

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

Financial Statements as of and for the Years Ended
December 31, 2020 and 2019, Supplemental
Information Schedule as of December 31, 2020,
and Independent Auditors' Report

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

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1–2
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019:	
Statements of Assets, Liabilities, and Head Office Equity	3
Statements of Operations and Comprehensive Income	4
Statements of Changes in Head Office Equity	5
Statements of Cash Flows	6–7
Notes to Financial Statements	8–36
SUPPLEMENTAL INFORMATION SCHEDULE AS OF DECEMBER 31, 2020—	37
Supplemental Information Schedule	38

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Banco de Credito e Inversiones, S.A.:

We have audited the accompanying financial statements of Banco de Credito e Inversiones, S.A., Miami Branch (the "Branch"), which comprise the statements of assets, liabilities, and head office equity as of December 31, 2020 and 2019, 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Branch as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Information Schedule

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information schedule listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements. This supplemental information schedule is the responsibility of the Branch's management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such supplemental information schedule has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling supplemental information such schedule directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such supplemental information schedule is fairly stated, in all material respects, in relation to the financial statements as a whole.

Deloitte & Touche LLP

January 25, 2021

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

STATEMENTS OF ASSETS, LIABILITIES, AND HEAD OFFICE EQUITY AS OF DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
CASH AND DUE FROM BANKS	\$ 27,419,906	\$ 26,732,847
DUE FROM RELATED INSTITUTION—Pledged	250,000,000	250,000,000
FEDERAL FUNDS SOLD AND OVERNIGHT INVESTMENTS	1,187,472,576	774,567,858
TIME DEPOSITS DUE FROM RELATED INSTITUTIONS	<u>10,000,000</u>	<u>195,034,094</u>
Total cash and cash equivalents	1,474,892,482	1,246,334,799
TIME DEPOSITS DUE FROM RELATED INSTITUTIONS WITH ORIGINAL MATURITIES IN EXCESS OF 90 DAYS	399,149,000	1,136,910,650
SECURITIES AVAILABLE FOR SALE	586,463,493	372,385,526
LOANS—Net	1,682,703,329	1,689,529,695
ACCRUED INTEREST RECEIVABLE	16,400,167	26,201,328
PREMISES AND EQUIPMENT—Net	4,526,604	4,890,438
DERIVATIVE INSTRUMENTS	5,403,460	2,444,100
DEFERRED TAX ASSET	202,919	5,418,588
OTHER ASSETS	<u>13,329,964</u>	<u>12,755,699</u>
TOTAL	<u>\$4,183,071,418</u>	<u>\$4,496,870,823</u>
LIABILITIES AND HEAD OFFICE EQUITY		
DEPOSITS:		
Demand:		
Noninterest bearing	\$ 374,911,348	\$ 258,174,650
Interest bearing	108,477,427	60,264,978
Time	<u>1,253,552,631</u>	<u>1,692,896,808</u>
Total deposits	1,736,941,406	2,011,336,436
AMOUNTS DUE TO HEAD OFFICE, BRANCHES, AND AFFILIATES	736,422,597	214,020,539
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE	-	244,761,498
BORROWINGS	1,436,054,680	1,760,010,744
DERIVATIVE INSTRUMENTS	52,202,410	19,469,421
ACCRUED INTEREST PAYABLE	6,154,841	12,718,743
PURCHASED LOAN LIABILITIES	11,158,000	45,005,179
OTHER LIABILITIES	<u>15,627,011</u>	<u>6,760,598</u>
Total liabilities	<u>3,994,560,945</u>	<u>4,314,083,158</u>
COMMITMENTS AND CONTINGENCIES (Note 12)		
HEAD OFFICE EQUITY:		
Assigned capital	19,413,389	19,413,389
Accumulated earnings	164,918,094	161,099,360
Accumulated other comprehensive income	<u>4,178,990</u>	<u>2,274,916</u>
Total head office equity	<u>188,510,473</u>	<u>182,787,665</u>
TOTAL	<u>\$4,183,071,418</u>	<u>\$4,496,870,823</u>

See 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, 2020 AND 2019

	2020	2019
INTEREST INCOME:		
Loans	\$48,225,989	\$ 81,862,205
Federal funds sold and overnight investments	4,756,036	22,894,589
Securities	9,744,969	9,495,842
Time deposits due from banks and related institutions	<u>16,033,423</u>	<u>38,396,662</u>
Total interest income	<u>78,760,417</u>	<u>152,649,298</u>
INTEREST EXPENSE:		
Deposits	15,992,641	43,356,693
Borrowings	<u>25,332,437</u>	<u>67,005,608</u>
Total interest expense	<u>41,325,078</u>	<u>110,362,301</u>
NET INTEREST INCOME	37,435,339	42,286,997
PROVISION FOR LOAN LOSSES	<u>8,654,378</u>	<u>4,004,014</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>28,780,961</u>	<u>38,282,983</u>
NONINTEREST INCOME (LOSS):		
Service fees and charges	3,170,968	2,467,866
Securities and derivative instruments gain (loss)—net	2,215,486	(18,041)
Other	<u>(461,839)</u>	<u>(167,268)</u>
Total noninterest income	<u>4,924,615</u>	<u>2,282,557</u>
NONINTEREST EXPENSE:		
Salaries and employee benefits	15,449,250	15,041,944
Occupancy	2,006,762	2,382,658
Depreciation and amortization	1,051,047	890,911
Communications	450,733	304,274
Professional fees—legal	297,758	149,967
Professional fees—other fees	1,110,263	1,739,011
Other operating	<u>2,836,704</u>	<u>2,792,394</u>
Total noninterest expense	<u>23,202,517</u>	<u>23,301,159</u>
NET INCOME BEFORE INCOME TAX EXPENSE	10,503,059	17,264,381
INCOME TAX EXPENSE	<u>6,684,325</u>	<u>4,258,611</u>
NET INCOME	<u>3,818,734</u>	<u>13,005,770</u>
OTHER COMPREHENSIVE INCOME:		
Change in net unrealized holding gain on securities available for sale	4,119,560	9,169,708
Reclassification adjustment for (gain) loss—net included in net income	<u>(2,215,486)</u>	<u>18,041</u>
Total other comprehensive income	<u>1,904,074</u>	<u>9,187,749</u>
COMPREHENSIVE INCOME	<u>\$ 5,722,808</u>	<u>\$ 22,193,519</u>

See 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, 2020 AND 2019

	Assigned Capital	Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Total Head Office Equity
BALANCE—December 31, 2018	\$ 19,413,389	\$ 148,066,277	\$ (6,885,520)	\$ 160,594,146
Net income	-	13,005,770	-	13,005,770
Other comprehensive income	-	-	9,187,749	9,187,749
Stranded income tax effect from Tax Cuts and Jobs Act	<u>-</u>	<u>27,313</u>	<u>(27,313)</u>	<u>-</u>
BALANCE—December 31, 2019	19,413,389	161,099,360	2,274,916	182,787,665
Net income	-	3,818,734	-	3,818,734
Other comprehensive income	<u>-</u>	<u>-</u>	<u>1,904,074</u>	<u>1,904,074</u>
BALANCE—December 31, 2020	<u>\$ 19,413,389</u>	<u>\$ 164,918,094</u>	<u>\$ 4,178,990</u>	<u>\$ 188,510,473</u>

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,818,734	\$ 13,005,770
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,051,047	890,911
Deferred tax provision	6,972,073	4,432,535
Provision for loan losses	8,654,378	4,004,014
(Reversal of) provision for off-balance sheet credit loss	(178,213)	370,834
Securities and derivative instruments (gain) loss—net	(2,215,486)	18,041
Loss on sales of loans—net	576,477	162,602
Unrealized (gain) loss on derivatives	(18,867)	9,767
Net (discount accretion) premium amortization on securities	(340,531)	(157,417)
Amortization of discounts on borrowings	18,294,972	47,597,451
Net accretion of deferred loan fees and discounts	(3,158,316)	(7,335,872)
Changes in assets and liabilities:		
Accrued interest receivables	9,801,161	(7,329,215)
Derivative instruments	121,453	-
Other assets	(1,630,107)	(484,078)
Accrued interest payables	(6,563,902)	1,963,636
Other liabilities	(952,993)	(250,125)
Net cash provided by operating activities	<u>34,231,880</u>	<u>56,898,854</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease (increase) in time deposits due from related institutions	737,761,650	(631,410,650)
Purchases of securities available for sale	(252,581,643)	(121,938,029)
Maturities, sales, and calls of investment securities	70,878,405	4,692,080
Proceeds from sales of loans	22,804,446	88,326,706
Net (increase) decrease in loans	(44,844,336)	117,992,496
Net (increase) decrease in customers' acceptance liability	(9,997,620)	183,443
Purchase of premises and equipment	(687,213)	(4,440,332)
Net cash provided by (used in) investing activities	<u>523,333,689</u>	<u>(546,594,286)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Decrease) increase in deposits	(274,395,030)	446,656,079
Increase in amounts due to Head Office, branches, and affiliates	522,402,058	76,219,391
(Decrease) increase in securities sold under agreements to repurchase	(244,761,498)	69,005,898
Net increase (decrease) in acceptances outstanding	9,997,620	(183,443)
Net change in short term debt	(367,251,036)	33,278,871
Long term debt:		
Proceeds from Issuance	25,000,000	-
Payments of long term debt	-	(5,000,000)
Net cash (used in) provided by financing activities	<u>(329,007,886)</u>	<u>619,976,796</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	228,557,683	130,281,364
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>1,246,334,799</u>	<u>1,116,053,435</u>
End of year	<u>\$1,474,892,482</u>	<u>\$1,246,334,799</u>

(Continued)

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

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	<u>\$ 47,888,981</u>	<u>\$ 108,398,665</u>
Taxes paid	<u>\$ -</u>	<u>\$ -</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:		
Loans sold pending receipt of proceeds	<u>\$ -</u>	<u>\$ 11,053,462</u>
Loans purchased pending payment	<u>\$ 11,158,000</u>	<u>\$ 45,005,179</u>
See notes to financial statements.		(Concluded)

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

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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 accounting principles generally accepted in the United States of America (US 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.

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 \$4,126,000 and \$4,123,000 for the years ended December 31, 2020 and 2019, respectively.

Estimates—The preparation of financial statements in conformity with US 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 and the valuation of certain securities available for sale (Level 3) and 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.

Trading Account Securities—Trading account securities are stated at fair value. Trading account securities are held in anticipation of short-term market movements. Gains or losses on the sale of trading account securities as well as unrealized fair value adjustments are included in other operating income. The Branch did not hold any trading account securities as of December 31, 2020 and 2019.

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 other comprehensive income 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.

Securities Held to Maturity—Investments in debt securities to be held to maturity are carried at amortized cost as the Branch has both the intent and ability to hold these securities to maturity. Premiums and discounts on investment securities are amortized and accreted to interest income over the life of the securities using a method which approximates the level-yield method. The Branch did not hold any securities held to maturity as of December 31, 2020 and 2019.

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

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 is computed using the straight-line method over the estimated useful lives of the related assets.

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 the noninterest income. 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 effective portion of the change in fair value of the derivative is recorded in other comprehensive income and the ineffective portion 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 on a straight-line basis over the term of the corresponding letter of credit.

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.

Disclosure of Significant Concentrations—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 United States of America 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.

Foreign Currency Transactions—Substantially all operational financial instruments of the Branch are denominated in US dollars. Foreign currencies are translated into US 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.

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.

For positions taken or expected to be taken in a tax return, the Branch recognizes 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 US 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).

New Accounting Pronouncements—During February 2016, and clarified in July 2018 and December 2018, the Financial Accounting Standards Board (FASB) issued guidance on lease accounting. The guidance introduces a lessee model that brings most leases on to the balance sheet. 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. ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, issued in June 2020, deferred the effective date for the adoption of the standard. The adoption of this guidance is effective for the Branch for the year ending December 31, 2022. Early adoption is permitted. The Branch is evaluating the effects that this guidance will have on the Branch’s financial position, results from operations, cash flows, and financial statement disclosure.

During June 2016, the FASB issued guidance that 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 adoption of this guidance is effective for the Branch for the year ending December 31, 2023. Early adoption is permitted. The Branch is evaluating the effects that this guidance will have on the Branch’s financial position, results of operations, cash flows, and financial statement disclosure.

During March 2017, the FASB issued guidance on receivables-nonrefundable fees and other costs on purchased callable debt securities. This guidance shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments to the guidance require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be accreted to maturity. This amended guidance is effective for the Branch for the year ending December 31, 2020. The guidance was adopted by the

Branch for the year ended December 31, 2020, 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 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, deferred the effective date for the adoption of the standard. The guidance is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. The Branch is evaluating the effects that this guidance will have on the Branch's financial position, results of operations, cash flows, and financial statement disclosure.

During August 2018, the FASB issued guidance that modifies disclosure requirements on fair value measurements. This ASU removes requirements to disclose, (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, and (2) the policy for timing of transfers between levels and the valuation processes for Level 3 fair value measurements. ASU 2018-13, *Fair Value Measurement*, clarifies that, disclosure regarding measurement uncertainty, is intended to communicate information about the uncertainty in measurement, as of the reporting date. ASU 2018-13 adds certain disclosure requirements, including (1) disclosure of changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements, and (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The adoption of this guidance is effective for the Branch for the year ending December 31, 2020. The guidance was adopted by the Branch for the year ended December 31, 2020, 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 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. 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 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, 2020. As contracts are modified through December 31, 2022, the Branch will assess the impact based on this guidance. The Branch does not expect there will be a significant impact on the Branch's financial position, results of its operations, cash flows, or financial statement disclosure.

2. SECURITIES

The amortized cost and estimated fair value of securities available for sale at December 31, 2020 and 2019, are summarized as follows:

	2020			
	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
Available for sale:				
Student loan asset-backed securities	\$ 4,050,000	\$ -	\$ (202,095)	\$ 3,847,905
Corporate debt securities	121,644,237	7,382,196	(66,514)	128,959,919
Chilean government debt securities	<u>411,509,366</u>	<u>42,499,923</u>	<u>(353,620)</u>	<u>453,655,669</u>
	<u>\$ 537,203,603</u>	<u>\$ 49,882,119</u>	<u>\$ (622,229)</u>	<u>\$ 586,463,493</u>
	2019			
	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
Available for sale:				
Student loan asset-backed securities	\$ 4,050,000	\$ -	\$ (293,479)	\$ 3,756,521
Corporate debt securities	92,866,282	3,683,708	(66,856)	96,483,134
Chilean government debt securities	<u>256,149,521</u>	<u>17,290,800</u>	<u>(1,294,450)</u>	<u>272,145,871</u>
	<u>\$ 353,065,803</u>	<u>\$ 20,974,508</u>	<u>\$ (1,654,785)</u>	<u>\$ 372,385,526</u>

Securities available for sale with unrealized losses less than and greater than 12 months at December 31, 2020 and 2019, are as follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2020						
Available for sale:						
Student loan asset-backed securities	\$ -	\$ -	\$ 3,847,905	\$ (202,095)	\$ 3,847,905	\$ (202,095)
Corporate debt securities	26,511,751	(66,514)	-	-	26,511,751	(66,514)
Chilean government debt securities	<u>-</u>	<u>-</u>	<u>17,267,117</u>	<u>(353,620)</u>	<u>17,267,117</u>	<u>(353,620)</u>
	<u>\$26,511,751</u>	<u>\$ (66,514)</u>	<u>\$21,115,022</u>	<u>\$ (555,715)</u>	<u>\$47,626,773</u>	<u>\$ (622,229)</u>

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2019						
Available for sale:						
Student loan asset-backed securities	\$ -	\$ -	\$3,756,521	\$(293,479)	\$ 3,756,521	\$ (293,479)
Corporate debt securities	5,170,956	(66,856)	-	-	5,170,956	(66,856)
Chilean government debt securities	<u>41,894,751</u>	<u>(1,294,450)</u>	<u>-</u>	<u>-</u>	<u>41,894,751</u>	<u>(1,294,450)</u>
	<u>\$47,065,707</u>	<u>\$(1,361,306)</u>	<u>\$3,756,521</u>	<u>\$(293,479)</u>	<u>\$50,822,228</u>	<u>\$(1,654,785)</u>

In evaluating whether an other-than-temporary decline in value has occurred in its securities portfolio at December 31, 2020 and 2019, 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. In addition, management expects that these would not be settled at a price less than the carrying amount.

As of December 31, 2020 and 2019, 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 composed 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, and Chilean government securities classified as available for sale at December 31, 2020, are as follows:

	Amortized Cost	Fair Value
Due within one year	\$ -	\$ -
Due within one and five years	69,446,016	72,949,207
Due within five and ten years	259,763,726	295,851,657
Due after 10 years	<u>207,993,861</u>	<u>217,662,629</u>
	<u>\$ 537,203,603</u>	<u>\$ 586,463,493</u>

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, 2020 and 2019, securities available for sale totaling \$434,746,278 and \$281,238,360, respectively, are hedged by derivative financial instruments.

The Branch recognized gross realized gains and losses on the sale of available-for-sale securities during the year ended December 31, 2020, of approximately \$2,412,000 and \$318,000, respectively. The Branch recognized gross realized gains and losses on the sale of available-for-sale securities during the year ended December 31, 2019, of approximately \$20,000 and \$38,000, respectively.

At December 31, 2020, securities available for sale totaling \$200,000,000 are pledged as collateral to secure potential borrowing capacity with the Federal Reserve Bank. At December 31, 2019, securities available for sale totaling \$263,173,560, are pledged as collateral for securities sold under agreements to repurchase.

3. LOANS AND ALLOWANCE FOR LOAN LOSSES

At December 31, 2020 and 2019, the Branch had loans outstanding as follows:

	2020	2019
Commercial	\$1,322,262,122	\$1,367,499,089
Financial institutions	382,009,457	340,209,749
Individual	<u>7,536,572</u>	<u>2,555,480</u>
	1,711,808,151	1,710,264,318
Less:		
Allowance for loan losses	(27,471,904)	(18,862,790)
Deferred loan fees	(2,689,371)	(3,236,553)
Premiums—net	<u>1,056,453</u>	<u>1,364,720</u>
	<u>\$1,682,703,329</u>	<u>\$1,689,529,695</u>

As of December 31, 2020 and 2019, the Branch's loan portfolio consists mainly of working capital loans, trade financing loans, personal loans, syndicated loans, and discounted acceptances.

At December 31, 2020, the Branch had loans outstanding with risk in the following countries:

	Commercial	Financial Institutions	Individual	Total
United States	\$ 775,960,205	\$ 10,030,839	\$ 1,318,072	\$ 787,309,116
Chile	266,794,815	12,402,150	6,218,500	285,415,465
Brazil	1,397,059	257,924,715	-	259,321,774
Peru	163,791,970	-	-	163,791,970
Mexico	83,830,346	23,125,000	-	106,955,346
Colombia	25,666,667	-	-	25,666,667
Guatemala	1,821,060	19,999,999	-	21,821,059
Panama	3,000,000	14,400,000	-	17,400,000
Japan	-	16,931,663	-	16,931,663
Paraguay	-	13,195,091	-	13,195,091
Dominican Republic	-	10,000,000	-	10,000,000
Costa Rica	-	4,000,000	-	4,000,000
	<u>\$1,322,262,122</u>	<u>\$ 382,009,457</u>	<u>\$ 7,536,572</u>	<u>\$1,711,808,151</u>

At December 31, 2019, the Branch had loans outstanding with risk in the following countries:

	Commercial	Financial Institutions	Individual	Total
United States	\$ 809,550,231	\$ -	\$ 2,055,480	\$ 811,605,711
Brazil	59,129,269	191,873,573	-	251,002,842
Peru	154,054,011	-	-	154,054,011
Colombia	89,000,000	65,000,000	-	154,000,000
Chile	115,903,948	-	500,000	116,403,948
Mexico	77,822,656	29,000,000	-	106,822,656
Panama	30,200,000	41,336,176	-	71,536,176
Guatemala	17,010,000	13,000,000	-	30,010,000
Canada	9,228,974	-	-	9,228,974
Paraguay	5,600,000	-	-	5,600,000
	<u>\$1,367,499,089</u>	<u>\$ 340,209,749</u>	<u>\$ 2,555,480</u>	<u>\$1,710,264,318</u>

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.

As a result of the economic impacts caused by the Covid-19 pandemic during the year ended December 31, 2020, Management increased the frequency of the reviews of the existing loan portfolio. The portfolio was also split into 3 categories, minimal, moderate, and severe, based on the potential impact of the pandemic to the borrower. 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. 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.

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.

Nonaccrual loans segregated by class of loans at December 31, 2020, are as follows:

Commercial	\$ 5,648,437
Financial institutions	-
Individual	-
	<u>\$ 5,648,437</u>

At December 31, 2019, the Branch did not have any nonaccrual loans.

Interest income that would have been recorded on nonaccrual loans, if such loans were performing in accordance with their original terms, for the year ended December 31, 2020, was approximately \$370,000.

An age analysis of past due loans, segregated by class of loans, at December 31, 2020, 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
Commercial	\$ -	\$5,648,437	\$5,648,437	\$ -	\$5,648,437	\$ -
Financial institutions	-	-	-	-	-	-
Individual	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$5,648,437</u>	<u>\$5,648,437</u>	<u>\$ -</u>	<u>\$5,648,437</u>	<u>\$ -</u>

At December 31, 2019, the Branch did not have any past-due loans.

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, 2020 and 2019, are set forth as follows:

	Unpaid Contractual Principal Balance	Recorded Investment with no Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
2020						
Commercial	\$12,648,437	\$ -	\$12,648,437	\$12,648,437	\$3,903,182	\$12,648,437
Financial institution	-	-	-	-	-	-
Individuals	-	-	-	-	-	-
Total	<u>\$12,648,437</u>	<u>\$ -</u>	<u>\$12,648,437</u>	<u>\$12,648,437</u>	<u>\$3,903,182</u>	<u>\$12,648,437</u>
	Unpaid Contractual Principal Balance	Recorded Investment with no Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
2019						
Commercial	\$5,648,437	\$ -	\$5,648,437	\$5,648,437	\$1,242,656	\$5,870,239
Financial institution	-	-	-	-	-	-
Individuals	-	-	-	-	-	-
Total	<u>\$5,648,437</u>	<u>\$ -</u>	<u>\$5,648,437</u>	<u>\$5,648,437</u>	<u>\$1,242,656</u>	<u>\$5,870,239</u>

The Branch recorded a provision for loan losses related to impaired loans of \$2,660,526 and \$1,242,656 during the years ended December 31, 2020 and 2019, respectively.

During the years ended December 31, 2020 and 2019, the Branch recorded approximately \$426,000 and \$403,000 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.

The Branch considers loans that were modified as a TDR as impaired loans. During and for the years ended December 31, 2020 and 2019, 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, 2020 and 2019.

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 the London InterBank Offered Rate (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 measurement of impairment used by the Branch is 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 current sound worth 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 this basically worthless 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 segmented by the class of loans at December 31, 2020 and 2019, are presented as follows:

2020	Commercial	Financial Institutions	Individuals	Total
Classification:				
Not criticized	\$1,142,950,318	\$ 382,009,457	\$ 7,536,572	\$1,532,496,347
OLEM	145,288,367	-	-	145,288,367
Substandard	28,375,000	-	-	28,375,000
Doubtful	5,648,437	-	-	5,648,437
Loss	-	-	-	-
Total	<u>\$1,322,262,122</u>	<u>\$ 382,009,457</u>	<u>\$ 7,536,572</u>	<u>\$1,711,808,151</u>
2019	Commercial	Financial Institutions	Individuals	Total
Classification:				
Not criticized	\$1,357,340,724	\$ 340,209,749	\$ 2,555,480	\$1,700,105,953
OLEM	-	-	-	-
Substandard	10,158,365	-	-	10,158,365
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	<u>\$1,367,499,089</u>	<u>\$ 340,209,749</u>	<u>\$ 2,555,480</u>	<u>\$1,710,264,318</u>

Allowance for Loan Loss—Transactions affecting the allowance for loan losses during the years ended December 31, 2020 and 2019, by class of loans; the Branch’s allowance for loan losses for individually allocated and unallocated by class of loans; and the Branch’s loans, by class of loans, related to individually allocated and unallocated allowance for loan losses at December 31, 2020 and 2019, are summarized as follows:

2020	Commercial	Financial Institutions	Individuals	Total
Allowance for loan losses:				
Beginning balance	\$ 15,341,707	\$ 3,493,739	\$ 27,344	\$ 18,862,790
Provision for loan losses	7,991,404	606,474	56,500	8,654,378
Recoveries	12,226	-	-	12,226
Loans charged off	<u>(57,490)</u>	<u>-</u>	<u>-</u>	<u>(57,490)</u>
Ending balance	<u>\$ 23,287,847</u>	<u>\$ 4,100,213</u>	<u>\$ 83,844</u>	<u>\$ 27,471,904</u>
Ending balance—individually evaluated for impairment (individually allocated)	<u>\$ 3,903,182</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,903,182</u>
Ending balance—collectively evaluated for impairment (unallocated)	<u>\$ 19,384,665</u>	<u>\$ 4,100,213</u>	<u>\$ 83,844</u>	<u>\$ 23,568,722</u>
Ending balance—loans acquired with deteriorated credit quality	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
2019	Commercial	Financial Institutions	Individuals	Total
Allowance for loan losses:				
Beginning balance	\$ 11,111,805	\$ 2,910,999	\$ -	\$ 14,022,804
Provision for loan losses	3,393,930	582,740	27,344	4,004,014
Recoveries	835,972	-	-	835,972
Loans charged off	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 15,341,707</u>	<u>\$ 3,493,739</u>	<u>\$ 27,344</u>	<u>\$ 18,862,790</u>
Ending balance—individually evaluated for impairment (individually allocated)	<u>\$ 1,242,656</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,242,656</u>
Ending balance—collectively evaluated for impairment (unallocated)	<u>\$ 14,099,051</u>	<u>\$ 3,493,739</u>	<u>\$ 27,344</u>	<u>\$ 17,620,134</u>
Ending balance—loans acquired with deteriorated credit quality	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Branch's loans grouped by classification segmented by the class of loans at December 31, 2020 and 2019, are presented as follows:

2020	Commercial	Financial Institutions	Individuals	Total
Loans:				
Individually evaluated for impairment	\$ 12,648,437	\$ -	\$ -	\$ 12,648,437
Collectively evaluated for impairment	1,309,613,685	382,009,457	7,536,572	1,699,159,714
Loans acquired with deteriorated credit quality	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,322,262,122</u>	<u>\$ 382,009,457</u>	<u>\$ 7,536,572</u>	<u>\$ 1,711,808,151</u>
2019	Commercial	Financial Institutions	Individuals	Total
Loans:				
Individually evaluated for impairment	\$ 5,648,437	\$ -	\$ -	\$ 5,648,437
Collectively evaluated for impairment	1,361,850,652	340,209,749	2,555,480	1,704,615,881
Loans acquired with deteriorated credit quality	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,367,499,089</u>	<u>\$ 340,209,749</u>	<u>\$ 2,555,480</u>	<u>\$ 1,710,264,318</u>

Purchase and Sale of Loans—During 2020, the Branch purchased and sold approximately \$330,686,000 and \$12,284,000 of loans held for investment, respectively, from and to nonrelated entities. During 2019, the Branch purchased and sold approximately \$796,849,000 and \$99,380,000 of loans held for investment, respectively, from and to nonrelated entities. During 2020 and 2019, the Branch did not purchase loans from affiliates. During 2020 and 2019, 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 2020 and 2019, no loans were transferred between the Branch and Head Office.

At December 31, 2020, loans totaling approximately \$163,543,000 are pledged as collateral to secure potential borrowing capacity with the Federal Reserve Bank. At December 31, 2019, there were no loans pledged as collateral.

4. PREMISES AND EQUIPMENT

At December 31, 2020 and 2019, premises and equipment included the following:

	2020	2019
Furniture, fixtures, and equipment	\$ 6,184,453	\$ 5,905,315
Leasehold improvements	<u>2,887,168</u>	<u>2,476,672</u>
	9,071,621	8,381,987
Less accumulated depreciation and amortization	<u>(4,545,017)</u>	<u>(3,491,549)</u>
	<u>\$ 4,526,604</u>	<u>\$ 4,890,438</u>

Depreciation and amortization expense amounted to approximately \$1,051,000 and \$891,000, respectively, for the years ended December 31, 2020 and 2019.

5. TIME DEPOSITS

Time deposits in denominations of \$100,000 or more amounted to approximately \$1,243,000,000 and \$1,683,000,000 at December 31, 2020 and 2019, respectively.

Time deposits for the years ended December 31, 2020 and 2019, are comprised of the following:

	2020	2019
Time	\$ 876,265,717	\$1,124,856,766
Yankee CD	<u>377,286,914</u>	<u>568,040,042</u>
	<u>\$1,253,552,631</u>	<u>\$1,692,896,808</u>

The amounts of scheduled maturities of time deposits at December 31, 2020, are as follows:

2021	\$1,233,552,631
2022	<u>20,000,000</u>
	<u>\$1,253,552,631</u>

Interest on deposits for the years ended December 31, 2020 and 2019, includes the following:

	2020	2019
Demand—interest bearing	\$ 433,719	\$ 450,957
Time	<u>15,558,922</u>	<u>42,905,736</u>
	<u>\$ 15,992,641</u>	<u>\$ 43,356,693</u>

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, 2020 and 2019. 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, 2020 and 2019, derivative instruments included the following:

	Fair Value Hedges (FV)	Notional Amount	Fair Value Asset	Notional Amount	Fair Value (Liability)	Gross Unrealized	
2020						Gain	(Loss)
Derivative instruments not designated as hedging instruments:							
Interest rate swaps	-	\$ 75,093,341	\$2,872,415	\$ 75,093,341	\$ (2,872,228)	\$2,872,415	\$ (2,872,228)
Cross-currency swaps	-	21,691,075	60,335	19,342,359	(53,618)	60,335	(53,618)
Forward foreign exchange contract	-	3,481,141	18,672	-	-	18,672	-
			<u>2,951,422</u>		<u>(2,925,846)</u>	<u>2,951,422</u>	<u>(2,925,846)</u>
Derivative instruments designated as hedging instruments:							
Interest rate swaps	-	-	-	220,700,000	(34,845,801)	-	(34,845,801)
Cross-currency swaps	-	105,000,000	2,452,038	109,046,278	(14,430,763)	2,452,038	(14,430,763)
			<u>2,452,038</u>		<u>(49,276,564)</u>	<u>2,452,038</u>	<u>(49,276,564)</u>
			<u>\$5,403,460</u>		<u>\$(52,202,410)</u>	<u>\$5,403,460</u>	<u>\$(52,202,410)</u>
	Fair Value Hedges (FV)	Notional Amount	Fair Value Asset	Notional Amount	Fair Value (Liability)	Gross Unrealized	
2019						Gain	(Loss)
Derivative instruments not designated as hedging instruments:							
Interest rate swaps	-	\$110,904,352	\$ 648,303	\$110,904,352	\$ (648,303)	\$ 648,303	\$ (648,303)
Cross-currency swaps	-	17,901,663	33,268	17,901,663	(33,268)	33,268	(33,268)
			<u>681,571</u>		<u>(681,571)</u>	<u>681,571</u>	<u>(681,571)</u>
Derivative instruments designated as hedging instruments:							
Interest rate swaps	FV	-	-	220,700,000	(18,757,215)	-	(18,757,215)
Cross-currency swaps	FV	57,173,560	1,762,529	3,364,800	(30,635)	1,762,529	(30,635)
			<u>1,762,529</u>		<u>(18,787,850)</u>	<u>1,762,529</u>	<u>(18,787,850)</u>
			<u>\$2,444,100</u>		<u>\$(19,469,421)</u>	<u>\$2,444,100</u>	<u>\$(19,469,421)</u>

As of December 31, 2020 and 2019, respectively, the derivatives that are designated as hedging instruments qualify for fair value 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, 2020, is summarized as follows:

		Amount of Gain (Loss) Recognized in Earnings
Derivatives not designated as hedging instruments:		
Interest rate swaps	Loan—interest income—net	\$ (34,641)
Interest rate swaps	Other—noninterest income	195
Cross currency swaps	Loan—interest income—net	(9,311)
Cross currency swaps	Other—noninterest income	6,715
Forward	Other—noninterest income	18,672

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, 2019, is summarized as follows:

		Amount of Gain (Loss) Recognized in Earnings
Derivatives not designated as hedging instruments:		
Interest rate swaps	Loan—interest income—net	\$ (5,417)
Interest rate swaps	Other—noninterest income	(9,767)

The ineffective amount of the Branch's derivative instruments designated as hedging instruments recorded within the Branch's statements of operations and comprehensive income for the years ended December 31, 2020 and 2019, is not significant.

The terms of outstanding swaps at December 31, 2020, are as follows:

Derivative Instruments Designated as Hedging Instruments			
Asset			
Number of Contracts	Maturity	Notional	Fair Value
5	2031	\$ 105,000,000	\$ 2,452,038
			<u>\$ 2,452,038</u>
Liability			
Number of Contracts	Maturity	Notional	Fair Value
5	2025	\$ 33,708,255	\$ (4,464,707)
4	2026	9,700,000	(1,262,705)
1	2027	5,000,000	(726,261)
20	2028	200,000,000	(32,231,028)
1	2030	3,298,602	(527,951)
10	2031	78,039,421	(10,063,912)
			<u>\$(49,276,564)</u>
Derivative Instruments Not Designated as Hedging Instruments			
Asset			
Number of Contracts	Maturity	Notional	Fair Value
2	2021	\$ 6,174,482	\$ 72,313
1	2022	19,342,360	53,627
3	2024	59,548,715	1,938,851
1	2026	15,200,000	886,631
			<u>\$ 2,951,422</u>
Liability			
Number of Contracts	Maturity	Notional	Fair Value
1	2021	\$ 2,693,341	\$ (53,453)
1	2022	19,342,359	(53,619)
2	2024	57,200,000	(1,932,143)
1	2026	15,200,000	(886,631)
			<u>\$ (2,925,846)</u>

7. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The information concerning repurchase agreements as of and for the years ended December 31, 2020 and 2019, is as follows:

	2020	2019
Securities sold under agreements to repurchase at year-end	\$ -	\$ 244,761,498
Maximum amount of outstanding agreements at any month-end during the year	248,325,498	244,761,498
Average amount outstanding during the year	84,878,217	187,787,883
Weighted-average interest rate at year-end	- %	2.61 %

8. BORROWINGS

At December 31, 2020 and 2019, borrowing instruments included the following:

	2020	2019
Commercial paper (CP)	\$1,411,054,680	\$1,760,010,744
Financial institutions	<u>25,000,000</u>	<u>-</u>
	<u>\$1,436,054,680</u>	<u>\$1,760,010,744</u>

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

CP—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, 2020, the weighted-average interest rate on the CP program was 0.52% and maturities ranged from January 2021 through December 2021.

Financial Institutions—The Branch entered into a borrowing agreement with a financial institution. The borrowing's contractual rate is 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, 2020, the Branch had total assets of approximately \$364,000,000 (see Notes 2 and 3) pledged to secure additional potential borrowing capacity with the Federal Reserve Bank. At December 31, 2020, 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 Commercial Paper Funding Facility in order to secure additional potential borrowing capacity. The fee associated with this agreement is approximately \$2,000,000 and is being amortized over the term of the agreement, which expires in March 2021. During the year ended December 31, 2020, the Branch has recognized expense of approximately \$1,584,000, which is included in interest expense-borrowings in the accompanying statements of operations and comprehensive income. At December 31, 2020, the remaining unamortized fee of approximately \$416,000 is included in other assets in the accompanying statements of assets, liabilities and head office equity. At December 31, 2020, there were no outstanding borrowings related to this borrowing facility.

9. TRANSACTIONS WITH HEAD OFFICE, BRANCHES, AND AFFILIATES

Balances with the Head Office, branches, and affiliates as of and for the years ended December 31, 2020 and 2019, are as follows:

	2020	2019
Assets:		
Cash and due from banks—pledged	\$ 250,000,000	\$ 250,000,000
Time deposits due from related institutions	10,000,000	195,034,094
Time deposits due from related institutions with original maturity in excess of 90 days	399,149,000	1,136,910,650
Accrued interest receivables	3,785,935	10,021,941
Derivative instruments	2,470,711	1,795,797
Other assets	<u>1,099,562</u>	<u>503,265</u>
Total related institution assets	<u>666,505,208</u>	<u>1,594,265,747</u>
Liabilities:		
Demand deposits	11,422,597	12,791,565
Derivative instruments	52,202,410	19,436,153
Accrued interest payables	3,739,234	3,336,530
Borrowings	<u>725,000,000</u>	<u>201,228,974</u>
Total related institution liabilities	792,364,241	236,793,222
Head Office equity	<u>188,510,473</u>	<u>182,787,665</u>
Total related institution liabilities and Head Office equity	<u>980,874,714</u>	<u>419,580,887</u>
Net related institution net (liability) asset position	<u><u>\$(314,369,506)</u></u>	<u><u>\$1,174,684,860</u></u>
Interest income	\$ 11,501,316	\$ 39,146,147
Interest expense	3,066,911	13,168,389
Noninterest (loss) income	(31,438,436)	(583,367)
Noninterest expense—occupancy	1,288,078	950,586

The net income (expense) from derivative instruments with Head Office amounted to approximately (\$4,530,000) and \$166,000 for the years ended December 31, 2020 and 2019, respectively.

The Branch has entered into swaps with its Head Office. The nominal values of these instruments as of December 31, 2020 and 2019, total approximately \$533,000,000 and \$410,000,000, respectively (see Note 6).

As of December 31, 2020 and 2019, 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 14), 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 \$409,149,000 and \$1,332,000,000 as of December 31, 2020 and 2019, respectively. These time deposits have original maturities ranging from 2 months to 1 year and earn interest at a weighted average of 1.01% and 2.38% for the years ended December 31, 2020 and 2019, respectively.

Borrowings from the Head Office amounted to approximately \$725,000,000 and \$201,000,000 as of December 31, 2020 and 2019, 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 of 0.07% and 1.66% for the years ended December 31, 2020 and 2019, respectively.

Demand deposits from the Head Office and affiliates are included within amounts due to Head Office, branches, and affiliates within the accompanying statements of assets, liabilities, and Head Office equity.

10. INCOME TAXES

The components of income tax expense for the years ended December 31, 2020 and 2019, were as follows:

	2020	2019
Current:		
Federal	\$ (287,748)	\$ (173,924)
State	<u>-</u>	<u>-</u>
	<u>(287,748)</u>	<u>(173,924)</u>
Deferred taxes:		
Federal	5,970,745	3,672,647
State	<u>1,001,328</u>	<u>759,888</u>
	<u>6,972,073</u>	<u>4,432,535</u>
Income tax expense	<u>\$ 6,684,325</u>	<u>\$ 4,258,611</u>

The major permanent differences between the results in operations and US 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 9). 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, 2020, the Branch had federal and state tax loss carryforwards available to reduce future taxable income of approximately \$19,000,000 that will expire during 2036.

At December 31, 2020 the Branch has a federal income tax receivable of approximately \$288,000, which is included in other assets in the accompanying statements of assets, liabilities, and Head Office equity. At December 31, 2019, the Branch does not have an income tax receivable or payable.

The total deferred tax assets and liabilities at December 31, 2020 and 2019, are as follows:

	2020	2019
Deferred tax assets:		
Net operating loss carryforwards	\$ 4,665,611	\$ 6,456,315
Allowance for loan losses	3,654,532	2,736,643
Deferred loan fees and discounts—net	792,261	270,025
Other	<u>103,300</u>	<u>150,397</u>
Total deferred tax assets	<u>9,215,704</u>	<u>9,613,380</u>
Deferred tax liabilities:		
Depreciation	(754,151)	(214,899)
Market premiums-net	(236,590)	-
Unrealized appreciation of derivatives—non-hedged	(13,154)	-
Unrealized appreciation of securities available for sale—hedged	<u>(9,745,806)</u>	<u>(3,960,405)</u>
Total deferred tax liabilities	<u>(10,749,701)</u>	<u>(4,175,304)</u>
Net deferred tax (liabilities) assets before unrealized depreciation of investments in securities available for sale	(1,533,997)	5,438,076
Unrealized depreciation (appreciation) of securities available for sale—non-hedged	<u>1,736,916</u>	<u>(19,488)</u>
Net deferred tax assets	<u>\$ 202,919</u>	<u>\$ 5,418,588</u>

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, 2020 and 2019. Based on these factors, management has recorded no valuation allowance as of December 31, 2020 and 2019.

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, 2020 and 2019, 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 2017–2020.

11. EMPLOYEE BENEFIT PLAN

The Branch has implemented a 401(k) profit-sharing and 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 \$213,000 and \$209,000 during 2020 and 2019, respectively.

12. 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, 2020 and 2019, are as follows:

	2020	2019
Standby letters of credit	\$ 129,786,000	\$ 99,757,000
Commitment to extend credit, including overdraft facilities	275,862,000	315,892,000
Issued or confirmed commercial letters of credit	5,110,000	1,297,000

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, 2020, the Branch's standby letters of credit range in term from 1 to 13 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.

During 2019, the Branch entered into an operating lease with an affiliate for its office space. Total future minimum annual lease payments under the operating lease agreement at December 31, 2020, are as follows:

Years Ending December 31	Minimum Rental Payment
2021	\$ 1,443,000
2022	1,546,000
2023	1,589,000
2024	1,633,000
2025	1,678,000
Thereafter	<u>564,000</u>
	<u><u>\$ 8,453,000</u></u>

Rent expense was approximately \$1,781,000 and \$1,818,000 for the years ended December 31, 2020 and 2019, respectively. Rent expense associated with the affiliate office lease amounted to approximately \$1,288,000 and \$951,000 for the years ended December 31, 2020 and 2019, respectively (see Note 9).

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.

13. FAIR VALUE MEASUREMENT

Recurring—The Branch's fair value hierarchy for those assets measured at fair value on a recurring basis at December 31, 2020 and 2019, is as follows:

	Fair Value Measurement at December 31, 2020		
	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	\$ -	\$ 128,959,919	\$ -
Chilean government debt securities	-	453,655,669	-
Student loan asset-backed securities	-	-	3,847,905
Derivative instruments:			
Derivative assets	-	5,403,460	-
Derivative liabilities	-	(52,202,410)	-

Fair Value Measurement at December 31, 2019			
	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	\$ -	\$ 96,483,134	\$ -
Chilean government debt securities	-	272,145,871	-
Student loan asset-backed securities	-	-	3,756,521
Derivative instruments:			
Derivative assets	-	2,444,100	-
Derivative liabilities	-	(19,469,421)	-

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 rollforward 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, 2020 and 2019, 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, 2018	\$ 3,798,924
Change in unrealized loss included in statements of other comprehensive income	<u>(42,403)</u>
Balance—December 31, 2019	3,756,521
Change in unrealized loss included in statements of other comprehensive income	<u>91,384</u>
Balance—December 31, 2020	<u><u>\$ 3,847,905</u></u>

Interest income for the years ended December 31, 2020 and 2019, for the student loan asset-backed security that is measured on a recurring basis using significant unobservable inputs is approximately \$106,000 and \$154,000, respectively, and is included within securities interest income in the accompanying statements of operations and comprehensive income.

Total unrealized gains (losses) included in other comprehensive income attributable to the student loan asset-backed security held as of December 31, 2020 and 2019, were \$91,384 and \$(42,403), respectively.

The information at December 31, 2020, 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	<u>\$3,847,905</u>	Discounted cash flow model	Principal-returned probability	95.16%–95.36%	95.26 %
			Default probability	4.62%–4.82%	4.72
			Liquidity risk premium	3.00%–4.00%	3.25
			Recovery rate	40%–60%	50.00
			Maximum rate probability	0.01%–0.02%	0.03

The information at December 31, 2019, 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	<u>\$3,756,521</u>	Discounted cash flow model	Principal-returned probability Default probability Liquidity risk premium Recovery rate Maximum rate probability	95.16%–95.36% 4.62%–4.82% 3.00%–4.00% 40%–60% 0.01%–0.02%	95.26 % 4.72 3.50 50.00 0.02

Nonrecurring—At December 31, 2020 and 2019, there were four loans and one loan, respectively, carried at fair value (see Note 3).

14. 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 9) that is pledged to the Department of Financial Services in order to be in compliance with this regulatory requirement. At December 31, 2020 and 2019, the Branch was in compliance with the Capital Equivalency Requirement.

15. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date that the financial statements were available to be issued on January 25, 2021. 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, 2020.

* * * * *

SUPPLEMENTAL INFORMATION SCHEDULE

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

SUPPLEMENTAL INFORMATION SCHEDULE AS OF DECEMBER 31, 2020

1. DERIVATIVE INSTRUMENTS

A summary table detailing the financial instruments hedged and derivative financial instrument used in hedge accounting as of December 31, 2020, is as follows:

Financial instrument hedged—securities available for sale (par value)	<u>\$ 434,746,278</u>
Total	<u>\$ 434,746,278</u>
Hedging derivatives—interest rate swaps (notional)	\$ 325,700,000
Hedging derivatives—cross-currency swaps (notional)	<u>109,046,278</u>
Total	<u>\$ 434,746,278</u>