectively, that is considered a TDR. There were no loans modified and considered TDRs during 2022. Loans that the terms were modified and considered a TDR during 2021 are summarized below:

2021	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Increase in Allowance for Loan Losses Upon Modification**	**Charge-off Upon Modification**
Commercial	1	$ 7,000,000	$ 7,000,000	$ -	$ -
Financial institutions	-	-	-	-	-
Individual	-	-	-	-	-
	1	$ 7,000,000	$ 7,000,000	$ -	$ -

The Branch considers loans that were modified as a TDR as impaired loans. During the year ended December 31, 2022, there were no loans that were considered TDR and defaulted under the terms and conditions of the modification. The Branch did not have any commitment to lend on TDR loans at December 31, 2022.

Credit Quality Indicators—For loans evaluated on a group basis, management segments the loan portfolio by identifying risk characteristics that are common to groups of loans. Based on the segmentation of the portfolio, the Branch estimates the portion of the allowance for loan losses by calculating the historical losses for each loan pool over the current “look-back” period of seven years. Additionally, in developing and maintaining loss measurements, management also monitors the impact of current market and environmental factors; reviews its industry concentration reports; and documents where additional factors, such as changes in credit concentrations, have been used in the analysis and how these factors affect the loss measurements.

The Branch measures impairment based on the difference between the present values of expected future cash flows discounted at the loan’s effective interest rate and the recorded investment in the loan.

- The effective interest rate of a loan is the rate of return implicit in the loan (that is, the original contractual interest rate adjusted for any net deferred loan fees or costs, premium, or discount existing at the origination or acquisition of the loan).

- The effective interest rate for a loan restructured in a TDR is based on the original contractual rate, not the rate specified in the restructuring agreement.

- If the contractual rate is a floating rate tied to an index like LIBOR, the loan's effective interest rate may be calculated based on the factor as it changes over the life of the loan or may be fixed at the rate in effect at the date the loan meets the impairment criterion.

Alternative measurements of impairment used by the Branch are as follows:

- The loan's observable market price
- The fair value of the collateral if the loan is collateral dependent

If foreclosure for a collateral-dependent loan is probable, the Branch measures impairment based on the fair value of the collateral when the Branch determines that foreclosure is probable.

In order to monitor the Branch's credit quality, a credit-grading system has been developed. The credit grades classify the level of risk for various categories.

All new loans are assigned a credit grade from "1" to "6" at the time of consideration for approval. Existing loans are reviewed, and the credit grade is changed if necessary.

Any loan with a credit grade of "3" or worse is placed on the Branch's criticized and classified asset report and is reviewed and managed in accordance with the Branch policy as set forth below:

The Branch's credit grades "3" to "6" conform to the classifications and their definitions as set forth in the Federal Reserve Commercial Bank Examination Manual. The standard classifications and their definitions are as follows:

- Other assets especially mentioned/other loans especially mentioned (OLEM) (credit grade "3")

  Assets in this category are performing, but are potentially weak. These assets constitute an undue and unwarranted credit risk, but not to the point of justifying a classification of substandard. The credit risk may be relatively minor yet constitutes an unwarranted risk in light of the circumstances surrounding a specific asset.

  This category should not be used to list assets that bear risks usually associated with the particular type of financing. Any type of asset regardless of collateral, financial stability, and responsibility of the obligor involves certain risks. Assets in which actual, not potential, weaknesses are evident and significant should be considered for more serious criticism.

- Substandard (credit grade "4")

  A substandard asset is inadequately protected by the credit worthiness and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Branch will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified as substandard.

- Doubtful (credit grade “5”)

  An asset classified as doubtful has all the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined.

- Loss (credit grade “6”)

  Assets classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off the asset even though partial recovery may be affected in the future. Losses should be taken in the period in which they are incurred.

The Branch’s loans, grouped by classification and segmented by the class of loans, at December 31, 2022 and 2021, are as follows:

2022	**Commercial**	**Financial Institutions**	**Individual**	**Total**
Classification:				
Not criticized	$ 2,212,943,863	$ 343,999,752	$ 2,460,000	$ 2,559,403,615
OLEM	12,770,394	-	-	12,770,394
Substandard	30,908,951	-	-	30,908,951
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	$ 2,256,623,208	$ 343,999,752	$ 2,460,000	$ 2,603,082,960

2021	**Commercial**	**Financial Institutions**	**Individual**	**Total**
Classification:				
Not criticized	$ 1,536,791,773	$ 681,844,309	$ 2,928,000	$ 2,221,564,082
OLEM	82,627,261	-	-	82,627,261
Substandard	72,280,694	-	-	72,280,694
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	$ 1,691,699,728	$ 681,844,309	$ 2,928,000	$ 2,376,472,037

Allowance for Loan Loss—Transactions affecting the allowance for loan losses during the years ended December 31, 2022 and 2021, and information regarding the allowance for loans individually and collectively evaluated for impairment, by class of loans at December 31, 2022 and 2021, are as follows:

2022	Commercial	Financial Institutions	Individual	Total
Allowance for loan losses:				
Beginning balance	$ 18,280,250	$ 6,553,347	$ 31,110	$ 24,864,707
Provision for loan losses	6,358,635	(3,784,949)	(8,970)	2,564,716
Recoveries	-	-	-	-
Charge-offs	(4,000,000)	-	-	(4,000,000)
Ending balance	$ 20,638,885	$ 2,768,398	$ 22,140	$ 23,429,423
Ending balance—individually evaluated for impairment	$ 906,171	$ -	$ -	$ 906,171
Ending balance—collectively evaluated for impairment	$ 19,732,714	$ 2,768,398	$ 22,140	$ 22,523,252

2021	Commercial	Financial Institutions	Individual	Total
Allowance for loan losses:				
Beginning balance	$ 23,287,847	$ 4,100,213	$ 83,844	$ 27,471,904
Provision for loan losses	640,840	2,453,134	(52,734)	3,041,240
Recoveries	-	-	-	-
Charge-offs	(5,648,437)	-	-	(5,648,437)
Ending balance	$ 18,280,250	$ 6,553,347	$ 31,110	$ 24,864,707
Ending balance—individually evaluated for impairment	$ 1,050,000	$ -	$ -	$ 1,050,000
Ending balance—collectively evaluated for impairment	$ 17,230,250	$ 6,553,347	$ 31,110	$ 23,814,707

The Branch's loans, grouped by classification and segmented by the class of loans, at December 31, 2022 and 2021, are as follows:

2022	**Commercial**	**Financial Institutions**	**Individual**	**Total**
Loans:				
Individually evaluated for impairment	$ 6,041,143	$ -	$ -	$ 6,041,143
Collectively evaluated for impairment	2,250,582,065	343,999,752	2,460,000	2,597,041,817
Total	$ 2,256,623,208	$ 343,999,752	$ 2,460,000	$ 2,603,082,960

2021	**Commercial**	**Financial Institutions**	**Individual**	**Total**
Loans:				
Individually evaluated for impairment	$ 7,000,000	$ -	$ -	$ 7,000,000
Collectively evaluated for impairment	1,684,699,728	681,844,309	2,928,000	2,369,472,037
Total	$ 1,691,699,728	$ 681,844,309	$ 2,928,000	$ 2,376,472,037

As a result of the economic impacts caused by the COVID-19 pandemic during the year ended December 31, 2020, management temporarily increased the frequency of the reviews in their existing portfolio and split the loan portfolio into 3 categories, minimal, moderate, and severe, based on the potential impact of the pandemic to the borrower. In addition, the Branch created an additional factor to its existing methodology for calculating the allowance for loan losses in order to reflect the increased risk to the portfolio caused by the pandemic. Furthermore, most of the loans added to the category other loans especially mentioned during 2020 were added as a result of the impact to these borrowers caused by the pandemic. During 2021, the borrowers' financial information reflected the effect of the pandemic in their financial position and liquidity, allowing management to better assess the potential impact of the pandemic and reassessing the categories above; therefore, the Branch modified the existing categories to reflect the minimum impact effect of the pandemic for all borrowers. During 2022, management determined that an additional factor for COVID-19 was no longer necessary for calculating the allowance for loan losses.

Purchase and Sale of Loans— During 2022, the Branch purchased and sold approximately $427,560,000 and $58,419,000 of loans held for investment, respectively, from and to nonrelated entities. During 2021, the Branch purchased and sold approximately $261,314,000 and $33,447,000 of loans held for investment, respectively, from and to nonrelated entities. During 2022 and 2021, the Branch did not purchase loans from or sold loans to affiliates. During 2022 and 2021, the Branch did not sell any loans that were originated or purchased with the intention to sell. Purchased loan liabilities represent purchases of loans for which the rights of the loan have transferred to the Branch, but for which the Branch has not remitted payment.

During 2022 and 2021, no loans were transferred between the Branch and Head Office.

At December 31, 2022 and 2021, loans totaling approximately $121,568,000 and $193,466,000, respectively, are pledged as collateral to secure potential borrowing capacity with the Federal Reserve Bank.

4. PREMISES AND EQUIPMENT, NET

At December 31, 2022 and 2021, premises and equipment, net, included the following:

	2022	2021
Furniture, fixtures, and equipment	$ 7,194,907	$ 6,645,930
Leasehold improvements	2,901,222	2,901,222
	10,096,129	9,547,152
Less accumulated depreciation and amortization	(6,923,099)	(5,606,395)
	$ 3,173,030	$ 3,940,757

Depreciation and amortization expense amounted to $1,319,921 and $1,098,071 for the years ended December 31, 2022 and 2021, respectively.

5. TIME DEPOSITS

Time deposits at December 31, 2022 and 2021, are comprised of the following:

	2022	2021
Time	$ 2,853,081,209	$ 1,514,342,185
Yankee CD	750,795,717	877,873,121
	$ 3,603,876,926	$ 2,392,215,306

The amounts of scheduled maturities of time deposits at December 31, 2022 are as follows:

2023	$ 3,578,084,509
2024	25,792,417
	$ 3,603,876,926

Interest expense on deposits for the years ended December 31, 2022 and 2021, includes the following:

	2022	2021
Demand—interest bearing	$ 8,595,240	$ 422,270
Time	64,013,403	4,937,589
	$ 72,608,643	$ 5,359,859

6. DERIVATIVE INSTRUMENTS

The Branch uses derivative financial instruments for the purpose of managing its exposure to adverse fluctuations in fair value arising from certain investment securities and loans. Under the interest rate swaps, the Branch agrees to exchange at specified intervals the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. Under the cross-currency swaps, the Branch agrees to exchange at specified intervals the difference between changes in currency fluctuations calculated by reference to an agreed notional amount. Under forward foreign exchange contracts, the Branch agrees to exchange a specific amount of currency at a predetermined exchange rate at a future date. The Branch does not enter into derivatives for speculative or trading purposes.

For the derivatives designated as hedged instruments, the Branch remained effectively hedged as of December 31, 2022 and 2021. The Branch also had certain derivative instruments that were not designated or did not qualify for hedge accounting. The objective and purpose for all of the Branch's derivatives are the same whether they are designated as a hedge instrument or not.

At December 31, 2022 and 2021, derivative instruments included the following:

2022	Fair Value Hedges (FV)	Notional Amount	Fair Value Asset	Notional Amount	Fair Value (Liability)	Gross Unrealized Gain	Gross Unrealized (Loss)
Derivative instruments not designated as hedging instruments:							
Interest rate swaps		$ 183,972,436	$ 9,436,218	$ 183,914,677	$ (9,436,213)	$ 9,436,218	$ (9,436,213)
Cross-currency swaps		910,000	189,261	669,182	(189,283)	189,261	(189,283)
Forward foreign exchange contract		3,526,040	23,063	3,549,487	(79,610)	23,063	(79,610)
			9,648,542		(9,705,106)	9,648,542	(9,705,106)
Derivative instruments designated as hedging instruments:							
Interest rate swaps	FV	649,029,000	66,653,895	-	-	66,653,895	-
Cross-currency swaps	FV	109,046,278	24,090,609	-	-	24,090,609	-
Cross-currency swaps		1,113,822	79,208	19,251,856	(801,769)	79,208	(801,769)
Forward foreign exchange contract		-	-	22,272,501	(276,723)	-	(276,723)
			$ 100,472,254		$ (10,783,598)	$ 100,472,254	$ (10,783,598)

2021	Fair Value Hedges (FV)	Notional Amount	Fair Value Asset	Notional Amount	Fair Value (Liability)	Gross Unrealized Gain	Gross Unrealized (Loss)
Derivative instruments not designated as hedging instruments:							
Interest rate swaps		$ 164,082,393	$ 1,763,409	$ 164,082,393	$ (1,761,296)	$ 1,763,409	$ (1,761,296)
Cross-currency swaps		210,563,654	2,380,229	18,595,610	(2,379,888)	2,380,229	(2,379,888)
Forward foreign exchange contract		9,051,066	229,427	3,427,305	(34,648)	229,427	(34,648)
			4,373,065		(4,175,832)	4,373,065	(4,175,832)
Derivative instruments designated as hedging instruments:							
Interest rate swaps	FV	274,329,000	8,264,903	264,700,000	(19,731,844)	8,264,903	(19,731,844)
Cross-currency swaps	FV	74,706,725	1,473,077	37,593,987	(1,114,222)	1,473,077	(1,114,222)
Cross-currency swaps		1,776,295	242,637	-	-	242,637	-
Forward foreign exchange contract		16,049,352	827,799	253,680	(150,638)	827,799	(150,638)
			$ 15,181,481		$ (25,172,536)	$ 15,181,481	$ (25,172,536)

As of December 31, 2022 and 2021, certain interest rate swaps and cross-currency swaps qualify for fair value hedge accounting, while certain cross-currency swaps and forward foreign exchange contracts qualify for cash flow hedge accounting, as described in Note 1.

The effect of the Branch's derivative instruments not designated as a hedging instrument recorded within the Branch's statement of operations and comprehensive income for the year ended December 31, 2022 and 2021, is summarized as follows:

Derivatives Not Designated as Hedging Instruments:	Location in Statements of Operations and Comprenhensive Income	Amount of Gain (Loss) Recognized in Earnings	
		2022	2021
Interest rate swaps	Loan—interest income—net	$ (175,413)	$ (6,265)
Interest rate swaps	Other—noninterest income	(29,806)	(2,258)
Cross-currecy swaps	Loan—interest income—net	384,886	13,382
Forward foreign currency contract	Other—noninterest income	251,326	(194,779)

The amount of the Branch's derivative instruments designated as fair value hedging instruments recorded within the Branch's statements of operations and comprehensive income for the years ended December 31, 2022 and 2021, is not significant. The Branch's derivative instruments designated as cash flow derivative instruments recorded within the Branch's statements of operations and comprehensive income for the years ended December 31, 2022 and 2021 were as follows:

Derivatives Designated as Cash Flow Hedging Instruments:	Amount of Gain (Loss) Recognized in Comprehensive Income	
	2022	2021
Cross currecy swaps	$ 722,561	$ (242,634)
Forward foreign currency contract	$ 401,698	$ (677,161)

The terms of outstanding swaps and forwards at December 31, 2022, are as follows:

Derivatives Designated as Cash Flow Hedging Instruments

Asset

Number of Contracts	Maturity	Notional	Fair Value
1	2024	$ 113,822	$ 79,208
			$ 79,208

Liability

Number of Contracts	Maturity	Notional	Fair Value
3	2023	$ 22,272,501	$ (276,723)
4	2024	19,251,856	(801,769)
			$ (1,078,492)

Derivatives Designated as Fair Value Hedging Instruments

Asset

Number of Contracts	Maturity	Notional	Fair Value
2	2024	$ 6,539,000	$ 398,620
9	2025	48,550,320	3,850,337
10	2026	23,054,000	1,818,782
13	2027	142,750,000	8,272,404
22	2028	215,000,000	11,610,801
5	2030	32,625,000	3,895,084
24	2031	24,121,100	40,704,644
9	2029	186,435,858	4,771,203
1	2032	5,000,000	846,053
6	2033	34,000,000	7,136,104
1	2023	5,000,000	1,035,859
3	2034	25,000,000	3,997,487
1	2042	10,000,000	2,407,126
			$ 90,744,504

Derivatives Not Designated as Hedging Instruments

Asset

Number of Contracts	Maturity	Notional	Fair Value
4	2024	$ 52,913,635	$ 2,750,717
1	2025	5,500,000	280,208
2	2026	12,376,667	812,712
1	2027	20,000,000	392,019
2	2028	67,463,924	4,429,666
1	2029	3,310,000	151,951
4	2023	26,844,250	831,268
			$ 9,648,542

Liability

Number of Contracts	Maturity	Notional	Fair Value
4	2024	$ 52,913,635	$ (2,750,717)
1	2025	5,500,000	(280,208)
2	2026	12,135,849	(812,734)
1	2027	20,000,000	(392,019)
2	2028	67,463,924	(4,429,666)
1	2029	3,252,241	(151,948)
3	2023	26,867,697	(887,814)
			$ (9,705,106)

A summary table detailing the financial instruments hedged and derivative financial instruments used in hedge accounting as of December 31, 2022, is as follows:

Financial instrument hedged—securities available for sale (par value)	$ 758,075,278
Total	$ 758,075,278
Hedging derivatives—interest rate swaps (notional)	$ 649,029,000
Hedging derivatives—cross-currency swaps (notional)	109,046,278
Total	$ 758,075,278

7. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Repurchase agreements as of and for the years ended December 31, 2022 and 2021, consist of the following:

	2022	2021
Securities sold under agreements to repurchase at year-end	$ -	$ -
Maximum amount of outstanding agreements at any month-end during the year	226,153,193	4,586,400
Average amount outstanding during the year	29,310,532	382,200
Weighted-average interest rate at year-end	0 %	0 %

8. BORROWINGS

At December 31, 2022 and 2021, borrowing instruments included the following:

	2022	2021
Commercial paper (CP)	$ 608,829,056	$ 746,695,783

Borrowings with original maturities of one year or less are considered short term borrowings.

The CP program is primarily a short-term funding source for the Branch. The issuing of CP may be done on a daily basis with maturities ranging from one day to one year with an expected volume no greater than $2,000,000,000. Each transaction is based on prevailing market rates at the time the contract is entered into. At December 31, 2022, the weighted-average interest rate on the CP program was 4.42% and maturities ranged from January 2023 through October 2023.

In March 2020, the Branch entered into a borrowing agreement with a financial institution. The borrowing's contractual rate was based on LIBOR plus a spread. The interest rate on the borrowing was 1.41% with a maturity date during April 2021. At December 31, 2021, the Branch did not have any outstanding borrowings from financial institutions.

At December 31, 2022 and 2021, the Branch had total assets of approximately $321,568,000 and $456,000,000, respectively, (see Notes 2 and 3) pledged to secure additional potential borrowing capacity with the Federal Reserve Bank. At December 31, 2022 and 2021, there were no outstanding borrowings related to this borrowing facility.

During the year ended December 31, 2020, the Branch entered into an agreement with the Federal Reserve Bank to participate in the CP Funding Facility in order to secure additional potential borrowing capacity. The fee associated with this agreement was approximately $2,000,000, and was amortized over the term of the agreement. During the year ended December 31, 2021, the Branch recognized expense of approximately $416,000, which is included in interest expense-borrowings in the accompanying statements of operations and comprehensive income. The agreement matured in March 2021 and there were no outstanding borrowings related to the facility as of December 31, 2021.

9. OPERATING LEASES

The Branch rents its office space and parking lot facilities from an affiliated company through an operating lease expiring in 2026 with one renewal option of five years. The Branch believes that this renewal option will be exercised and there are no plans to terminate the lease, therefore, the renewal option is reflected in the ROU asset. The Branch is obligated to pay a portion of the property taxes, insurance and maintenance for the lease.

Operating lease assets and liabilities as of December 31, 2022 are as follows:

Operating lease ROU asset	$ 12,291,747
Current portion of operating lease liability	$ 1,352,685
Non-current portion of operating lease liability	11,379,120
Operating lease liability	$ 12,731,805

Operating lease ROU asset is included in other assets, while operating lease liability is included in other liabilities in the accompanying statements of assets, liabilities, and Head Office equity.

Total operating lease costs were approximately $1,916,000 and $1,609,000 for the years ended December 31, 2022 and 2021, respectively. Cash amounts included in the measurement of the operating lease liability were approximately $1,343,000 for the year ended December 31, 2022. Operating lease ROU assets obtained in exchange for operating lease obligations were approximately $14,041,000 for the year ended December 31, 2022.

Information associated with the measurement of the remaining operating lease obligations as of December 31, 2022 is as follows:

Weighted average remaining lease term in years	8.33
Weighted average discount rate for operating leases	0.25%

Estimated future minimum lease payments, exclusive of taxes and other charges, are as follows:

Years ending December 31:	
2023	$ 1,382,882
2024	1,424,414
2025	1,467,156
2026	1,511,160
2027	1,556,495
Thereafrer	5,527,799
Total undistcounted cash flows	12,869,906
Less: imputed interest	(138,101)
Total operating lease liabilities	$ 12,731,805

The Branch subleases office space and parking lot facilities to an affiliated company through an operating agreement expiring in 2026. Rental income of approximately $169,000 and $157,000 was recognized for the years ended December 31, 2022 and 2021, respectively, and is included in noninterest income in the accompanying statements of operations and comprehensive income.

10. TRANSACTIONS WITH HEAD OFFICE, BRANCHES, AND AFFILIATES

Balances with the Head Office, branches, and affiliates as of and for the years ended December 31, 2022 and 2021, are as follows:

	2022	2021
Assets:		
Cash and due from banks—pledged	$ 250,000,000	$ 250,000,000
Time deposits due from related institutions	30,000,000	-
Time deposits due from related institutions with original maturity in excess of 90 days	253,485,875	706,975,000
Accrued interest receivable	11,416,946	2,096,807
Derivative instruments	100,282,993	11,607,895
Other assets	225,324	4,184,299
Total assets	645,411,138	974,864,001
Liabilities:		
Derivative instruments	1,347,385	24,604,598
Accrued interest payable	8,737,890	4,695,404
Amounts due to Head Office, Branches and Affiliates	777,499,703	1,385,309,163
Total liabilities	787,584,978	1,414,609,165
Head Office equity	245,983,210	209,407,462
Total liabilities and Head Office equity	1,033,568,188	1,624,016,627
Net liability position	$ (388,157,050)	$ (649,152,626)
Interest income	$ 11,021,336	$ (3,603,319)
Interest expense	17,726,588	304,314
Noninterest income	118,947,599	37,579,184
Noninterest expense	1,951,402	1,680,385

The Branch records certain expenses of the international division of the Head Office that are related to the operations of the Branch. Expenses from the international division of the Head Office amounted to approximately $5,309,000 and $4,335,000 for the years ended December 31, 2022 and 2021, respectively.

The net expense from derivative instruments with Head Office amounted to approximately $865,000 and $7,002,000 for the years ended December 31, 2022 and 2021, respectively.

The Branch has entered into swaps with its Head Office. The nominal values of these instruments as of December 31, 2022 and 2021 total approximately $989,353,000 and $871,565,000, respectively (see Note 6).

As of December 31, 2022 and 2021, the Branch held a dollar deposit balance with a related party in the amount of $250,000,000 that was pledged for purposes of a regulatory requirement (see Note 15), which is included in due from related institution—pledged on the statements of assets, liabilities, and Head Office equity.

Time deposits due from the Head Office amounted to approximately $283,486,000 and $706,975,000 as of December 31, 2022 and 2021, respectively. These time deposits have original maturities ranging from 4 months to 5 years and earn interest at a weighted average rate of 5.45% and 0.61% for the years ended December 31, 2022 and 2021, respectively.

Borrowings from the Head Office amounted to approximately $275,000,000 and $1,375,000,000 as of December 31, 2022 and 2021, respectively, and are included within amounts due to Head Office, branches, and affiliates within the accompanying statements of assets, liabilities, and Head Office equity. These borrowings are short term and earn interest at a weighted average rate of 4.92% and 0.15% for the years ended December 31, 2022 and 2021, respectively.

Demand deposits from the Head Office and affiliates amounted to approximately $502,500,000 and $10,309,000 as of December 31, 2022 and 2021, respectively, are included within amounts due to Head Office, branches, and affiliates within the accompanying statements of assets, liabilities, and Head Office equity.

11. INCOME TAXES

The components of income tax benefit for the years ended December 31, 2022 and 2021, were as follows:

	2022	2021
Current:		
Federal	$ 2,709,761	$ -
State	751,005	-
	3,460,766	-
Deferred taxes:		
Federal	(7,406,387)	(1,767,521)
State	(1,532,417)	(235,051)
	(8,938,804)	(2,002,572)
Income tax benefit	$ (5,478,038)	$ (2,002,572)

The major permanent differences between the results in operations and U.S. taxable income are non-effectively connected and related party income and the corresponding disallowance of interest expense and operating expense. Effectively connected securities that create the deferred tax liabilities for unrealized appreciation of securities available for sale—hedged, are being hedged by derivatives with a related party (see Note 10). Therefore, the value of the associated derivatives is not included in the net deferred tax assets, and represents a major permanent difference.

At December 31, 2022, the Branch had a federal income tax payable of approximately $2,788,000, which is included in other liabilities in the accompanying statement of assets, liabilities and Head Office equity. At December 31, 2021, the Branch had a federal income tax receivable of approximately $288,000, which is included in other assets in the accompanying statement of assets, liabilities, and Head Office equity.

The total deferred tax assets and liabilities at December 31, 2022 and 2021, are as follows:

	2022	2021
Deferred tax assets:		
Lease liability	$ 3,227,491	$ -
Allowance for loan losses	2,659,367	3,257,626
Deferred loan fees and discounts—net	908,609	908,609
Net operating loss carryforwards	-	1,477,120
Unrealized loss on securities available for sale - hedged	6,519,490	-
Other	-	122,758
Total deferred tax assets	13,314,957	5,766,113
Deferred tax liabilities:		
Operating lease ROU asset	(3,115,958)	-
Depreciation	(495,379)	(715,768)
Market premiums-net	(296,241)	(296,241)
Unrealized gains on securities available for sale—hedged	-	(4,285,529)
Total deferred tax liabilities	(3,907,578)	(5,297,538)
Net deferred tax assets before unrealized (loss) gain on investments in securities available for sale—non-hedged	9,407,379	468,575
Unrealized (loss) gain on securities available for sale—non-hedged	(244,396)	705,113
Net deferred tax assets	$ 9,162,983	$ 1,173,688

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not, based on an evaluation of both positive and negative evidence as defined in FASB Accounting Standards Codification (ASC) 740, *Income Taxes*, that some portion or all of the deferred tax assets will not be realized. Although management believes that these deferred tax assets will ultimately be realized, it must recognize that such realization is dependent on the generation of future taxable income during periods in which the temporary differences are deductible. Under FASB ASC 740, management must consider the scheduled reversal of deferred tax assets, projected future taxable income, and tax-planning strategies in making this assessment. Management evaluated all available evidence, both positive and negative, and based on consideration of this evidence, which included earnings/loss history and anticipated future pretax income, as well as the reversal period for the items giving rise to the deferred tax assets and liabilities, and management concluded that it was more likely than not that its net deferred tax asset would be realized as of December 31, 2022 and 2021. Based on these factors, management has recorded no valuation allowance as of December 31, 2022 and 2021.

The Branch accounts for uncertainty in income taxes by recognizing in its financial statements the tax effects of a position only if it is more likely than not to be sustained based solely on its technical merits; otherwise, no benefits of the position are to be recognized. Moreover, the more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. As of December 31, 2022 and 2021, the Branch has not recorded any unrecognized tax benefits in the accompanying statements of assets, liabilities, and Head Office equity. Management does not expect that unrecognized tax benefits will increase within the next 12 months. In the event the Branch was to recognize interest and penalties related to uncertain tax positions, they would be recognized in the financial statements as income tax expense. The Branch’s tax years subject to federal and state examinations are 2019 through 2022.

12. EMPLOYEE BENEFIT PLAN

The Branch has implemented a 401(k) retirement plan. Employees who are 21 years of age and who have completed three months of service are eligible to participate as of the first day of the calendar month following the completion of three months of service. The Branch made total matching contributions of approximately $280,000 and $242,000 during 2022 and 2021, respectively.

13. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Branch is a party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include unused lines of credit commitments, standby letters of credit, issued or confirmed commercial letters of credit, and overdraft facilities. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the statements of assets, liabilities, and Head Office equity. The contract amounts of those instruments reflect the extent of involvement the Branch has in particular classes of financial instruments. The total contractual amounts of the off-balance-sheet risk at December 31, 2022 and 2021, are as follows:

	2022	2021
Standby letters of credit	$ 244,709,000	$ 141,376,000
Commitment to extend credit, including overdraft facilities	436,543,000	478,240,000
Issued or confirmed commercial letters of credit	1,994,000	1,730,000

Standby letters of credit are conditional commitments issued by the Branch to guarantee the performance of a customer to a third party. Standby letters of credit have fixed maturity dates, and since many of them expire without being drawn, they do not generally present a significant liquidity risk to the Branch. As of December 31, 2022, the Branch's standby letters of credit range in term from 1 to 22 months.

The Branch's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for standby letters of credit and guarantees is represented by the contractual amounts of those instruments. The Branch uses the same credit policies in establishing conditional obligations as it does for on-balance-sheet instruments.

The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies, but may include cash, accounts receivable, inventory, equipment, marketable securities, and property. Since certain letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements.

Contingencies—The Branch is involved in various legal actions arising in the ordinary course of business. In the opinion of management, the outcome of these proceedings will not have a significant effect on the Branch's financial position or results of operations.

14. FAIR VALUE MEASUREMENTS

Recurring—The Branch's fair value hierarchy for those assets measured at fair value on a recurring basis at December 31, 2022 and 2021, is as follows:

	December 31, 2022		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Securities available for sale:			
Corporate debt securities	$ -	$ 61,235,622	$ -
Corporate capital equivalency deposit debt securities	-	91,934,275	-
Chilean government debt securities	-	442,462,410	-
Student loan asset-backed securities	-	-	3,826,845
U.S. Treasury bond	-	106,296,091	-
Derivative instruments:			
Derivative assets	-	100,472,254	-
Derivative liabilities	-	(10,783,598)	-

	December 31, 2021		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Securities available for sale:			
Corporate debt securities	$ -	$ 69,625,841	$ -
Corporate capital equivalency deposit debt securities	-	105,102,062	-
Chilean government debt securities	-	520,342,388	-
Student loan asset-backed securities	-	-	3,968,190
Derivative instruments:			
Derivative assets	-	15,181,481	-
Derivative liabilities	-	(25,172,536)	-

Level 2 Valuation Techniques—The valuation of the securities available for sale is performed through a monthly pricing process using data of independent pricing providers. These pricing providers collect, use, and incorporate descriptive market data from various sources, quotes, and indicators from leading broker-dealers to generate independent and objective valuations. The valuation of the derivatives is performed through a discounted cash flow model using forward LIBOR curves and the contractual terms of the derivative instrument.

The valuation techniques and the inputs used in our financial statements to measure the fair value of our recurring financial instruments include, among other things, the following:

- Similar securities actively traded that are selected from recent market transactions.
- Observable market data that includes spreads in relationship to LIBOR, swap curve, and prepayment speed rates, as applicable.
- The captured spread and prepayment speed are used to obtain the fair value for each related security.

The methods described above may produce a fair value calculation that may differ from the net realizable value or may not be reflective of future fair values. Furthermore, while the Branch believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of its available-for-sale securities portfolios could result in a different estimate of fair value at the reporting date.

Level 3 Valuation Techniques—Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies, or similar techniques and at least one significant model assumption or input is unobservable. The fair value of the student loan asset-backed security is estimated using proprietary valuation models that utilize both market observable and unobservable parameters. The valuation technique and inputs used in the financial statements to measure the fair value include discounting the weighted-average cash flow for each period back to present value at the determined discount rate for the instrument.

The table below includes a roll-forward of the amounts related to the financial instrument classified by the Branch within Level 3 of the valuation hierarchy on the statements of assets, liabilities, and Head Office equity as of and for the years ended December 31, 2022 and 2021, including the change in fair value. When a determination is made to classify a financial instrument within Level 3, it is due to the use of significant unobservable inputs. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated with external sources); accordingly, the gains and losses in the table below include changes in the fair value due, in part, to observable factors that are part of the valuation methodology:

	Securities Available for Sale
Balance—December 31, 2020	$ 3,847,905
Change in unrealized loss included in statements of other comprehensive income	120,285
Balance—December 31, 2021	3,968,190
Change in unrealized loss included in statements of other comprehensive income	(141,348)
Balance—December 31, 2022	$ 3,826,842

The information at December 31, 2022, about significant unobservable inputs related to the Branch's Level 3 financial asset measured on a recurring basis is as follows:

Financial Instrument	Fair Value	Valuation Technique	Significant Unobservable Inputs	Ranges of Inputs	Weighted Average
Student loan asset-backed security	$3,826,842	Discounted cash flow model	Principal-returned probability	95.13%–95.34%	95.24%
			Default probability	4.62%–4.81%	4.72%
			Liquidity risk premium	3.50%–4.5%	4.00%
			Recovery rate	40%–60%	50.00%
			Maximum rate probability	0.04%–0.05%	0.05%

The information at December 31, 2021, about significant unobservable inputs related to the Branch's Level 3 financial asset measured on a recurring basis is as follows:

Financial Instrument	Fair Value	Valuation Technique	Significant Unobservable Inputs	Ranges of Inputs	Weighted Average
Student loan asset-backed security	$3,968,190	Discounted cash flow model	Principal-returned probability	95.16%–95.35%	95.26%
			Default probability	4.62%–4.82%	4.72%
			Liquidity risk premium	2.00%–3.00%	2.50%
			Recovery rate	40%–60%	50.00%
			Maximum rate probability	0.03%-0.04%	0.02%

Nonrecurring—Under certain circumstances, the Branch makes adjustments to fair value for its assets and liabilities although these are not measured at fair value on an ongoing basis.

Adjustments of impaired loans are estimated using the present value of expected cash flows or the appraised value of the underlying collateral discounted as necessary due to management's estimates of changes in economic conditions. The Bank's impaired loans are classified in Level 3 of the fair value hierarchy since the valuation technique requires inputs that are both significant and unobservable.

At December 31, 2022 and 2021, the Branch recorded a nonrecurring change in fair value for one impaired loan as follows:

			December 31, 2022		
	Valuation Technique	Total	Quoted Prices in Active Markets for Identical Aassets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	Discounted cash flows	$ 6,041,143	$ -	$ -	$ 6,041,143

			December 31, 2021		
	Valuation Technique	Total	Quoted Prices in Active Markets for Identical Aassets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	Discounted cash flows	$ 7,000,000	$ -	$ -	$ 7,000,000

There were no liabilities measured at fair value on a nonrecurring basis at December 31, 2022 and 2021.

15. REGULATORY MATTERS

The Florida Department of Financial Services (the "Department of Financial Services") requires international banking branches to maintain assets, excluding accrued income and amounts due from affiliates, equal to 107% of liabilities, as defined by the Department of Financial Services ("Asset Maintenance Requirement"). As an alternative, the Department of Financial Services may, by rule, permit an international banking branch to maintain dollar deposits or investment securities in an amount specified by the Department of Financial Services in a state bank. The amount of such dollar deposits or investment securities shall equal, at a minimum, the greater of $4,000,000 or 7% of the international banking branch's total liabilities, as defined by the Department of Financial Services ("Capital Equivalency Requirement"). The Branch has elected to comply with the Capital Equivalency Requirement. A dollar deposit was placed with a related institution (see Note 10) that is pledged to the Department of Financial Services in order to be in compliance with this regulatory requirement. At December 31, 2022 and 2021, the Branch was in compliance with the Capital Equivalency Requirement.

16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date that the financial statements were available to be issued on February 27, 2023. The Branch has not identified any events that would require disclosure or have a material impact on the financial position, results of operations and comprehensive income, or cash flows of the Branch as of and for the year ended December 31, 2022.

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