

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

Financial Statements as of and for the
Years Ended December 31, 2012 and 2011, and
Independent Auditors' Report

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

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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, 2012, and the related statements of operations and comprehensive income, changes in head office equity, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Branch as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Predecessor Auditors' Opinion on 2011 Financial Statements

The financial statements of the Branch as of and for the year ended December 31, 2011, were audited by other auditors whose report, dated February 14, 2012, expressed an unmodified opinion on those statements.

Deloitte & Touche LLP

February 26, 2013

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

STATEMENTS OF ASSETS, LIABILITIES, AND HEAD OFFICE EQUITY AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CASH AND CASH EQUIVALENTS:		
Cash and due from banks	\$ 5,417,419	\$ 8,818,009
Federal funds sold and overnight investments	682,342,478	390,645,092
Time deposits due from related institutions	<u>472,832,418</u>	<u>26,043,177</u>
Total cash and cash equivalents	1,160,592,315	425,506,278
TIME DEPOSITS DUE FROM RELATED INSTITUTIONS WITH ORIGINAL MATURITIES IN EXCESS OF 90 DAYS	497,938,294	372,139,777
SECURITIES AVAILABLE FOR SALE	399,153,248	261,769,850
LOANS — Net	911,491,519	570,962,612
ACCRUED INTEREST RECEIVABLE	13,060,728	8,464,005
PREMISES AND EQUIPMENT — Net	478,732	589,446
DERIVATIVE INSTRUMENT	2,167,507	1,136,012
OTHER ASSETS	<u>15,911,557</u>	<u>992,412</u>
TOTAL	<u>\$3,000,793,900</u>	<u>\$1,641,560,392</u>
LIABILITIES AND HEAD OFFICE EQUITY		
DEPOSITS:		
Demand:		
Non-interest bearing	\$ 94,796,447	\$ 63,779,342
Interest bearing	24,308,323	21,145,240
Time	<u>993,676,480</u>	<u>622,409,820</u>
Total deposits	1,112,781,250	707,334,402
AMOUNTS DUE TO HEAD OFFICE, BRANCHES, AND AFFILIATES	540,423,383	250,912,543
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE	14,408,000	6,303,000
BORROWINGS	1,247,732,093	623,608,947
DERIVATIVE INSTRUMENT	9,669,923	8,827,113
ACCRUED INTEREST PAYABLE	3,155,667	3,411,252
OTHER LIABILITIES	<u>3,086,800</u>	<u>1,772,864</u>
Total liabilities	<u>2,931,257,116</u>	<u>1,602,170,121</u>
COMMITMENTS AND CONTINGENCIES (Note 12)		
HEAD OFFICE EQUITY:		
Assigned capital	19,413,389	19,413,389
Accumulated earnings	38,176,170	20,405,585
Accumulated other comprehensive loss	<u>11,947,225</u>	<u>(428,703)</u>
Total head office equity	<u>69,536,784</u>	<u>39,390,271</u>
TOTAL	<u>\$3,000,793,900</u>	<u>\$1,641,560,392</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, 2012 AND 2011

	2012	2011
INTEREST INCOME:		
Loans	\$ 23,902,788	\$ 19,208,937
Federal funds sold and overnight investments	2,379,230	1,102,831
Securities	10,337,063	3,090,432
Time deposits due from banks and related institutions	<u>9,769,928</u>	<u>8,187,990</u>
Total interest income	<u>46,389,009</u>	<u>31,590,190</u>
INTEREST EXPENSE:		
Deposits	4,139,491	3,973,347
Borrowings	<u>16,888,429</u>	<u>8,161,617</u>
Total interest expense	<u>21,027,920</u>	<u>12,134,964</u>
NET INTEREST INCOME	25,361,089	19,455,226
PROVISION FOR LOAN LOSSES	<u>5,075,593</u>	<u>3,192,924</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>20,285,496</u>	<u>16,262,302</u>
NONINTEREST INCOME:		
Service fees and charges	1,875,145	2,105,376
Securities and derivative instruments gain — net	3,547,669	295,451
Other	<u>4,710</u>	<u>147,871</u>
Total noninterest income	<u>5,427,524</u>	<u>2,548,698</u>
NONINTEREST EXPENSE:		
Salaries and employee benefits	4,774,923	4,402,625
Occupancy	762,297	350,731
Depreciation and amortization	307,231	291,649
Communications	268,922	227,390
Professional fees	706,544	552,657
Other operating	<u>1,040,913</u>	<u>1,075,745</u>
Total noninterest expense	<u>7,860,830</u>	<u>6,900,797</u>
NET INCOME BEFORE TAXES	17,852,190	11,910,203
INCOME TAXES	<u>81,605</u>	<u>-</u>
NET INCOME	<u>17,770,585</u>	<u>11,910,203</u>
OTHER COMPREHENSIVE INCOME:		
Net unrealized holding gains on securities available for sale		
arising during the year	15,743,076	91,002
Reclassification adjustment for gain — net included in net income	<u>(3,367,148)</u>	<u>-</u>
Other comprehensive income	<u>12,375,928</u>	<u>91,002</u>
COMPREHENSIVE INCOME	<u>\$ 30,146,513</u>	<u>\$ 12,001,205</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, 2012 AND 2011

	Assigned Capital	Accumulated Earnings	Accumulated Other Comprehensive (Loss) Income	Total Head Office Equity
BALANCE — December 31, 2010	\$ 19,413,389	\$ 8,495,382	\$ (519,705)	\$ 27,389,066
Net income for the year	-	11,910,203	-	11,910,203
Other comprehensive income	<u>-</u>	<u>-</u>	<u>91,002</u>	<u>91,002</u>
BALANCE — December 31, 2011	19,413,389	20,405,585	(428,703)	39,390,271
Net income for the year	-	17,770,585	-	17,770,585
Other comprehensive income	<u>-</u>	<u>-</u>	<u>12,375,928</u>	<u>12,375,928</u>
BALANCE — December 31, 2012	<u>\$ 19,413,389</u>	<u>\$ 38,176,170</u>	<u>\$ 11,947,225</u>	<u>\$ 69,536,784</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, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 17,770,585	\$ 11,910,203
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	307,231	291,649
Provision for loan losses	5,075,593	3,192,924
Securities and derivative instruments gain — net	(3,547,669)	(295,451)
Net premium amortization on securities	2,873,751	-
Accretion of deferred loan fees	323,012	-
Changes in assets and liabilities:		
Accrued interest receivable	(4,596,723)	(5,486,220)
Derivative instruments	(668,040)	7,691,101
Other assets	(1,599,130)	(654,689)
Other assets — related institution	(3,010,000)	-
Accrued interest payable	(255,585)	2,269,808
Other liabilities	174,805	(1,956,953)
Net cash provided by operating activities	<u>12,847,830</u>	<u>16,962,372</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in time deposits due from related institutions	(125,798,517)	99,475,932
Purchases of securities available for sale	(200,831,157)	(281,972,335)
Maturities, sales, and calls of investment securities	77,369,700	29,119,233
Net increase in loans	(355,491,136)	(189,183,926)
Net increase in customers' acceptance liability	(1,000,391)	-
Capital expenditures	(196,517)	(212,561)
Net cash used in investing activities	<u>(605,948,018)</u>	<u>(342,773,657)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	405,446,848	111,028,545
Increase (decrease) in amounts due to head office, branches, and affiliates	289,510,840	(119,087,457)
Increase (decrease) in securities sold under agreements to repurchase	8,105,000	(2,116,308)
Net increase in acceptances outstanding	1,000,391	-
Increase in borrowings	624,123,146	317,912,037
Net cash provided by financing activities	<u>1,328,186,225</u>	<u>307,736,817</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	735,086,037	(18,074,468)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>425,506,278</u>	<u>443,580,746</u>
End of year	<u>\$ 1,160,592,315</u>	<u>\$ 425,506,278</u>

(Continued)

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

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Interest paid	<u>\$ 21,283,505</u>	<u>\$ 9,865,156</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES — Loan sold pending receipt of proceeds as of December 31, 2012	<u>\$ 9,563,624</u>	<u>\$ -</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, 2012 AND 2011

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 full range of banking services to domestic and foreign individual 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 with accounting principles generally accepted in the United States of America (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. Because the Branch is part of the Head Office, its financial statements do not necessarily reflect all allocations to or from 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 amount 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 adequate. Actual results could differ from these estimates.

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 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.

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, 2012 and 2011.

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 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 accrued, respectively, over the life of the security 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, 2012 and 2011.

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 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 impaired 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 which is required to bring the allowance for loan losses to a level which, 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.

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 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 United States of America and Latin America (Notes 2 and 3).

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

Premises and Equipment — Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed by the straight-line method over the estimated useful lives of the related assets.

Cash and Cash Equivalents — The Branch has defined cash equivalents as those highly liquid financial instruments purchased with an original maturity of three months or less.

Derivative Financial Instruments — The Branch manages its exposure to interest rate and foreign exchange rate movements in investment securities, loans, and structured certificates of deposit 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 foreign exchange forwards, interest rate swaps ("swaps"), and interest rate collars (options which have a cap and a floor). 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.

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 earnings 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 results of operations. The net interest received or paid on swaps is reflected as interest income or expense of the related hedged position. 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 other income/expense.

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 (loss) and the ineffective portion is reported in the statement 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 the statement of operations and comprehensive income.

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.

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 fifty percent) 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, like most financial institutions, is affected by changes in general interest rate levels and by other economic factors beyond its control. Interest rate risk arises from mismatches between the dollar amount of repricing or maturing assets and liabilities, 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. The Branch has attempted to structure its asset and liability management strategies to mitigate the impact on net interest income of changes in market interest rates.

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 company's own data.)

New Accounting Pronouncements — In April 2011, the Financial Accounting Standards Board (FASB) issued new accounting guidance that addresses effective control in repurchase agreements and eliminates the requirement for entities to consider whether the transferor (i.e., seller) has the ability to repurchase the financial assets in a repurchase agreement. This new accounting guidance was effective to new transactions or modifications to existing transactions during the year ended December 31, 2012. The adoption of this guidance did not have a material impact on the Branch's financial position or results of operations.

In May 2011, the FASB issued amendments to the fair value accounting guidance. The amendments clarify the application of the highest and best use and valuation premise concepts, preclude the application of blockage factors in the valuation of all financial instruments and include criteria for applying the fair value measurement principles to portfolios of financial instruments. The amendments additionally prescribe enhanced financial statement disclosures for Level 3 fair value measurements. The new amendments were effective for the year ended December 31, 2012. In February 2013, the FASB issued guidance that amends the guidance issued in May 2011. The guidance eliminates the requirement for a nonpublic entity to disclose the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3) for items disclosed at fair value but not measured at fair value in the statement of assets, liabilities, and Head Office equity. The adoption of this guidance did not have a material impact on the Branch's financial position or results of operations.

In June 2011, the FASB issued new accounting guidance on the presentation of comprehensive income in financial statements. The new guidance removes current presentation options and requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. The guidance is effect for fiscal years ended after December 15, 2012, with earlier adoption permitted. The adoption of this guidance, which involves disclosures only, did not affect the Branch's financial position or results of operations.

In December 2011, the FASB issued amended guidance related to disclosures about offsetting assets and liabilities. The amended guidance requires the Branch to disclose both gross information and net information about financial instruments, including derivatives, and transactions eligible for offset in the statement of assets, liabilities, and Head Office equity as well as financial instruments and transactions subject to agreements similar to a master netting arrangement. The new amendments will be effective for the Branch's year ending December 31, 2013. The adoption of this guidance, which involves additional disclosures, is not expected to affect the Branch's financial position or results of operations.

2. SECURITIES

The amortized cost and estimated fair value of securities at December 31, 2012 and 2011 are summarized as follows:

	2012			Fair Value
	Amortized Cost	Gross Unrealized		
		Gains	Losses	
Available for sale:				
Student loan asset-backed securities	\$ 9,050,000	\$ -	\$ (722,575)	\$ 8,327,425
Corporate debt securities	<u>373,916,053</u>	<u>17,224,555</u>	<u>(314,786)</u>	<u>390,825,823</u>
	<u>\$382,966,053</u>	<u>\$17,224,555</u>	<u>\$(1,037,361)</u>	<u>\$399,153,248</u>
	2011			Fair Value
	Amortized Cost	Gross Unrealized		
		Gains	Losses	
Available for sale:				
Student loan asset-backed securities	\$ 9,050,000	\$ -	\$ (1,035,380)	\$ 8,014,620
Corporate debt securities	<u>249,961,198</u>	<u>6,049,105</u>	<u>(2,255,073)</u>	<u>253,755,230</u>
	<u>\$259,011,198</u>	<u>\$6,049,105</u>	<u>\$(3,290,453)</u>	<u>\$261,769,850</u>

Securities available for sale with unrealized losses at December 31, 2012, were as follows:

	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
2012						
Available-for-sale:						
Student loan asset-backed securities	\$ -	\$ -	\$ 8,327,425	\$ (722,575)	\$ 8,327,425	\$ (722,575)
Corporate debt securities	<u>389,105,823</u>	<u>(293,854)</u>	<u>1,720,000</u>	<u>(20,932)</u>	<u>390,825,823</u>	<u>(314,786)</u>
Total	<u>\$ 389,105,823</u>	<u>\$ (293,854)</u>	<u>\$ 10,047,425</u>	<u>\$ (743,507)</u>	<u>\$ 399,153,248</u>	<u>\$ (1,037,361)</u>

At December 31, 2011, securities available for sale of \$259,011,198 had unrealized losses of \$3,290,453 for a period of less than 12 months.

In evaluating whether an other-than-temporary decline in value has occurred in its securities portfolio at December 31, 2012 and 2011, management considers these unrealized losses to be related to normal fluctuations in interest rates and market conditions. Specific to the student loan-backed securities this decline in value relates mainly to the lack of current liquidity in the auction rate securities (ARS) market, due to conditions in the U.S. economy. Management believes these investments continue to be of high credit quality, and plans to hold the ARS until such time as successful auctions occur, and secondary markets allow for a sufficient price to recover substantially all the par value. The Branch will continue to analyze its ARS for impairment.

Management considers decline 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, 2012 and 2011, the Branch held \$9,050,000, par value of investments in student loans asset backed securities that are considered 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 auctions process each month. The Branch continues to earn interest on the ARS at the contractual rate.

Contractual maturities of student loan asset-backed securities and corporate debt securities classified as available for sale at December 31, 2012, are as follows:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due within one year	\$ -	\$ -
Due within one and five years	120,999,419	126,274,116
Due within 10 years	234,959,754	246,361,379
Due after 10 years	<u>27,006,880</u>	<u>26,517,753</u>
	<u>\$ 382,966,053</u>	<u>\$ 399,153,248</u>

The Branch recognized gross realized gains and losses on the sale of available-for-sale securities during the year ended December 31, 2012, of approximately \$3,513,000, and \$146,000, respectively.

At December 31, 2012 and 2011, securities available for sale totaling \$14,100,000 and \$6,200,000, respectively, are pledged as collateral for securities sold under agreements to repurchase.

3. LOANS AND ALLOWANCE FOR LOAN LOSSES

At December 31, 2012 and 2011, the Branch had loans outstanding as follows:

	2012	2011
Commercial	\$ 919,738,647	\$ 547,674,615
Financial institutions	5,033,400	26,372,500
Individual	<u>1,250,000</u>	<u>7,599,013</u>
	926,022,047	581,646,128
Less:		
Allowance for loan losses	(12,153,000)	(8,629,000)
Deferred loan fees	<u>(2,377,528)</u>	<u>(2,054,516)</u>
	<u>\$ 911,491,519</u>	<u>\$ 570,962,612</u>

As of December 31, 2012 and 2011, the Branch's loan portfolio consists mainly of working capital loans, trade financing loans, personal loans, and discounted acceptances.

At December 31, 2012, the Branch had loans outstanding with risk in the following countries:

	Commercial	Financial Institutions	Individual	Total
United States	\$ 208,868,291	\$ -	\$ 150,000	\$ 209,018,291
Chile	421,426,322	-	1,100,000	422,526,322
Peru	132,491,911	33,400	-	132,525,311
Mexico	49,325,711	-	-	49,325,711
Brazil	28,567,527	-	-	28,567,527
Panama	20,890,000	-	-	20,890,000
Colombia	17,363,910	5,000,000	-	22,363,910
Holland	20,000,000	-	-	20,000,000
Canada	13,425,000	-	-	13,425,000
Singapore	5,968,564	-	-	5,968,564
Japan	<u>1,411,411</u>	<u>-</u>	<u>-</u>	<u>1,411,411</u>
	<u>\$ 919,738,647</u>	<u>\$ 5,033,400</u>	<u>\$ 1,250,000</u>	<u>\$ 926,022,047</u>

At December 31, 2011, the Branch had loans outstanding with risk in the following countries:

	Commercial	Financial Institutions	Individual	Total
United States	\$ 197,255,308	\$ 3,372,500	\$ 7,599,013	\$ 208,226,821
Chile	125,163,765	-	-	125,163,765
Peru	66,801,510	15,000,000	-	81,801,510
Mexico	79,160,943	-	-	79,160,943
Brazil	39,765,791	-	-	39,765,791
Panama	23,850,000	8,000,000	-	31,850,000
Colombia	13,230,682	-	-	13,230,682
Japan	2,446,616	-	-	2,446,616
	<u>\$ 547,674,615</u>	<u>\$ 26,372,500</u>	<u>\$ 7,599,013</u>	<u>\$ 581,646,128</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.

Commercial, financial institution and individual loans are subject to underwriting standards that are designed to promote relationship banking rather than transactional banking. Once it is determined that the borrower's management possesses sound ethics and solid business acumen, for loans that are underwritten by Head Office, the Head Office management examines the relative information for a specific 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 relative information for a specific loan and presents to Head Office for approval. All loans require Head Office approval.

Commercial, financial institution and individual loans are primarily 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, the company itself, and 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 90 days, 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.

Approximately \$12,796,000 and \$204,000 are classified as nonaccrual loans at December 31, 2012 and 2011, respectively. Interest income that would have been recorded on nonaccrual loans, if such loans were performing in accordance with their original terms for the years ended December 31, 2012 and

2011, was approximately \$260,000 and \$170, respectively. All nonaccrual loans at December 31, 2012 and 2011 are classified as commercial loans.

An age analysis of past-due loans, segregated by class of loans, at December 31, 2012, are as follows:

2012	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	\$1,007,077	\$1,967,976	\$2,975,053	\$916,763,594	\$919,738,647	\$ -
Financial institutions	-	-	-	5,033,400	5,033,400	-
Individuals	-	-	-	1,250,000	1,250,000	-
Total	<u>\$1,007,077</u>	<u>\$1,967,976</u>	<u>\$2,975,053</u>	<u>\$923,046,994</u>	<u>\$926,022,047</u>	<u>\$ -</u>

Impaired Loans — Loans are considered impaired when, based on current information and events, it is probable 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, 2012, are set forth as follows:

2012	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial	\$ 12,849,974	\$ -	\$ 12,795,993	\$ 12,795,993	\$ 4,390,000	\$ 13,323,782
Financial institution	-	-	-	-	-	-
Individuals	-	-	-	-	-	-
Total	<u>\$ 12,849,974</u>	<u>\$ -</u>	<u>\$ 12,795,993</u>	<u>\$ 12,795,993</u>	<u>\$ 4,390,000</u>	<u>\$ 13,323,782</u>

Impaired loans at December 31, 2011, were approximately \$14,700,000 and are classified as Commercial.

The Branch did not record interest on impaired loans during the years ended December 31, 2012 and 2011.

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 all of the loans that were modified as a TDR as impaired loans. The Branch did not have any commitment to lend on TDR loans at December 31, 2012.

Loans that the terms were modified and considered TDR during 2012 are summarized as follows:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	(Decrease) Increase in Allowance for Loan Losses Upon Modification	Charge-Off Upon Modification
Trouble debt restructurings:					
Commercial	1	\$ 6,250,000	\$ 3,332,932	\$(1,073,769)	\$(1,551,593)
Financial institution	-	-	-	-	-
Individuals	-	-	-	-	-
Total	<u>1</u>	<u>\$ 6,250,000</u>	<u>\$ 3,332,932</u>	<u>\$(1,073,769)</u>	<u>\$(1,551,593)</u>

During the years ended December 31, 2012 and 2011, the Branch did not have any loans that are considered TDR and defaulted under the terms and conditions of the modification.

At December 31, 2012 and 2011, the Branch had approximately \$6,800,000 and \$11,300,000, respectively that are considered TDR.

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 three years. Additionally, in developing and maintaining loss measurements, management also monitors monthly the impact of current 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 value 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 in paragraph.

Alternative measurement basis used by the Branch are as follows:

- The loan’s observable market price or
- 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 creditor 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 credit 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 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 follow:

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

Assets in this category are performing, but are potentially weak. Those 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 constitute an unwarranted risk in light of the circumstances surrounding a specific asset.

This category should not be used to list assets, which 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 substandard.

- Doubtful (credit grade "5")

An asset classified doubtful has all the weaknesses inherent in one classified 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 which 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 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, 2012, are presented as follows:

2012	Commercial	Financial Institution	Individuals	Total
Classification:				
Not criticized	\$ 906,942,654	\$ 5,033,400	\$ 1,250,000	\$ 913,226,054
OLEM	-	-	-	-
Substandard	3,333,332	-	-	3,333,332
Doubtful	9,298,535	-	-	9,298,535
Loss	<u>164,126</u>	<u>-</u>	<u>-</u>	<u>164,126</u>
Total	<u>\$ 919,738,647</u>	<u>\$ 5,033,400</u>	<u>\$ 1,250,000</u>	<u>\$ 926,022,047</u>

Allowance for Loan Loss — Transactions affecting the allowance for loan losses during the year ended December 31, 2012, 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, 2012, are summarized as follows:

2012	Commercial	Financial Institution	Individual	Total
Allowance for loan losses:				
Beginning balance	\$ 8,431,890	\$ 195,500	\$ 1,610	\$ 8,629,000
Provision/reversal for loan losses	5,229,919	(152,716)	(1,610)	5,075,593
Recoveries	-	-	-	-
Loan charged off	<u>(1,551,593)</u>	<u>-</u>	<u>-</u>	<u>(1,551,593)</u>
Ending balance	<u>\$ 12,110,216</u>	<u>\$ 42,784</u>	<u>\$ -</u>	<u>\$ 12,153,000</u>
Ending balance — individually evaluated for impairment (individually allocated)	<u>\$ 4,390,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,390,000</u>
Ending balance — collectively evaluated for impairment (unallocated)	<u>\$ 7,720,216</u>	<u>\$ 42,784</u>	<u>\$ -</u>	<u>\$ 7,763,000</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, 2012, are presented as follows:

	Commercial	Financial Institution	Individual	Total
Loans:				
Individually evaluated for impairment	\$ 12,795,993	\$ -	\$ -	\$ 12,795,993
Collectively evaluated for impairment	906,942,654	5,033,400	1,250,000	913,226,054
Loans acquired with deteriorated credit quality	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 919,738,647</u>	<u>\$ 5,033,400</u>	<u>\$ 1,250,000</u>	<u>\$ 926,022,047</u>

Transactions affecting the allowance for loan losses during the year ended December 31, 2011, are summarized as follows:

2011	Commercial	Financial Institution	Individual	Total
Allowance for loan losses:				
Beginning balance	\$ 6,445,500	\$ 127,500	\$ -	\$ 6,573,000
Provision/reversal for loan losses	3,123,314	68,000	1,610	3,192,924
Loan charged off	<u>(1,136,924)</u>	<u>-</u>	<u>-</u>	<u>(1,136,924)</u>
Ending balance	<u>\$ 8,431,890</u>	<u>\$ 195,500</u>	<u>\$ 1,610</u>	<u>\$ 8,629,000</u>

4. PREMISES AND EQUIPMENT

At December 31, 2012 and 2011, premises and equipment included the following:

	2012	2011	Estimated Useful Lives
Furniture, fixtures, and equipment	\$ 2,321,583	\$ 2,194,819	2-5 years
Leasehold improvements	<u>237,109</u>	<u>237,109</u>	10 years
	2,558,692	2,431,928	
Less accumulated depreciation and amortization	<u>(2,079,960)</u>	<u>(1,842,482)</u>	
	<u>\$ 478,732</u>	<u>\$ 589,446</u>	

Depreciation and amortization expense amounted to approximately \$307,000 and \$292,000, respectively, at December 31, 2012 and 2011.

5. TIME DEPOSITS

Time deposits in denominations of \$100,000 or more amounted to approximately \$976,000,000 and \$601,803,000 at December 31, 2012 and 2011, respectively.

The amounts of scheduled maturities of time deposits at December 31, 2012, are as follows:

2013	\$940,153,221
2014	52,667,907
2015	<u>855,352</u>
	<u>\$993,676,480</u>

6. DERIVATIVE INSTRUMENTS

The Branch uses these 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.

For the derivatives designated as hedged instruments, the Branch remained effectively hedged as of December 31, 2012. 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 where they are designated as a hedge instrument or not.

At December 31, 2012, derivatives instruments included the following:

	Fair Value Hedges (FV)	Notional Amount	Fair Value Asset	Notional Amount	Fair Value (Liability)	Gross Unrealized	
						Gain	(Loss)
Derivative instruments not designated as hedging instruments:							
Interest rate swaps	FV	\$ 70,133,333	\$ 1,973,333	\$ 70,133,333	\$ (1,864,279)	\$ 1,973,333	\$ (1,864,279)
Option	FV	\$ 5,591,000	<u>194,174</u>		<u>-</u>	<u>194,174</u>	<u>-</u>
			<u>2,167,507</u>		<u>\$ (1,864,279)</u>	<u>2,167,507</u>	<u>\$ (1,864,279)</u>
Derivative instruments designated as hedging instruments—							
Interest rate swaps	FV		<u>-</u>	\$ 76,075,000	<u>(7,805,644)</u>	<u>-</u>	<u>(7,805,644)</u>
			<u>\$ 2,167,507</u>		<u>\$ (9,669,923)</u>	<u>\$ 2,167,507</u>	<u>\$ (9,669,923)</u>

At December 31, 2011, derivative instruments included the following:

				<u>Gross Unrealized</u>	
	Fair Value Hedges (FV)	Notional Amount	Fair Value Asset (Liability)	Gain	Loss
Interest rate swaps	FV	\$ 35,000,000	<u>\$ 1,136,012</u>	<u>\$ 1,136,012</u>	<u>\$ -</u>
Interest rate swaps	FV	\$ 144,975,000	<u>\$ (8,827,113)</u>	<u>\$ -</u>	<u>\$ 8,827,113</u>

For the derivatives that are designated as hedge instruments, the gains and losses of the derivative as well as the portion of the unrealized gains or losses of the hedged instrument (i.e., securities available for sale) that was attributable to the risk being hedged are recorded in the results of operations within other noninterest income. For the derivatives that are not designated as hedge instruments, the gains and losses of the derivative are recorded in the results of operations within other noninterest income.

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, 2012, is summarized as follows:

		Amount of Gain (Loss) Recognized in Earnings
Derivatives not designated as hedging instruments:		
Interest rate swaps	Loan — interest income, net	<u>\$ 29,134</u>
Interest rate swaps	Other - non interest income	<u>\$ (24,689)</u>

The ineffective amount of the Branch's derivative instruments designated as a hedging instrument recorded within the Branch's statement of operations and comprehensive income for the year ended December 31, 2012 are not significant.

The terms of outstanding interest rate swaps at December 31, 2012, are as follows:

Derivatives Instruments Designated as Hedging Instruments			
Number of Contracts	Maturity	Notional	Fair Value (Liability)
3	2014	\$ 8,925,000	\$ (218,610)
4	2015	\$ 11,610,000	(755,122)
1	2016	\$ 2,000,000	(153,774)
2	2017	\$ 4,090,000	(376,556)
11	2019	\$ 49,450,000	(6,301,582)
			<u>\$ (7,805,644)</u>

Derivatives Instruments Not Designated as Hedging Instruments			
Asset			
Number of Contracts	Maturity	Notional	Fair Value
1	2016	\$ 20,000,000	\$ 347,212
2	2019	\$ 30,133,333	688,229
3	2021	\$ 15,000,000	763,220
1	2022	\$ 5,000,000	174,672
			<u>\$ 1,973,333</u>

Liability			
Number of Contracts	Maturity	Notional	Fair Value
1	2016	\$ 20,000,000	\$ (347,149)
2	2019	\$ 30,133,333	(688,229)
3	2021	\$ 15,000,000	(654,228)
1	2022	\$ 5,000,000	(174,673)
			<u>\$ (1,864,279)</u>

The outstanding option expires during June 2014.

7. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The information concerning repurchase agreements as of and for the years ended December 31, 2012 and 2011 is as follows:

	2012	2011
Securities sold under agreements to repurchase at year-end	\$ 14,408,000	\$ 6,303,000
Maximum amount of outstanding agreements at any month-end during the year	14,408,000	8,610,747
Average amount outstanding during the year	9,018,817	8,355,000
Weighted-average interest rate at year-end	0.08 %	0.08 %

8. BORROWINGS

At December 31, 2012 and 2011, borrowings of \$279,987,875 and \$234,000,000, respectively, relate to a Total Return Swap (TRS), signed under an International Swaps and Derivatives Association contract that simulates a repurchase agreement or a guaranteed loan to the Branch of an investment portfolio. Under the TRS, the Branch would tender a portfolio of securities to the counterparty. The counterparty will tender funds that account for a percentage of the market value of the securities portfolio based on a notional value. At maturity, the securities are returned to the Branch by the counterparty and the liability is paid off.

As of December 31, 2012 and 2011, borrowings of \$148,068,341 and \$166,950,000, respectively, represent prepayment at a discount of letters of credit where the Branch retains financing under approved lines of credit with the confirming correspondent bank. Full principal payment is due at maturity. The effective interest rate is calculated for the period from the date of repayment through the maturity date of the related obligation.

In addition, the Branch entered into borrowing agreements with other financial institutions. As of December 31, 2012 and 2011, the Branch had borrowing outstanding related to these agreements of \$819,675,877 and \$244,000,000, respectively, with contractual rates based on LIBOR plus a spread.

Annual maturities of the notes payable at December 31, 2012, are as follows:

Years Ending December 31	Borrowings
2013	\$1,135,232,093
2014	<u>112,500,000</u>
	<u>\$1,247,732,093</u>

9. TRANSACTIONS WITH HEAD OFFICE, BRANCHES, AND AFFILIATES

Balances with Head Office, branches, and affiliates at December 31, 2012 and 2011, and for the years then ended, are as follows:

	2012	2011
Assets:		
Time deposits due from related institution	\$ 472,832,418	\$ 26,043,029
Time deposits due from related institution with original maturity in excess of 90 days	497,938,294	372,139,777
Accrued interest receivable	3,962,896	2,500,267
Other assets	<u>2,824,791</u>	<u>1,153</u>
Total related institutions assets	<u>977,558,399</u>	<u>400,684,226</u>
Liabilities:		
Demand deposits	18,423,383	5,912,543
Derivative instruments	9,669,923	8,827,113
Accrued interest payable	226,434	1,239,481
Borrowings	<u>522,000,000</u>	<u>245,000,000</u>
Total related institutions liabilities	550,319,740	260,979,137
Head Office equity	<u>69,536,784</u>	<u>39,390,271</u>
Total related institutions liabilities and Head Office equity	<u>619,856,524</u>	<u>300,369,408</u>
Net related institution asset position	<u>\$ 357,701,875</u>	<u>\$ 100,314,818</u>
Interest income	\$ 9,769,928	\$ 10,271,823
Interest expense	\$ 3,945,350	\$ 3,179,501
Noninterest income	\$ 57	\$ 81
Noninterest expense	\$ 34,034	\$ -

The Branch has entered into interest rate swaps with its Head Office. The nominal value of these instruments as of December 31, 2012 and 2011 totals approximately \$146,000,000 and \$145,000,000, respectively. Refer to Note 6.

Time deposits due from Head Office amounted to approximately \$970,000,000 and \$398,000,000 as of December 31, 2012 and 2011, respectively. These time deposits are short term and earn interest at weighted average of 1.32% and 1.79% for the years ended December 31, 2012 and 2011, respectively.

Borrowings from Head Office amounted to \$522,000,000 and \$245,000,000 as of December 31, 2012 and 2011, 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 0.65% and 0.20% for the years ended December 31, 2012 and 2011, respectively.

Demand deposits from 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 (benefit) for the years ended December 31, 2012 and 2011, were as follows:

	2012	2011
Current:		
Federal	\$ 81,605	\$ -
State	<u>-</u>	<u>-</u>
	<u>81,605</u>	<u>-</u>
Deferred:		
Federal	3,356,444	3,750,347
State	80,085	400,405
Provision for valuation allowance	<u>(3,436,529)</u>	<u>(4,150,752)</u>
	<u>-</u>	<u>-</u>
	<u>\$ 81,605</u>	<u>\$ -</u>

The major permanent differences between the results in operations and U.S. taxable income are noneffectively connected income and interest expense disallowance. At December 31, 2012, the Branch had federal and state tax loss carryforwards available to reduce future taxable income of approximately \$3,200,000 that will commence to expire during 2024.

The total deferred tax assets and liabilities and valuation allowance at December 31, 2012 and 2011, are as follows:

	2012	2011
Deferred tax assets:		
Net operating loss carryforwards	\$ 1,243,084	\$ 3,893,052
Allowance for loan losses	8,063,716	3,676,492
Deferred loan fees	780,032	-
Unrealized losses on securities	-	3,145,528
Nonaccrual interest income	-	2,864,156
Other	<u>346,990</u>	<u>291,123</u>
	10,433,822	13,870,351
Less valuation allowance	<u>(10,433,822)</u>	<u>(13,870,351)</u>
	<u>\$ -</u>	<u>\$ -</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. 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 has determined based on the weight of available evidence that it is more likely than not that some portion or all of the deferred tax asset will not be realized as of December 31, 2012 and 2011.

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, 2012 and 2011, 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 were to recognize interest and penalties related to uncertain tax positions, they would be recognized in the financial statements as income tax expense. The Branch tax years remain subject to federal and state examination are 2007–2012.

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 entry date (January 1 and July 1 of each calendar year). The Branch made total expensed contributions of approximately \$70,000 and \$66,000 during 2012 and 2011, 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, and unfunded risk participations. 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.

Standby letters of credit and unfunded risk participations are conditional commitments issued by the Branch to guarantee the performance of a customer to a third party. The Branch has outstanding standby letters of credit and unfunded risk participations in the amounts of \$74,200,000 and \$1,985,000, respectively, at December 31, 2012 and \$62,200,000 and \$1,900,000, respectively, at December 31, 2011. Additionally, the Branch has confirmed standby letters of credit issued by Head Office in the amount of \$2,952,000 and \$2,162,000 at December 31, 2012 and 2011, respectively. 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, 2012, the Branch's standby letters of credit range in term from one to 12 months and are partially secured by cash. The Branch also has issued or confirmed commercial letters of credit in the amount of approximately \$1,540,000 and \$1,900,000 at December 31, 2012 and 2011, respectively.

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 they do 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.

The Branch leases its office space and other property under various operating leases (including a lease entered into during 2012 for its new office space that commences during 2013). Total future minimum annual lease payments under operating lease agreements are as follows:

Years Ending December 31	Minimum Rental Payments
2013	\$ 548,405
2014	628,784
2015	620,593
2016	648,801
2017	677,010
Thereafter	<u>4,927,566</u>
	<u>\$8,051,159</u>

Rent expense was approximately \$668,700 for the years ended December 31, 2012 and 2011.

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, 2012 and 2011, is as follows:

	Fair Value Measurement at December 31, 2012		
	Quote 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	\$ -	\$ 390,825,823	\$ -
Student loan asset-backed securities	-	-	8,327,425
Derivative instruments:			
Derivative assets	-	2,167,507	-
Derivative liabilities	-	<u>(9,669,923)</u>	-
	<u>\$ -</u>	<u>\$ 383,323,407</u>	<u>\$ 8,327,425</u>

	Fair Value Measurement at December 31, 2011		
	Quote 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	\$ -	\$ 253,755,230	\$ -
Student loan asset-backed securities	-	-	8,014,620
Derivative instruments:			
Derivative assets	-	-	1,136,012
Derivative liabilities	-	-	(8,827,113)
	<u>\$ -</u>	<u>\$ 253,755,230</u>	<u>\$ 323,519</u>

Level 2 Valuation Techniques — The valuation of the securities available for sale instruments is performed through a monthly pricing process using data of independent pricing providers, who are leading global providers of financial market data. 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 discontinued cash flow model using forward U.S. dollar LIBOR curve 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 which are selected from recent market transactions.
- Observable market data which includes spreads in relationship to LIBOR, swap curve, and prepayment speed rates, as applicable.
- The captured spread and prepayment speed is 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 values of the student loan asset-backed securities are 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 each instrument.

The table below includes a rollforward of the statements of assets, liabilities, and Head Office equity amounts for the years ended December 31, 2012 and 2011 (including the change in fair value), for financial instruments classified by the Branch within Level 3 of the valuation hierarchy. 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:

2012	Securities Available for Sale	Derivatives Assets	Derivatives Liabilities	Total
Balance — January 1, 2011	\$ 8,014,620	\$ 1,136,012	\$ (8,827,113)	\$ 323,519
Unrealized gain included in the statement of other comprehensive income	312,805	-	-	312,805
Transfer to Level 2	<u>-</u>	<u>(1,136,012)</u>	<u>8,827,113</u>	<u>7,691,101</u>
Balance — December 31, 2012	<u>\$ 8,327,425</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,327,425</u>
				2011
Balance — beginning of year				\$ 8,530,295
Unrealized gain included in the statement of other comprehensive income				<u>(8,206,776)</u>
Balance — end of year				<u>\$ 323,519</u>

The transfer of derivative instruments from Level 3 to Level 2 is due to the valuation inputs were observable during 2012.

Interest income for the year ended December 31, 2012 for student loan asset-backed securities that are measured on a recurring basis using significant unobservable inputs were \$103,451, and are included within securities interest income in the accompanying statement of operations and comprehensive income.

Total unrealized gains included in other comprehensive income attributable to unrealized gains related to the student loan asset-backed securities still held as of December 31, 2012, were \$312,805.

The information at December 31, 2012, about significant unobservable inputs related to the Branch's Level 3 financial assets 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 securities	<u>\$8,327,425</u>	Discounted cash flow model	Principle Returned Probability	96.05% - 96.2%	96.13%
			Default Probability	3.79% - 3.94%	3.87%
			Liquidity Risk Premium	3.50% - 4.50%	4.00%
			Recovery Rate	40 - 60	50
			Maximum Rate Probability	0.87% - 1.82%	1.30%

Nonrecurring — The Branch's fair value hierarchy for those assets measured at fair value on a nonrecurring basis at December 31, 2011, is as follows:

Fair Value Measurement at December 31, 2011				
	Quote Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Impairment
Impaired Loans	<u>\$ -</u>	<u>\$12,795,993</u>	<u>\$ -</u>	<u>\$ 576,000</u>

Impaired Loans — Certain impaired loans were reported at the fair value, measured by the present value of the expected future cash flows discounted at the loan's effective rate, or at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Collateral values are estimated using Level 2 inputs based on observable market data.

The types of loans that were remeasured at and reported at fair value on a nonrecurring basis at December 31, 2012, are listed within Note 3.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The guidance, *Disclosure about Fair Value of Financial Instruments*, requires the disclosure of estimated fair value of financial instruments including those financial instruments for which the Branch did not elect the fair value option. The fair value of such instruments, have been derived, in part, by management's assumptions, the estimated amount and timing of future cash flows, and estimated discount rates. Different assumptions could significantly affect these estimated fair values. Accordingly, the net realized values could be materially different from the estimates presented below.

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

- The carrying value was used as a reasonable estimate of fair value for cash and cash equivalents; variable-rate loans with repricing terms shorter than 12 months; demand and savings deposits; securities sold under agreements to repurchase; and deposits and borrowings due to Head Office, branches, and affiliates.
- Fair values of securities are based on quoted market prices and pricing models (Notes 3 and 13).

- Fair value of fixed-rate loans is estimated by discounting the future cash flows using the current rates at which similar instruments would be issued with comparable terms. The fair value of such loans at December 31, 2012 and 2011 was approximately \$810,400,000 and \$504,200,000, respectively.
- Fair value of time deposits is estimated by discounting the future cash flows using the current rates at which similar instruments would be issued with comparable terms. At December 2012 and 2011, fair value of time deposits was approximately \$994,000,000 and \$624,108,000, respectively.
- Fair value of borrowings is based on the discounted value of contractual cash flows. The discount rates are based on rates that would be paid for borrowings with similar characteristics and maturities. The fair value of such borrowings at December 31, 2012 and 2011 was approximately \$1,771,000 and \$624,272,000, respectively.
- The fair values of commercial letters of credit, standby letters of credit, and commitments to extend approximate carrying value due to the insignificant differences between the stated rates and the current market rates. The fair value of the off-balance-sheet instruments at December 31, 2011 and 2010, were not significant.

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 Requirements”). 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. At December 31, 2012 and 2011, the Branch was in compliance with the Asset Maintenance Requirements.

16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date that the financial statement were available to be issued on February 26, 2013. 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 then ended December 31, 2012.

 <p>M. Grisel Vega GENERAL MANAGER</p>	 <p>Jorge Morales VICE PRESIDENT BCI Miami Branch</p>
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