Annual Report 2023

Building Value

We build value by supporting the financial journeys of our clients with our expertise, personalized service and customized approach to banking.

Building a Global Financial Brand

In 1991, Juan Carlos Escotet Rodríguez, a successful Spanish economist, businessman and banker, acquired Bancentro Group. Renamed Banesco, the organization pursued a strategy of growth through acquisition. Independent banks with presence in Panama, the Dominican Republic, Puerto Rico, Venezuela, Curaçao and the United States were established, forming the Banesco International brand.

In 2012, Mr. Escotet Rodríguez purchased ownership of Banco Echevarría, a 300-year-old Spanish bank. The organization later acquired ABANCA, resulting in his majority ownership in Spain-based ABANCA with a presence in 11 countries.

Banesco International together with ABANCA

As of December 31, 2023

Total Assets	**$93 billion**
Total Loans	**$57 billion**
Total Deposits	**$72 billion**
Net Profit	**$919 million**
Net Equity	**$7 billion**
Countries	**14**
Clients	**7 million**
Branches	**923**
Employees	**12,000**

Banesco International
- Curaçao
- Dominican Republic
- Panama
- Puerto Rico
- United States
- Venezuela

ABANCA
- Brazil
- France
- Germany
- Mexico
- Panama
- Portugal
- Spain
- Switzerland
- United Kingdom
- United States
- Venezuela

Banesco USA

As an independent state-chartered bank headquartered in Florida, we opened our first branch in Coral Gables in 2006.

We expanded to San Juan, Puerto Rico in 2010, and by 2019, our network grew to include an additional four South Florida branches. In 2023, we opened a branch at our new corporate headquarters in Miami and a loan and deposit production office in West Palm Beach.

We specialize in servicing middle-market and multinational businesses with a comprehensive range of FDIC-insured deposit products and Treasury Management services provided through secure digital banking channels. Our lending expertise extends to the commercial real estate, construction, and commercial and industrial sectors. We provide relationship banking for professionals, executives and international businesses, and high-net-worth individuals and families with U.S. banking needs. We also customize banking for individuals residing near our branches, offering personalized service, digital banking and competitive deposit and lending solutions.

Banesco USA

As of December 31, 2023

Total Assets	**$3.80 billion**
Total Net Loans	**$2.85 billion**
Total Deposits	**$2.97 billion**
Net Profit	**$22.71 million**
Branches	**6**
Employees (FTE)	**341**
BauerFinancial Rating	**5-Star**

Kroll Rating

Action: Affirm 12/5/23

Outlook/Watch LTR	**Stable**
Deposit	**BBB**
Senior Unsecured Debt	**BBB**
Subordinated Debt	**BBB-**
Short-Term Deposits	**K3**
Short-Term Debt	**K3**

Building Value by Delivering Results

Assets

2021	$2.1B
2022	$3.0B
2023	$3.8B

Loans

2021	$1.6B
2022	$2.3B
2023	$2.8B

Deposits

2021	$1.6B
2022	$2.4B
2023	$3.0B

Net Income

2021	$20.5M
2022	$23.1M
2023	$22.7M

Building Value for Our Clients, Employees and Communities

The Banesco USA relationship approach to banking enables us to attract new clients, extend credit at record levels and service clients in new ways. 2023 was another incredible year as demonstrated by the exceptional execution of our strategic initiatives, the unwavering loyalty of our clients to our brand and our recognized leadership in the community.

Achieving at record levels

We attribute our success to our core operating strategy, focused on enhancing the financial journeys of our clients. By delivering tailored banking experiences that blend innovation with banking expertise, we are actively building value as reflected in our strong financial results.

Assets reached an all-time high of $3 billion in January 2023 and the momentum continued throughout the year as we pursued organic growth strategies while maintaining a disciplined approach to managing loan quality, capital and client experiences.

In 2023, we achieved strong financial performance across key performance indicators with assets, loans and deposits climbing to the highest levels in the Bank's history.

Enduring challenging times

Our industry experienced turbulence early in the year, as we witnessed unanticipated bank closures. We leaned heavily on our dedicated team of bankers, who invested their time to initiate meaningful conversations with clients to address their concerns and provide them with thorough insights into the Bank's financial stability, including liquidity, capital and asset diversification. This personalized approach demonstrated to our clients that we understood their concerns while showcasing the Bank's resilience during a challenging time for the financial services industry.

Investing in the future, our future

Our new corporate headquarters in Miami represents a significant investment in building value for the long term. The three-story, 60,000-square-foot building underwent a comprehensive renovation to transform a factory into an ultra-modern workspace. Designed to accommodate our anticipated growth and expansion, our corporate headquarters offers a reimagined workspace conducive to collaboration, creativity and client servicing. This investment underscores our enduring commitment to serve our community while strategically positioning us geographically closer to our existing client base and key markets in the professional, industrial and business sectors. I encourage you to explore more about this visionary workplace setting in the pages that follow.

Innovating with Artificial Intelligence (AI)

As technologies advance and demand for innovative banking solutions grows, we are judiciously deploying AI solutions tailored to our industry. These solutions are instrumental in enhancing customer service and streamlining our operational efficiency. Mindful of AI complexities and with careful oversight, we aim to build value for our enterprise and client relationships while upholding our commitment to forward-thinking, responsible innovation.

Introducing a premium brand

To enhance relationship banking within the premium market, we introduced an elevated brand, BanescoSelect. Launched in 2023 to our international clients with U.S. banking needs, BanescoSelect offers an attractive value proposition of banking products and services and provides curated experiences distinguished by personalized attention from a dedicated relationship team possessing expertise in country-specific nuances and comprehensive banking knowledge to address the broad needs of businesses, and high-net-worth individuals and their families. Our dedicated team of BanescoSelect Relationship Managers serves a limited number of clients to ensure ample time for meaningful dialogue and attention to every detail. BanescoSelect also offers exclusive opportunities to earn Rewards, enjoy reduced fees and access additional benefits.

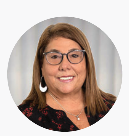
Expanding our expertise

With abundant sunshine, warm weather and no state income tax, we operate in one of the most attractive residential markets in the United States. We anticipate continued migration to South Florida and foresee a sustained demand for residential loans. We have expanded our capabilities with the addition of licensed mortgage originators to deliver a seamless, high-touch experience.

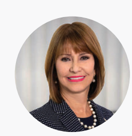
We have expanded our lines of business to include: the establishment of a Business & Professional team of seasoned bankers who are dedicated to servicing the banking and lending needs of small- to medium-sized businesses; the addition of experienced Commercial and Industrial lending professionals to diversify the portfolio; and the opening of a loan and deposit production office in West Palm Beach to cater to the influx of businesses, professionals and individuals.

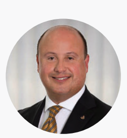
Executive Management

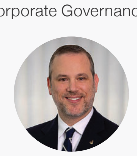

Calixto (Cali) García-Vélez
President & CEO

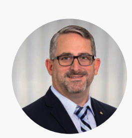

Mercedes Escotet
Executive Vice President
Chief Corporate Governance Officer

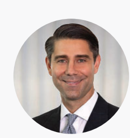

Leticia Pino
Executive Vice President
Chief Administrative Officer

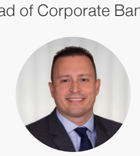

Maritza Abadía
Executive Vice President
Puerto Rico Market President

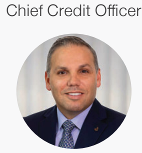

Nelson Hidalgo
Executive Vice President
Head of Corporate Banking

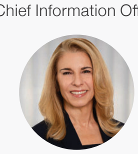

Michel Vogel
Executive Vice President
Chief Credit Officer

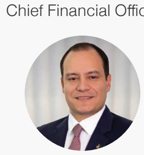

Julio Valle
Executive Vice President
Chief Information Officer


Kenneth Schoeni
Executive Vice President
Chief Financial Officer


José Morales-Santiago
Executive Vice President
Chief Risk Officer


Gustavo Rengifo
Senior Vice President
Customer Success Officer


Norma Sabo
Senior Vice President
General Counsel


Luis Pereda
Senior Vice President
Head of International Banking

Effective September 2024

Expanding lending opportunities

Our commitment to continuing to build sustainable financial futures for our communities is showcased by our selection as the recipient of $250 million in capital investment from the Emergency Capital Investment Program (ECIP) from the U.S. Department of the Treasury. The Bank was the only recipient in Florida and Puerto Rico of ECIP funds, testament to the confidence in our commitment to serve as a responsible steward of funding that supports minority-owned businesses in the communities we serve.

Building stronger communities

We also are proud to support our communities in meaningful ways through employee and corporate giving and volunteer opportunities that not only lift up organizations providing essential services to children, enhancing financial literacy and encouraging at-risk youth to reach their full potential, but also encourage our employees to explore their interests and take pride in building our communities.

Banesco USA earned a 5-star Superior rating from BauerFinancial, an independent bank rating firm. The Bank and our leadership team was also recognized for their outstanding leadership and earned awards including: Power Leaders 250, Business of the Year and Influential Businesswomen awards from the South Florida Business Journal; Apogee 2023 and Up and Comer awards from South Florida Business & Wealth Magazine; Rising Star and Diamond Awards from the Coral Gables Chamber of Commerce; and South Florida Hispanic Chamber of Commerce 2024 Hispanic Leadership Award.

Finally, in 2023 we were pleased to welcome José B. Carrión III as the newest member of our Board of Directors. His 25 years of experience and insight as a seasoned financial services executive will contribute greatly to achieving our sustainable growth goals.

We thank our clients for their business, our directors for their leadership and our community for their support. We look forward to creating value for our stakeholders in everything we do.

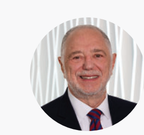
Calixto (Cali) García-Vélez
President & CEO

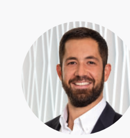
Board of Directors


Carlos Palomares
Chairman of the Board

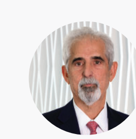

Juan Carlos Escotet Rodríguez
Vice Chairman of the Board

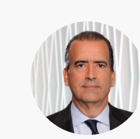

Calixto (Cali) García-Vélez
President & CEO


Seno Bril
Director


Carlos Eduardo Escotet Alviarez
Director


Alvaro Morales
Director


Edward Holden
Director


José B. Carrión III
Director

Living Our Core Values

Responsibility

We integrate our Core Values into our work practices.

We deliver on our commitments to our customers, team members and the communities we serve.

We are focused on exceeding our customers' expectations to curate personalized banking experiences.

We value diversity and embrace ideas that are different from our own.

Reliability

We prioritize the needs of our clients and the bank over individual interests.

Generosity and responsibility guide us. We value the impact of our actions and believe in the power of collaboration.

We acknowledge our organizational capabilities, accept responsibility for our actions and work together for the best outcome.

Our Core Values are at the center of our decisions and the actions we take. They are the cornerstone of our success and the compass that guides our future.

Quality

We work passionately to provide the best solutions for our clients while optimizing resources.

We equip ourselves with agile, simple and scalable processes that empower us to implement the right solutions.

Innovation

We encourage team members to innovate and understand that success requires evaluation to learn from our experiences.

We have a vision to remain an integrated, interconnected organization.

We responsibly adopt technological and non-technological solutions and implement them in a timely and efficient manner.

The Banesco USA Market Opportunity

South Florida, encompassing the tri-county metro regions of Miami, Fort Lauderdale and Palm Beach, is one of the most attractive U.S. banking markets due to its expanding population, thriving economy and global demographics.

Large & Growing Population

3rd
Florida ranking as the most populous state

$6 million
South Florida residents

27%
Percentage of Florida population residing in South Florida

136,918
Population growth between 2020 and 2023

Top 10
South Florida ranking as one of the fastest-gaining metro regions in the nation

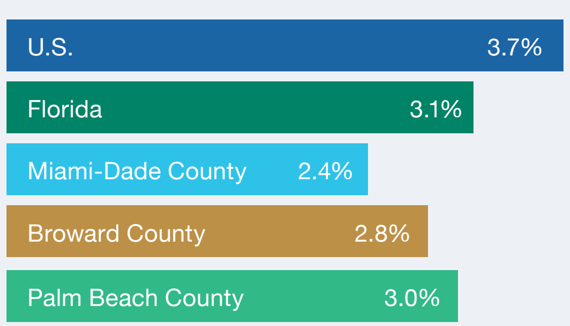
#1
Florida ranking for income migration, more than triple the second-highest income migration state

$14 million
Income migration to South Florida

Sources: Florida Chamber Foundation 2023, Florida Legislative Office of Economic and Demographic Research 2023, U.S. Census Bureau July 2023

Unemployment Rate

as of December 2023



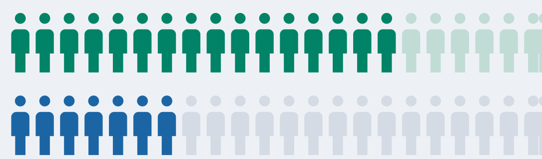
Source: U.S. Bureau of Labor Statistics December 2023

Growing Job Market in 2023

Private Sector

During 2023, private sector jobs increased by 2.6% compared to the 1.5% national increase

Labor Force



During 2023, the labor force grew by 3.3% compared to the 1.5% national growth rate

Source: FloridaCommerce January 2024

Increasing Personal Income

Income for Florida residents increased **7.0%** the largest increase in any state in the nation and **well above the 5.2% national average**

Source: Bureau of Economic Analysis March 2024

Desirable Quality of Life

5 Professional Sports Teams

15 Colleges and Universities

3,341 Miles of Atlantic Coastline

$0 Personal State Income Tax

Source: State of Florida

Diverse Mix of Business

Top Industries by Employment
Miami-Fort Lauderdale-West Palm Beach

Source: FloridaCommerce January 2024

Strong Housing Demand

21%
of 363,090 closed sales on residential properties were in South Florida

Median Home Sale Prices
Percent Change 2022 to 2023

County	Single-family Homes	Townhomes
Miami-Dade County	9.1%	5.5%
Broward County	5.5%	9.2%
Palm Beach County	4.6%	6.9%

Source: Florida Board of Realtors January 2024, Miami Board of Realtors January 2024

Significant Tourism Economic Impact

26.5 million visitors to Miami, fueling the economy with $20.8 billion in spending

Globally Connected

Nearly **6 million** international visitors to Miami

23 million international passengers served by Miami International Airport, **up 8.5%**, including 144 global locations with non-stop flights

Home to over **100 foreign** consulates, foreign trade offices and bi-national chambers of commerce

Home to **1,400** multinational corporation headquarters

Second largest international finance hub on the U.S. east coast

69% of the Miami-Dade population is Hispanic or Latino

Top Florida Seaports

Top Cruise Passenger Traffic
#2 Port Miami
#3 Port Everglades (Fort Lauderdale)

Top Cargo Tonnage
#2 Port Everglades (Fort Lauderdale)
#5 Port Miami

Top Cargo TEUs
#2 Port Miami
#3 Port Everglades (Fort Lauderdale)
#4 Port of Palm Beach

Sources: Beacon Council December 2023, Florida Chamber Foundation 2022, Greater Miami Convention & Visitors Bureau 2022

> **“The conversion of the industrial building to an ultramodern space is a testament to the Banesco USA team members who had the vision to see the potential and embrace opportunities in throughout South Florida.”**
>
> **Lettie Pino Executive Vice President,**
> Chief Administrative Officer

An on-site cafe featuring an outdoor terrace is a key element of the new corporate headquarters, designed to foster a collaborative work environment.

Investing in Our Future

Recognizing the long-term potential of the South Florida market, we made a strategic investment in converting a former factory into a prominent, highly visible bank-owned corporate headquarters in Miami, Florida.

The project began in 2019 with the purchase of industrial space beside one of South Florida’s busiest highways, the Palmetto Expressway, which accommodates as many as 250,000 vehicles per day. Employee survey responses and geocoding of their residential addresses contributed to our decision to select this highly visible location, which also positions us closer to our commercial and industrial clients in the manufacturing, wholesale trade and aviation industries.

Our new headquarters reflects a forward-thinking approach to workspace design. The ultramodern building, abundant with natural light and open spaces, fosters an environment conducive to productivity and creativity. Environment-friendly recycled materials were used for desks, chairs and other furniture and finishes. With an emphasis on employee well-being, the headquarters offers amenities such as a cafe-style restaurant with an on-site chef and an outdoor patio, encouraging social interaction and relaxation. Cutting-edge technology in conference rooms and an interactive training room underscores our commitment to innovation and continuous learning, catering to both in-person and virtual partnerships.

By prioritizing workflow efficiencies and team collaboration, the new space is not only designed to enhance employee satisfaction but also to create a welcoming atmosphere for clients and community leaders, embodying the Bank’s values of warmth, appreciation and other-focused service.

Occupancy of the converted 60,000 square-foot, three-story facility currently accommodates approximately 300 employees. The third floor of the building stands as a testament to our forward-thinking approach, offering ample space for expansion initiatives and organic growth.

As we continue to innovate and expand our reach, this additional capacity ensures we can seamlessly scale our operations to accommodate future opportunities and underscores our commitment as an agile organization to execute long-term strategies that meet the demands of our dynamic industry.

Today, the completed facility is rapidly emerging as an iconic landmark, symbolizing our unwavering dedication to serving individuals and businesses throughout South Florida and the neighboring countries for which Miami serves as the gateway to essential financial and other services. We are building value by investing for the long-term.

Banesco USA Footprint

East Doral, FL (Headquarters)

Situated one mile from Miami International Airport, the local market is densely populated with commercial and industrial businesses, including 250 corporate headquarters and over 100 multinational companies.

Miami, FL (Brickell)

Located in Miami's financial district, referred to as the Wall Street of the South, the area is characterized by lavish residential skyscrapers that are reshaping the Miami skyline.

Aventura, FL

With a population that is over 50% Hispanic, the Miami suburb showcases luxury condominium developments and Aventura Mall, the largest indoor luxury shopping destination in Florida.

West Palm Beach, FL

Located in one of the fastest-growing Florida markets, the loan and deposit production office serves entrepreneurs, businesses and high-net-worth individuals.

Coral Gables, FL

The affluent community is home to more than 10,000 businesses, and over 20 consulates and foreign government offices. Median home prices are more than triple the Florida average.

Hialeah, FL

A densely populated community with a population that is 94% Hispanic, the city is the sixth largest municipality in Florida. The economy is driven by small family-owned businesses effectively competing with national chains, as well as commercial and industrial enterprises.

San Juan, PR

Currently undergoing expansion and renovation to prepare for future growth, the office occupies a bustling corner office space in the Downtown San Juan business district.

Branch at the headquarters building
Opened in 2023

Building Value With Our Branch Distribution Network

As technologies evolve and new digital channels emerge, we firmly believe that banking remains a people business.

We recognize that when making important banking decisions, such as obtaining a home mortgage, securing a business loan or introducing new payment methods to customers, people seek the guidance and assurance of a trusted banker with whom they can interact face-to-face. Offering our expertise and simply being there for our clients is the foundation for our past accomplishments and the pathway to our continued success.

Our brick-and-mortar presence remains a component of our service delivery strategy. We evolve the technology and configuration of these spaces to expedite transaction processing and enhance self-serve knowledge of our products while maintaining personal service.

We leverage our branch distribution network to establish trusted and meaningful relationships with our clients. We forge lasting connections by deeply understanding their financial aspirations and actively assisting them in achieving their goals.

Expanding Our Capabilities

Since our entry into the South Florida market in 2006, we have focused on meeting the increasing demands of the commercial real estate sector.

Our expertise and customized lending solutions established the Bank as one of the area's premier commercial real estate lenders, evident in our track record for financing significant residential developments, office buildings and condominiums. Our leadership position is supported by the market's top developers turning to us to finance their next property. While commercial real estate remains core to our business strategy, we are proactively diversifying our specialties to broaden our loan portfolio and remain attuned to emerging industries in our markets. This is what enhances our brand and also creates value.

Commercial & Industrial

Leveraging our strong capital position, we executed our strategic priority to diversify our loan mix. In 2023, we expanded our capabilities by attracting a specialized team with deep expertise in the Commercial & Industrial sector. The team is targeting new relationships across manufacturing, wholesale and retail trade, transportation, logistics and other key business markets. Committed to servicing these businesses with expertise, the Bank developed the necessary capabilities and retained talent with the knowledge and skill set to serve the Commercial & Industrial sector. These strategic initiatives strengthen our ability to adapt to evolving business needs while retaining and nurturing valuable talent and fueling responsible loan growth.

Business & Professional

Recognizing this significant growth potential, we established a Business & Professional division to address the varying business needs of the market and provide comprehensive banking solutions tailored to entrepreneurs, small businesses and professionals. The new division redefines traditional banking experiences by offering all-encompassing solutions while streamlining customer service. Our Business & Professional division bankers are our clients' committed financial partners, focused on delivering personalized and innovative banking to support their financial visions.

Affluent Individuals & Businesses

The growth in opportunities to serve affluent individuals and successful businesses has been propelled by various factors, including demographic shifts resulting from the pandemic and the allure of South Florida's favorable climate, tax environment and vibrant economy. To meet the needs of this growing market segment, we established a dedicated team in West Palm Beach, poised to provide tailored financial solutions and personalized service to the area's high-net-worth individuals and businesses. The team brings deep roots in the West Palm Beach community, along with expertise in commercial lending, home financing and day-to-day liquidity management services for high-balance clients. The West Palm Beach team attracts business and personal relationships, offering a unique client-centric approach lead by a Relationship Manager who is supported by a team of specialists.

Home Buyers

The climate, proximity to the ocean and tax advantages sustain the appeal of the South Florida residential real estate market. We expanded our team of home loan specialists and enhanced tools to maximize opportunities. Complemented by the expert service of licensed mortgage loan originators, we offer a comprehensive range of products tailored to accommodate diverse needs, including financing for primary and second homes, residential income properties and home equity solutions.

Expanding Capabilities to Service Specialized Sectors

Global Relationships

To better serve our customers' unique banking needs, we realigned resources to manage and service relationships based on transaction patterns and balance trends. Single-service relationships were migrated to innovative, secure self-service digital banking channels. Relationships with high balances and complex banking needs were transitioned under the leadership of a Relationship Manager and dedicated servicing team. This agile model provides responsive solutions based on customer needs and preferences, with the opportunity to access personalized, high-touch service and earn rewards based on relationship balance.

Multinational Corporations

Our international business deposit accounts and Treasury Management services provide flexible options for companies to manage incoming and outgoing payments on a global scale. Offering value-added deposit accounts for the employees of our multinational clients further deepens relationships. Our infrastructure is built to monitor account activity and help our clients mitigate risk.

Our trilingual workforce, along with delivery channels available in multiple languages and in-person and virtual communication options, offer convenient and secure access for our non-U.S. personal and business clients to monitor, transact and manage their accounts.

As clients' financial needs evolve and require specialized knowledge, our agile team of banking, credit and Treasury Management specialists collaborates to provide insights and support and build a financial relationship that reflects their ever-changing needs.

Facilitating Global Trade

We've built strong relationships with a growing network of bank partners throughout Latin America and Europe. We participate annually in FELABAN, the premiere in-person forum connecting international banking leaders for secure settlement of cross-border payment transactions. We also structure line of credit and letter of credit facilities to support our clients' export and import businesses worldwide.

"Whether our clients seek to access their account using a mobile device, transfer funds electronically or transact business globally, our digital solutions leverage technologies to provide secure, convenient banking anywhere, anytime."

Luis Pereda
Senior Vice President, Head of International Banking

Low-income & Minority Borrowers

With a $250 million investment from the U.S. Treasury Department Emergency Capital Investment Program (ECIP), Banesco USA received the largest amount of funding of any financial institution in Florida and Puerto Rico.

We will deploy this capital for the next 10 years to eligible minority-owned businesses to support their efforts to meet local needs by creating vibrant communities and sustainable economies.

Making realities happen for people like Claritza Navarro Avillán

In the vibrant municipality of Vieques, Puerto Rico, the impact of the Banesco USA commitment to community lending is tangible. Claritza Navarro Avillán, a determined business owner, envisioned expanding her enterprise to meet the rising demands of the island's tourism industry. With access to strategic financing, Claritza acquired a prime commercial property in Isabel II, laying the foundation for a new Maritza's Car Rental location.

"Our financial expertise and portfolio of lending programs provide our clients with the confidence to pursue their next opportunity while simultaneously and positively impacting our communities."

Nelson Hidalgo
Executive Vice President, Head of Corporate Banking

Building Value with a Premium Brand: BanescoSelect

Our accomplishments during the year are highlighted by the creation of our premium brand, BanescoSelect.

This brand was curated for clients who seek an elevated standard in banking, blending the efficiency of innovative technologies and the value of personalized service to ensure banking is a luxury and enriching experience.

We empower our clients with the tools and resources they need to achieve their financial goals and pursue new opportunities. We understand that each client is unique, with distinct aspirations and preferences. Our client-centered approach focuses on customization, ensuring that every aspect of the banking experience reflects individual needs and vision, whether personal or business related.

Central to the BanescoSelect experience is the Relationship Manager who engages in meaningful dialogue and goal setting to understand financial aspirations. Relationship Managers are supported by a team of servicing specialists to ensure the expedited handling of requests and servicing satisfaction.

By limiting the number of clients each Relationship Manager serves, we prioritize quality over quantity, allowing for a more attentive and tailored approach. When our clients' needs evolve in complexity and require the knowledge of additional specialists, we assemble a team of banking, lending and cash flow management experts who provide insights and support.

As we look to the future, BanescoSelect remains at the forefront of our strategic initiatives, driving innovation and setting new standards of banking excellence. We continue to push our creativity to challenge conventions, always with the goal of delivering unparalleled value and service to our clients. Our vision is to pave the way for our new premium brand, defined by client-centricity.

Introduced in 2023 to our international clients with U.S. banking needs, BanescoSelect will soon be expanded to serve our personal and business clients in South Florida and Puerto Rico.

A brand symbolic of empowerment and aspiration

The essence of the BanescoSelect brand embodies aspiration, reflecting a vision of excellence and achievement. It conveys a sense of prestige, sophistication and ambition, inviting our clients to align themselves with a brand that symbolizes success and fulfillment. Through messaging and visual elements, BanescoSelect communicates a promise of elevated experiences and opportunities for growth, catering to those who aspire to realize their fullest potential with the support of a financial expert throughout every stage in their journey.

The Puerto Rico Market Opportunity

3.4 million
Residents

5.1 million
Visitors to Puerto Rico, generating $8.9 billion in travel and tourism revenue annually

Sources: Discover Puerto Rico 2022, Invest Puerto Rico 2022, U.S. Census Bureau 2020

Education creates a strong foundation for growth

Puerto Rico has more than 80 campuses of accredited universities and colleges awarding undergraduate, master's and doctorate degrees. More than 50% of university students graduate with a STEM (science, technology, education or mathematics) degree.

Five-year growth exceeding U.S. averages

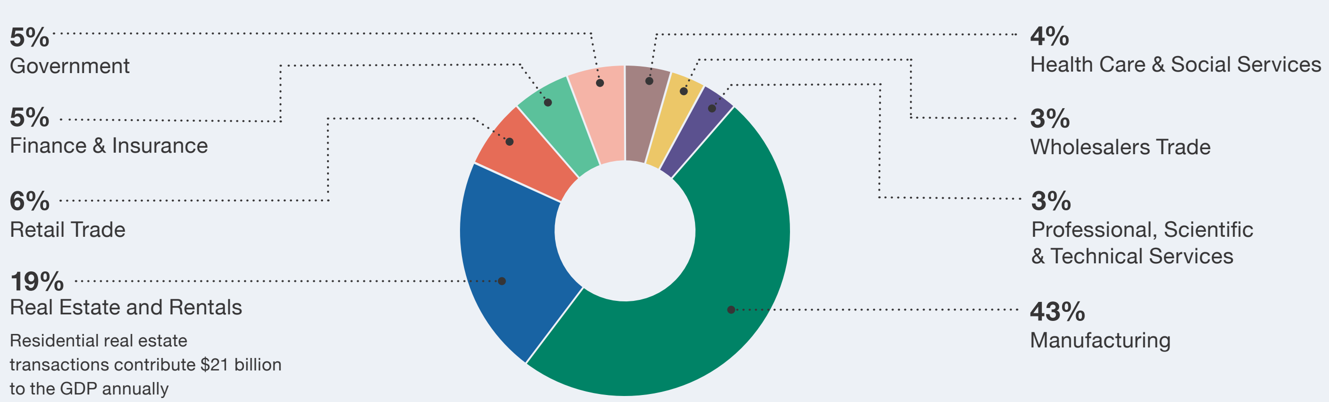
	Finance and insurance	Professional, scientific & technical services	Health and social services
Puerto Rico	32%	45%	23%
U.S.	22%	30%	16%

Source: Financial Oversight & Management Board for Puerto Rico October 2023

Manufacturing comprises 43% of the GDP

Puerto Rico is home to seven of the world's top 10 medical device manufacturers, employing more than 20,000 residents and producing over 2,500 unique types of medical devices, including 75% of global FDA Class III devices such as defibrillators, insulin pumps and contact lenses, and 90% of the world's pacemakers. Pharmaceuticals comprise over 50% of exports and 90% of outgoing air cargo is a life science product.

Additional manufacturing contributions to the economy include cabling and machinery for the aircraft, aerospace and military industries, and textile, wood and fabricated metal products.



Sources: Financial Oversight & Management Board for Puerto Rico 2022, Today's Medical Developments 2021

Building Value in Puerto Rico

Since opening our office in San Juan, our presence in this growing market has helped build the island's infrastructure and growing economy and benefitted local residents and businesses.

Our commitment to responsible corporate citizenship is reflected in our continuous efforts to empower women, entrepreneurs and micro businesses. Through our work with Corporation for Business Financing of Commerce and Communities (COFECC), a Community Development Financial Institution (CDFI), we provide loans to established entrepreneurs and small businesses that strengthen the local business fabric.

We also leverage our capital position and serve as responsible stewards of the $250 million awarded to the Bank from the U.S. Department of the Treasury ECIP (Emergency Capital Investment Program) to extend credit to eligible minority-owned businesses located in minority and underserved areas.

"Our commercial lending programs and diverse partnerships build our economy, support the growth of local businesses and serve vulnerable populations, ensuring the sustainability of our communities."

Maritza Abadía
Executive Vice President, Puerto Rico Market President
Appointed in April 2024

$35.5 million
Loan to Women & Children's Hospital in Bayamón, the only private pediatric hospital in Puerto Rico

$30 million
Loan to finance the construction of a veterans recovery center in San Juan that will serve 700 veterans per year, and create 750 jobs during construction and 95 permanent positions

$400,000
Loan to Maritza's Car Rental for the purchase of a commercial property to serve thousands of annual visitors to Vieques

We share our knowledge in the financial services industry to drive economic stability and improve the quality of life for Puerto Ricans. Leaders of nonprofits benefit from our training scholarships to learn how to operate their organizations, and draw on our insights to develop staff through our work with Eco Comunidad Resources. Women entrepreneurs are empowered through training and mentoring programs offered in partnership with Mujer Emprende Latina.

We also dedicate our resources and extend our corporate support and employee volunteer time to organizations serving at-risk children and families in crisis with educational programs, social services, healthcare and housing that support physical, mental and social needs, including: A-MAR Fundación para Niños Quemados, Gogó Foundation, Crearte, Manuel Fernández Juncos Children's House, Hogar Cuna San Cristóbal, Alianza para un Puerto Rico sin Drogas and the Cupey Girls' Home.

Certainty of Execution

What does that mean to our clients?
Value.

At Banesco USA, we deliver value at every client touchpoint. We refer to this as Certainty of Execution.

For our clients, Certainty of Execution is having a partner that travels with them, side by side, through every step of their financial journey. Products are customized to meet evolving needs with easy access to funds and simple ways to transact business.

Certainty of Execution is the assurance that transactions will be processed reliably, accurately and promptly. It's a steadfast commitment to consistently fulfilling client expectations.

Certainty of Execution prioritizes efficiency, transparency and dependability to ensure trust in our operations. It's creating seamless, innovative and personalized banking experiences.

Certainty of Execution is about delivering value.

Building Rewarding Relationships

Our strategic growth priorities are to build value for our customers by assisting businesses in capitalizing on opportunities for growth, diversification and profit optimization while also facilitating seamless financial transactions for individuals, whether they're paying bills, transferring funds to a child in college or purchasing their first home.

We execute on these priorities through a comprehensive range of products and delivery channels catering to the evolving needs of businesses and individuals who seek flexibility in their banking experiences and personalized services to meet their preferences.

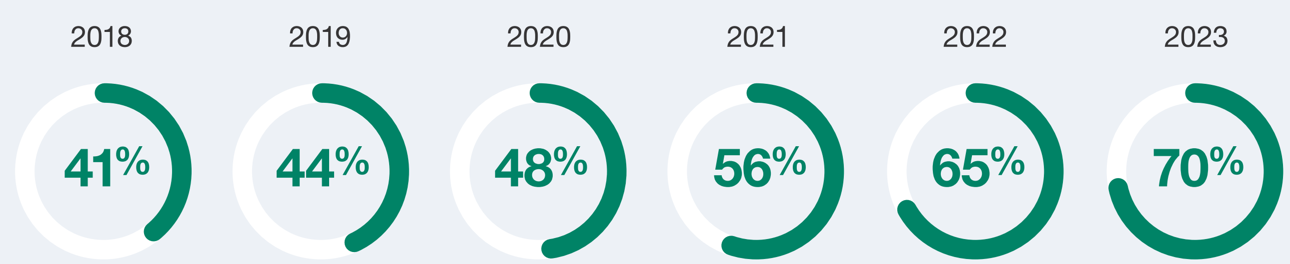
The rapid adoption of new and innovative technology is accelerating, particularly with the entry of Gen Z into the workforce. As this tech-savvy generation increases their need for banking services, we anticipate further transformation in the industry. Continuously analyzing emerging technologies, we remain committed to investing in banking solutions for the future, ensuring that we evolve by using solutions that ensure safety and privacy.

During 2023, more than 90 percent of our clients utilized our online and mobile banking technologies. Most of our customers use multiple channels to handle their banking and interact with us. That is why we deliver choice, convenience and dependability.

As fewer individuals and businesses use paper checks, the electronic processing of incoming and outgoing payments for businesses is rapidly increasing. During 2023, we organized our Treasury Management team of experts to offer a strategy, assigning a servicing specialist to each client relationship. This helps ensure that our clients have the products they need to manage their cash flow and the support they require whenever they need assistance.

We continue to create value for our clients with innovative product offerings and convenient service delivery channels. Still, technology will never replace the value of the trust and confidence that our bankers provide through nurtured client relationships.

We attribute the yearslong consistent upward trend in our Net Promoter Score (NPS) to our commitment to offering personalized service, continuous evolution of innovative banking solutions and Certainty of Execution. The NPS gauges customer loyalty and satisfaction based on the likelihood of recommending our Bank to others.



Building Strong Communities

At Banesco USA, supporting sustainable and thriving communities is central to our business purpose. This includes providing financial support through fundraising events, donations and sponsorships, as well as organizing employee volunteer initiatives. By leveraging our resources and expertise, we strive to better understand and address the evolving needs of individuals and businesses to drive positive change in our communities.

Throughout 2023, we proudly collaborated with dozens of organizations to support solutions that address a wide variety of local challenges. Our engagement ranged from charitable funding to mentoring and educational programs to community-building efforts. Taking on leadership roles, we participated in strategic discussions with organizations to support initiatives advocating for affordable housing, child abuse prevention, homelessness solutions, financial literacy and other critical issues.

We accomplished these goals in partnership with several organizations including **Casa Familia**, **Chapman Partnership**, **Prospera**, **Survivors' Pathway** and **United Way Miami** among others.

Through collaboration with local chambers, including the **Coral Gables Chamber of Commerce** and **Greater Miami Chamber of Commerce**, as well as other economic development organizations, we fostered economic growth and supported the local business community.

We are also dedicated to promoting financial literacy. Through workshops, community partnerships and mentoring, we equip individuals with the knowledge and tools needed to make informed financial decisions. By fostering financial confidence, we building communities with stronger and more secure financial futures.

Building Pathways to Success for Underserved Individuals and Neighborhoods

The Community Reinvestment Act (CRA) guides our efforts to address the credit needs of underserved communities by focusing on three pillars.

Affordable Housing

We seek strategic partnerships with developers, advocacy groups and organizations such as **Casa Familia**, **Florida Community Loan Fund** and **Habitat for Humanity of Greater Miami** to increase access to affordable housing for low- and moderate-income individuals and families.

Education

We support initiatives that expand access to quality education and promote lifelong learning opportunities. From scholarships and mentorship programs with **Amigos for Kids**, **Branches** and **Cristo Rey Miami High School**, to financial literacy initiatives with **I Have a Dream Foundation**, **Junior Achievement of Greater Miami**, **Mark E Curry Foundation**, **The Lucy Project**, **The Women's Fund** and **United Way Miami**, we empower underserved youth and adults with the knowledge, skills and resources they need to succeed academically, professionally and personally.

Small Business Development

We recognize the role small businesses have in fueling local economies. By partnering with small business support organizations, such as **Eco Recursos Communitiatrios**, **Mujeres Emprende** and **Lendreams** in Puerto Rico, as well as **Prospera**, **Small Business Administration** and the **YWCA** in Miami-Dade, we help provide pathways to financial resources, mentorships and other opportunities to stimulate and sustain the success of small- and minority-owned businesses.





Employee Volunteerism

Last year, our employees demonstrated outstanding dedication to community service, collectively contributing over 700 hours of volunteer time to positively impact the lives of our neighbors and neighborhoods.

They helped empower underserved communities by conducting financial literacy classes in partnership with nonprofits and schools, and spearheading numerous initiatives to support low-income students and families by organizing toy drives, preparing backpacks filled with school supplies and other events supporting **Branches**, **Chapman Partnership** and **St. Jude Children's Hospital** among others.

In addition, Bank representatives served on boards and committees with several nonprofit organizations, providing their time and expertise to help improve the outcomes of these organizations that reach low- and moderate-income individuals and neighborhoods.

Most notably, employees participated in the Bank's first annual **United Way Workplace Campaign**, demonstrating their commitment to support a wide range of community needs through their generous financial contributions.



Building a Great Place to Work

We recognize that our team of employees is our greatest asset and strive to create a workplace experience that demonstrates our appreciation for their contributions to our success. Our corporate culture is built on our belief that work can be meaningful and satisfying, and a professional workplace can be fun, too. Our approach is successful: 92 percent of employees completing our annual engagement survey responded they are committed to the organization, satisfied with their workplace experience and highly motivated to contribute to efforts to achieve the Bank's strategic vision.

Employees participate in dozens of events each year, coming together at our corporate headquarters and branches to celebrate an inclusive variety of holidays, as well as fun-filled pop-up events like Ice Cream Day, Croqueta and Coffee Day and Smoothie Bike Day. We also host an annual holiday party featuring dinner, live music and dancing at an off-site event venue.

We invest in the professional development of our team with in-person and virtual training programs, including our Universal Banker initiative to up-skill and cross-skill employees and encourage them to explore opportunities by experiencing roles and responsibilities in other areas of the Bank. Our Human Capital team creates customized career development plans to help employees take ownership of their career path and guide them in their journey to achieve their professional aspirations.

We offer a robust benefits program providing paid time off, insurance coverage, retirement savings plans, tuition reimbursement and opportunities to earn rewards for exemplary performance. Our hybrid work schedule, embraced by 95 percent of our workforce, provides a work/life balance with on-site and remote work while maintaining productivity and meeting our service delivery quality standards.

Through our partnership with the Corporate Work Study Program at Cristo Rey Miami High School, we are building the next generation of professionals. Each year from August through May, student interns work five full days per month in job sharing roles with employees, gaining valuable real-world experience, skills and contacts that prepare them for their future careers.

Facilitating communication with and among our employees is also a top priority. A quarterly town hall meeting, BanesTalks, led by executive management shares the team's accomplishments, recognizes outstanding performers, celebrates milestones and reinforces strategies to achieve shared goals. President and CEO Calixto García-Vélez hosts a monthly breakfast with a small group of employees to personally and informally talk with them and learn about their workplace experiences. Internal chat messaging technology simplifies quick and convenient communication among colleagues, who also gather at our on-site cafe-style employee restaurant and outdoor patio for camaraderie and conversation.

BANESCO USA AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

BANESCO USA AND SUBSIDIARIES

TABLE OF CONTENTS:

Crowe

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Banesco USA and Subsidiaries
Miami, Florida

Opinion

We have audited the consolidated financial statements of Banesco USA and Subsidiaries ("Banesco USA"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Banesco USA as of December 31, 2023 and 2022, 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.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, Banesco USA's internal control over financial reporting as of December 31, 2023, based on criteria established in the *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated April 23, 2024 expressed an unmodified opinion.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, Banesco USA has changed its method of accounting for credit losses effective January 1, 2023 due to the adoption of ASU 2016-13 Financial Instruments – Credit Losses (ASC Topic 326). Banesco USA adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

(Continued)

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Banesco USA's ability to continue as a going concern for a reasonable period of time.

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

Crowe LLP

Crowe LLP

Fort Lauderdale, Florida
April 23, 2024

Management's Report on Internal Control Over Financial Reporting

Banesco USA and subsidiaries internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable consolidated financial statements in accordance with generally accepted accounting principles (GAAP) accepted in the United States of America and financial statements for regulatory purposes and the Consolidated Reports of Condition and Income. Because management's assessment was conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our assessment of internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory purposes. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Management of Banesco USA and subsidiaries is responsible for designing, implementing, and maintaining effective internal control over financial reporting, including controls over the preparation of regulatory financial statements. Management assessed the effectiveness of Banesco USA and subsidiaries internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Reports of Condition and Income as of December 31, 2023, based on criteria established in the Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA). Based on that assessment, management concluded that, as of December 31, 2023, Banesco USA and subsidiaries internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Federal Financial Institutions Examination Council instructions for the Consolidated Reports of Condition and Income is effective, based on criteria established in the Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA).

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Federal Financial Institutions Examination Council instructions for the Consolidated Reports of Condition and Income, as of December 31, 2023, has been audited by Crowe LLP, an independent public accounting firm, as stated in their report dated April 23, 2024.

Banesco USA and Subsidiaries

Miami, Florida
April 23, 2024

CONSOLIDATED BALANCE SHEETS
DECEMBER 31,

ASSETS	2023	2022
CASH AND CASH EQUIVALENTS:		
Cash and due from banks	$ 13,546,926	$ 6,054,424
Interest bearing deposits in other financial institutions	160,393,738	83,364,099
TOTAL CASH AND CASH EQUIVALENTS	173,940,664	89,418,523
Investment securities available for sale, at fair value (amortized cost $410,630,391 and $257,314,266) as of December 31, 2023 and 2022, respectively	382,372,785	219,380,666
Investment securities held to maturity, at amortized cost (fair value $189,637,655 and $214,699,575) as of December 31, 2023 and 2022, respectively	193,654,843	218,205,340
Equity securities	6,601,564	1,826,283
Federal Home Loan Bank stock, at cost	4,471,100	7,059,300
Loans, net of allowance for credit losses of $35,595,228 and $26,454,134 as of December 31, 2023 and 2022, respectively	2,845,881,025	2,312,172,813
Property and equipment, net	32,457,004	30,695,822
Accrued interest receivable	13,567,868	10,346,012
Foreclosed assets, net	-	506,000
Net Deferred tax assets	28,818,959	30,343,843
Bank-owned life insurance (“BOLI”)	109,414,141	61,478,500
Prepaid expenses and other assets	12,537,550	12,920,362
TOTAL ASSETS	**$ 3,803,717,503**	**$ 2,994,353,464**
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Noninterest bearing demand deposits	$ 1,045,336,494	$ 917,081,308
Interest bearing demand deposits	289,867,428	196,838,869
Money market and savings accounts	530,445,346	256,155,940
Time deposits of $250,000 or more	320,124,220	269,481,838
Time deposits of less than $250,000	785,785,001	770,409,107
TOTAL DEPOSITS	2,971,558,489	2,409,967,062
Federal Home Loan Bank advances	50,000,000	141,000,000
Other borrowings - Bank term funding program (BTFP)	284,000,000	-
Subordinated Debt	14,868,163	14,802,245
Accrued interest payable	16,218,378	3,372,034
Accrued expenses and other liabilities	18,926,397	21,045,699
TOTAL LIABILITIES	3,355,571,427	2,590,187,040
COMMITMENTS AND CONTINGENCIES (NOTES 14 AND 16)		
STOCKHOLDERS' EQUITY:		
Preferred Stock, $1,000 par value, 250,000 shares authorized, issued and outstanding in 2023 and 2022	250,000,000	250,000,000
Common stock, $5 par value; 16,000,000 shares authorized; 8,214,277 and 7,502,701 shares issued and outstanding in 2023 and 2022	41,071,385	37,513,505
Additional paid-in capital	83,606,771	72,164,651
Retained earnings	122,577,725	101,941,131
Accumulated other comprehensive (loss) income, net of taxes	(49,109,805)	(57,452,863)
TOTAL STOCKHOLDERS' EQUITY	448,146,076	404,166,424
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 3,803,717,503**	**$ 2,994,353,464**

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

BANESCO USA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31,

	2023	2022
INTEREST AND DIVIDEND INCOME:		
Loans and fees on loans	$ 147,851,425	$ 89,288,655
Investment securities	16,024,162	10,329,972
Federal funds sold and other	15,109,596	1,482,750
Federal Home Loan Bank stock	348,411	549,592
TOTAL INTEREST AND DIVIDEND INCOME	179,333,594	101,650,969
INTEREST EXPENSES:		
Deposits	65,141,604	12,156,528
Federal Home Loan Bank advances	3,387,612	3,941,950
Subordinated Debt	874,877	886,398
Other borrowings	10,129,669	-
TOTAL INTEREST EXPENSES	79,533,762	16,984,876
NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES	99,799,832	84,666,093
PROVISION FOR CREDIT LOSSES	7,878,708	3,971,590
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	91,921,124	80,694,503
NONINTEREST INCOME:		
Service fees on loans and deposits	7,170,102	6,205,397
Bank-owned life insurance income	2,935,641	1,777,682
Loss on sales of investment securities	(2,816,834)	-
Gain/Loss on equity securities	25,281	(172,693)
Gain on resolution of acquired assets	11,057	396,232
Loss on sales of other real estate owned	(158,612)	-
Commissions and other	6,486,315	6,500,911
TOTAL NONINTEREST INCOME	13,652,950	14,707,529
NONINTEREST EXPENSES:		
Salaries and employee benefits	48,276,325	42,668,192
Occupancy	2,667,139	3,253,514
Professional fees	4,973,032	4,157,366
Electronic data processing	5,738,298	4,681,429
FDIC insurance	1,319,252	768,002
Depreciation and amortization	2,717,050	1,639,476
Advertising	1,464,198	1,047,071
Communication	913,535	753,448
Travel and entertainment	397,239	341,177
Insurance and license fees	1,413,858	1,109,945
Provision for Off-Balance sheet	305,145	699,855
Other	2,918,078	2,531,109
TOTAL NONINTEREST EXPENSES	73,103,149	63,650,584
INCOME BEFORE INCOME TAXES	32,470,925	31,751,448
PROVISION FOR INCOME TAXES	9,758,556	8,642,751
NET INCOME	**$ 22,712,369**	**$ 23,108,697**

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

BANESCO USA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
NET INCOME	$ 22,712,369	$ 23,108,698
OTHER COMPREHENSIVE INCOME(LOSS)		
Available for sale securities:		
Unrealized holding gain/(losses) on available for sale investments	6,859,158	(67,392,101)
Unrealized holding gain/(losses) in securities transferred from available for sale to held to maturity	-	39,497,229
Reclassification adjustment for losses included in net income	2,816,834	-
Tax effect	(2,418,998)	6,973,718
Other comprehensive gain/(losses) on available for sale investments	7,256,994	(20,921,155)
Held to maturity securities:		
Unrealized holding losses on securities transferred to held to maturity, net of income taxes	-	(39,497,229)
Reclasification adjustment for amortization / (accretions) realized in income	4,006,146	(1,429,502)
Tax effect	(1,001,537)	10,231,683
Other comprehensive gain/(losses) on held to maturity investments	3,004,610	(30,695,048)
Derivatives:		
Change in fair value of derivatives	(2,558,062)	2,256,513
Tax effect	639,515	(564,128)
Other comprehensive gain/(losses) on derivatives	(1,918,546)	1,692,385
COMPREHENSIVE INCOME (LOSS)	**$ 31,055,427**	**$ (26,815,120)**

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

BANESCO USA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	Common Stock		Preferred Stock					
	Shares	Par value	Shares	Par value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Total
BALANCES AT JANUARY 1, 2022	7,502,701	$ 37,513,505	-	$ -	$ 72,726,786	$ 78,270,299	$ (7,529,045)	$ 180,981,545
Preferred stock issued	-	-	250,000	250,000,000	-		-	250,000,000
Net Income	-	-	-	-	-	23,108,697	-	23,108,697
Other comprehensive Income	-	-	-	-	-	-	(49,923,818)	(49,923,818)
BALANCES AT DECMEBER 31,2022	7,502,701	37,513,505	250,000	250,000,000	72,726,786	101,378,996	(57,452,863)	404,166,424
Cumulative change in accounting principle (Note 2)	-	-	-	-	-	(2,075,775)	-	(2,075,775)
Balance at January 1, 2023 (as adjusted for change in accounting principle)	7,502,701	37,513,505	250,000	250,000,000	72,726,786	99,303,221	(57,452,863)	402,090,649
Capital contribution	711,576	3,557,880	-	-	11,442,120	-	-	15,000,000
Net Income	-	-	-	-	-	22,712,369	-	22,712,369
Other comprehensive Income	-	-	-	-	-	-	8,343,058	8,343,058
BALANCES AT DECMEBER 31,2023	**8,214,277**	**$ 41,071,385**	**250,000**	**$ 250,000,000**	**$ 84,168,906**	**$ 122,015,590**	**$ (49,109,805)**	**$ 448,146,076**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 22,712,369	$ 23,108,697
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	7,878,708	3,971,590
Depreciation and amortization	2,717,050	1,639,476
Net amortization of discounts on investment securities available for sale	2,099,004	2,453,468
Net amortization of discounts on investment securities held to maturity	326,072	133,187
Loss on sales of investment securities avaiable for sale	2,816,835	-
(Gain) / loss on equity securities	(25,281)	172,693
Loss on sale of forclosed assets	158,612	-
Change in cash surrender value of bank owned life insurance	(2,935,641)	(753,283)
Amortization of deferred loan fees	(2,478,176)	(2,432,153)
Amortization of intangible assets	19,286	19,286
Deferred income tax provision (benefit)	(1,077,678)	(1,905,856)
Changes in operating assets and liabilities:		
Accrued interest receivable	(3,221,856)	(2,193,987)
Prepaid expenses and other assets	(2,194,536)	(6,087,220)
Accrued interest payable	12,846,344	2,648,237
Accrued expenses and other liabilities	(2,119,302)	11,923,113
Debt issuance cost	65,918	65,918
NET CASH PROVIDED BY OPERATING ACTIVITIES	37,587,728	32,763,166
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities available for sale	(198,033,572)	(174,603,089)
Reduction of Federal Home Loan Bank stock	2,588,200	6,658,600
(Purchase) of equity securities	(4,750,000)	(1,000,000)
Maturities and principal repayments on investment securities available for sale	14,155,609	22,968,315
Proceeds from sales of investment securities available for sale	25,646,000	-
Principal repayments on investment securities held to maturity	28,230,571	4,600,021
Net increase in loans	(541,362,979)	(721,347,255)
(Purchase) of bank owned life insurance	(45,000,000)	(25,000,000)
Additions to foreclosed assets	-	(506,000)
Sale of foreclosed assets	347,388	-
Net purchase of property and equipment	(4,478,232)	(9,572,305)
NET CASH USED IN INVESTING ACTIVITIES	(722,657,015)	(897,801,713)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	561,591,428	822,343,498
Net increase in Bank Term Funding Program borrowings	284,000,000	-
Decrease in long-term Federal Home Loan Bank advances	-	(340,000,000)
Net increase (decrease) in short-term Federal Home Loan Bank advances	(91,000,000)	141,000,000
Additional capital	15,000,000	250,000,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	769,591,428	873,343,498
NET INCREASE IN CASH AND CASH EQUIVALENTS	84,522,141	8,304,951
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	89,418,523	81,113,572
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 173,940,664**	**$ 89,418,523**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid on deposits and borrowed funds	**$ 66,687,418**	**$ 14,336,639**
Cash paid for income taxes	**$ 13,187,000**	**$ 6,774,000**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

1. GENERAL

Banesco USA and subsidiaries (collectively the "Bank") was founded in 2006 and is an independent, Florida state-chartered bank with six branches between South Florida and Puerto Rico, and a loan and deposit production office in West Palm Beach. The Bank is a member of the Federal Deposit Insurance Corporation ("FDIC") and is supervised and regulated by the Office of the Financial Regulation of the State of Florida and by the FDIC.

Banesco USA serves the commercial real estate sector, small and middle-market businesses, as well as professionals who work in the community. The Bank services domestic and international clients and operating companies with a suite of products and services.

Additionally, as of December 31, 2022 and 2023, the Bank owned 100% of Banesco Estate Holdings, LLC, Brickell Global Markets, Inc. ("BGM"), Brickell Global Advisors ("BGA") and Brickell Global Insurance, Inc. ("BGI"), all Florida corporations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The accounting policies and reporting practices of the Bank conform to the predominant practices in the banking industry and are based on U.S. GAAP. The following is a summary of the significant accounting policies followed by the Bank.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Bank and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Acquisitions

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

Intangible Assets

Intangible assets other than goodwill, which are determined to have finite lives, are amortized over the period benefited, generally five to fifteen years and are periodically reviewed for reasonableness. The recoverability of other intangibles is evaluated if events or circumstances indicate possible impairment. At December 31, 2023 and 2022, intangible assets amounted to $51,429 and $70,714, respectively and are included in prepaid expenses and other assets on the accompanying consolidated balance sheets.

Cash and Cash Equivalents

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Securities

Investment securities consist of U.S. government agency issued securities, collateralized mortgage obligations, mortgage-backed securities, corporate bonds, and municipal securities. Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Transfers of debt securities into the held-to-maturity category from the available-for-sale category are made at fair value at the date of transfer. Any unrealized holding gains or losses at the date of transfer are retained in other comprehensive income and in the amortized cost of the held-to-maturity securities. Such amounts are amortized or accreted over the remaining life of the security.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Equity Securities

Equity securities are carried at fair value, with changes in fair value reported in net income. As of December 31, 2022, total equity securities amounted to $1,826,283, and was comprised of one community development fund. As of December 31, 2023, total equity securities amounted to $6,601,564, and was comprised of one community development fund and one SBIC fund. In 2023, the Bank invested in a Small Business Investment Company (SBIC) in Puerto Rico, which amounted to $550,000 invested as of December 31, 2023.

Federal Home Loan Bank Stock

Federal Home Loan Bank ("FHLB") stock is a restricted asset, carried at cost, and evaluated for impairment. As of December 31, 2023 and 2022, FHLB stock amounted to $4,471,100 and $7,059,300, respectively.

Loans

Loans are reported at their amortized cost net of deferred loan fees or costs, unearned income and the allowance for credit losses. Interest income is generally recognized when income is earned using the simple interest or effective yield method.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Purchased Loans:

Loans acquired in a business combination are recorded at their fair value at the acquisition date. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of expected principal, interest, and other cash flows.

The Bank considers substantially all loans acquired via FDIC assisted transactions to meet the criteria of loans acquired with evidence of impairment. Loans acquired with evidence of impairment are classified as Purchased Credit Deteriorated ("PCD") loans. Loans are identified as PCD when they have experienced more-than-insignificant deterioration in credit quality since origination. An allowance for expected credit losses on PCD loans is recorded using the same methodology as other loans on the date of acquisition through an adjustment to the loans' amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through credit loss expense.

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

Non-accrual Loans and Restructured Loans:

The Bank generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off, the loan has been restructured but is not meeting the terms of the restructure, or the loan reaches 90 days past due. All interest accrued but not collected for loans that are placed on non-accrual status or loans that are charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying to return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses ("ACL") - Loans

The Bank licensed three models from Moody's Analytics (MA) along with its Impairment Studio (IS) platform to calculate lifetime loss rates for their entire loan portfolio, excluding individually assessed loans. The Bank only has historical data on its loan performance from 2010 onwards, with low defaults cases, and a shorter horizon for other data points. For that reason, it chose to use Off the Shelf (OTS) models that followed the CECL best practice of using development data that includes a full economic cycle. MA used proprietary data from multiple sources to develop and calibrate their lifetime loss rate models.

The Bank uses three MA models, each with loan portfolio sub-segments based on portfolio composition, risk exposure, and MA's model capabilities: 1) MA's CRE Loss Rate: Commercial Real Estate (CRE) Income Producer, Residential Corporate (since it behaves as a CRE Multifamily but with a longer lifetime) and Construction loans; 2) MA's C&I Loss Rate: C&I loans and CRE Owner Occupied loans; 3) MA's ECCL: Residential Mortgage and Other Retail. While the MA's C&I Loss rate and ECCL models have prepayment amounts implied, the MA CRE loss rate model does not and BUSA has estimated and applied a prepayment rate with internal data except for Construction loans, where it's a 0% rate.

The three MA's lifetime loss rate models are bucket-level and product of Probability-of-Default (PD), Loss-given-Default (LGD), and Exposure-at-Default (EAD) components throughout the lifetime of the loan. While EAD is a function of the loan's structure, both PD and LGD are directly influenced by macroeconomic components and their estimation relies on economic scenarios besides borrower specific variables such as FICO score for ECCL, Regulatory Rating for MA's C&I Loss Rate, and delinquency MA's CRE Loss Rate.

The three MA lifetime loss rates models are used in conjunction with the Banks credit data and MA's weighted economic scenario (baseline, upside, and downside). MA's economic scenario which are created using a US level structural econometric model with thousands of simultaneous equations describing the entire economy. Each month MA's economic team generates a detailed Baseline scenario for the US economy and from it generates several other scenarios by adjusting the assumptions included in the Baseline that would improve or worsen economic conditions to represent upside and downside alternative and cover other segments of the probability distribution that the Baseline alone cannot properly represent. MA's scenarios revert to a historical and long-term trend within 5-6 years. In general changes in expectation indicated by the CRE price index have the most significant impact on the estimate of the expected losses for CRE loans and the Unemployment Rate for the other portfolio segments. Changes in the assumptions and forecast of economic conditions could significantly affect the estimate for the Bank estimate of expected credit losses at the balance sheet date or lead to significant changes in the estimate from one reporting period to the next.

The Bank also developed a Qualitative Factor Framework aligned with regulatory guidelines. A Qualitative ACL is applied when one of the 9 factors are not embedded in the Model, based on a specific quantitative criterion developed for each applicable factor for which a measurement or scale was developed to determine the need & level of qualitative adjustments on each balance sheet date. The Qualitative Factor Framework include Lending Policy Changes, Economic Changes, Portfolio Composition, Staff Changes, Changes in Credit Quality Volumes, Loan Review System, Collateral Values, Concentration Volume, and External Influences.

Loans fully backed by insurance or government guarantees are treated with a zero-loss assumption given that recoveries typically cover any losses.

Non-performing loans and loans rated substandard, doubtful or loss are individually evaluated considering collateral values on a case-by-case basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses ("ACL") – Held-to-Maturity ("HTM") Securities

The Bank measures credit losses on HTM securities on a collective basis by major security type and industry using Moody's Industry Probability-of-Default and Loss Given Default assumptions, evaluating expected cash flows for security types other than those issued by U.S. government entities or agencies (which do not require an ACL, as detailed below).

The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

The Bank classifies the HTM portfolio into the following major security types: U.S. Treasuries, U.S. Government Agency Issued Securities, Collateralized Mortgage Obligations, and Residential Mortgage-backed Securities. At December 31, 2023, all of the Bank's HTM securities are issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses.

Allowance for Credit Losses ("ACL") – Available-for-Sale ("AFS") Securities

For AFS debt securities in an unrealized loss position, the Bank first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For AFS debt securities that do not meet the aforementioned criteria, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Bank considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectability of an AFS security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

At December 31, 2023, the Bank did not intend to sell, nor was it more likely than not that the Bank will be required to sell, any of the AFS securities in an unrealized loss position. For these AFS securities, the Bank concluded that the decline in fair value did not result from credit losses but was predominantly a result of market interest rate movements. At December 31, 2023 an ACL was not required for the AFS securities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses – Impact of ASC 326 Adoption

Using the methodology explained above on January 1, 2023, the Day 1 CECL Allowance was estimated at $30.6 million compared with the allowance under incurred model that amounted to $28.6 million, implying that differences between CECL and the previous methodology accounted for $2.0 million.

	As of January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Loans			
Land and Land Development	64,230	22,682	41,548
Real Estate Construction	3,320,138	1,957,152	1,362,986
Residential Real Estate	6,397,385	2,743,110	3,654,275
Commercial Real Estate	16,580,473	16,375,547	204,926
Commercial and Industrial	1,524,483	5,353,839	(3,829,356)
Consumer	1,765	1,804	(39)
Allowance for credit losses on loans	27,888,474	26,454,134	1,434,340
Liabilities:			
Allowance for credit losses on Off-Balance Sheet credit exposures	2,679,163	2,133,365	545,798

Derivative Instruments and Hedging Activities

As required by ASC 815, the Bank records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Bank has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Bank may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Bank elects not to apply hedge accounting.

In accordance with the FASB's fair value measurement guidance in ASU 2011-04, the Bank made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment, Net

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

Buildings	39 years
Computer equipment and software	3 to 5 years
Furniture and equipment	3 to 7 years
Leasehold improvements	Shorter of life or term of lease

Maintenance and repairs are charged to expense as incurred; improvements and betterments are capitalized. When items are retired or are otherwise disposed of, the related costs and accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are credited or charged to income.

Leases

Arrangements are analyzed at inception to determine the existence of a lease. Right-of-use assets (ROUAs) represent the right to use the underlying asset and lease liabilities represent the obligation to make lease payments for the lease term. Operating lease ROUAs and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Bank's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the appropriate term and information available at commencement date in determining the present value of lease payments. ROUAs and operating lease liabilities are reported in Other Assets and Other Liabilities, respectively, in the Consolidated Balance Sheet. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Foreclosed Assets

Assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less cost to sell. At December 31, 2023, the Bank did not hold foreclosed assets. At December 31, 2022, foreclosed assets amounted to $506,000.

Securities Sold Under Agreements to Repurchase

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

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

The Bank's long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. The Bank did not recognize an impairment charge during the years ended December 31, 2023 and 2022.

Interest Rate Risk

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

Concentration of Credit Risk

Credit risk represents the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. Concentrations of credit risk (whether on or off-balance sheet) arising from financial instruments exist in relation to certain groups of customers. A group concentration arises when a number of counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Bank does not have a significant exposure to any individual customer or counterparty. Most of the Bank's business activity is with customers located within its primary market area, which includes South Florida and Puerto Rico. The Bank's loan portfolio is concentrated largely in real estate and commercial loans in South Florida. Circumstances, which negatively impact the South Florida real estate industry or the South Florida economy, in general, could adversely impact the Bank's loan portfolio.

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

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. The Bank is also party to various litigation actions. However, such actions are on its early stages and, therefore, it is management's belief that it is too soon to determine the eventual financial impact, if any.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk and Uncertainties

We are subject to risks and uncertainties that could potentially negatively impact our business, financial conditions, results of operations, and cash flows. This section contains a description of the risks and uncertainties identified by management that could, individually or in combination, harm our business, results of operations, liquidity, and financial condition, as well as our financial instruments and our securities. We may face other risks not listed here, including additional risks that are not presently known, or that we presently deem immaterial.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, proceeds from loan repayments or sales, and other sources could have a substantial negative effect on our liquidity. Market events occurring in 2023, including bank failures, led to uncertainty and concerns regarding liquidity positions in the banking sector. 2023 saw the 2nd and 3rd biggest bank failures in US history, underscoring the importance of maintaining access to diverse sources of funding, minimizing deposit concentrations, and proper risk management. The Bank's main source of funds is core deposits of both consumer and commercial customers. Furthermore, the Bank has available a wide array of secondary sources of funding which vary from broker deposits to listing service time deposits, various fed fund lines from correspondent banks, secured lending from its collateralized loans held at the Federal Home Loan Bank, the Federal Reserve's Bank Term Funding Program, ended in March 2024, and secured loans from the collateralization of the bank's investment portfolio.

Market conditions and external factors may unpredictably impact the competitive landscape for deposits in the banking industry. Additionally, the rising interest rate environment has increased competition for liquidity and the premium at which liquidity is available to meet funding needs. The bank believes its sources of liquidity are sufficient to meet its needs. An unexpected increase of withdrawals of deposits could adversely impact the bank's ability to rely on organic deposits to primarily fund its operations, potentially requiring greater reliance on secondary sources of liquidity to meet withdrawal demands or to fund continuing operations. Such reliance on secondary funding sources could increase the Bank's overall cost of funding and thereby reduce net income.

The Bank believes its liquidity management through both on-balance sheet and off-balance sheet sources is adequate to fund operations and meet stress events of liquidity demands by having enough liquidity sources to meet the need for all deposits beyond the FDIC insurance coverage amount.

A decline in the general economic conditions caused by inflation, recession, unemployment, or other factors beyond our control would impact the local economic conditions and could negatively affect our earnings and financial condition.

CRE loans as well as other loans in our portfolio are secured by real estate. We may experience a level of nonperforming real estate loans if the economic conditions of the markets where we operate deteriorate, or in areas where real estate market conditions become distressed. The value of the collateral securing those loans and the revenue stream from those loans could be negatively impacted, and additional provisions for the allowance for credit losses could be required. In a rising interest rate environment, fixed-rate loans may adversely affect our margin and present asset/liability mismatches and risks since our liabilities are generally floating rates or have shorter maturities.

The Bank believes that it has in place sound risk practices in adequately managing CRE concentration under challenging economic conditions, which are well aligned with the FDIC's recommendations on the matter. The Bank has a strong capital risk appetite framework to ensure its adequacy relative to exposures, which is complemented by satisfactory allowance levels, a conservative underwriting standard supported by adequate systems, a granular and tight monitoring process, including frequent stress tests, and workout capacity in place if needed.

Comprehensive Income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in NOTE 17. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Subsequent Events

The Bank has evaluated subsequent events through April 23, 2024, which is the date the consolidated financial statements were available to be issued.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adopted Accounting Pronouncements

Measurement of Credit Losses on Financial Instruments

On January 1, 2023, the Bank adopted ASU 2016-13 Financial Instruments – Credit Losses (ASC 326), which replaces the incurred loss methodology with an expected loss methodology known as the current expected credit loss (CECL) methodology. The update is intended to provide financial statement users with more decision-useful information about expected credit losses. Also, the FASB has issued amendments to the update with transition relief intended to improve comparability of financial statement information for some entities, to decrease costs for some financial statement preparers, and to clarify some disclosures. This update is effective on a modified retrospective basis for consolidated financial statements issued for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years.

The adoption of CECL applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also encompasses off-balance sheet credit exposures not accounted for as insurance (such as loan commitments, standby letters of credit, financial guarantees, and other similar instruments), as well as net investments in leases recognized by a lessor in accordance with Topic 842 on leases. Additionally, ASC 326 introduced changes to the accounting for available-for-sale debt securities, requiring credit losses to be presented as an allowance rather than as a write-down for securities that management does not intend to sell or believes are more likely than not to be required to sell.

The Bank adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Starting on January 1, 2023, results are reported under ASC 326, while prior period amounts continue to follow previously applicable GAAP. As of January 1, 2023, the Bank's retained earnings recorded a net decrease of $2,075,775 due to the cumulative effect of adopting ASC 326.

Trouble Debt Restructurings and Vintage Disclosures

This Update eliminates the recognition and measurement guidance for troubled debt restructurings ("TDRs") by creditors in ASC 310-40. This Update also enhances disclosure requirements for certain loan restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity will apply the loan refinancing and restructuring guidance to determine whether a modification or other form of restructuring results in a new loan or a continuation of an existing loan. Additionally, the amendments in this ASU require a public business entity to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases in the existing vintage disclosures.

The amendments in this Update are effective for entities that have adopted the amendments in Update 2016-13 for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted the amendments in Update 2016-13, the effective date for the amendments in this Update are the same as the effective date in Update 2016-13 and such election may be made individually to adopt the guidance related to TDRs, including related disclosures, and the presentation of gross write-off in the vintage disclosure. This Update requires prospective transition for the disclosures related to loan restructurings for

borrowers experiencing financial difficulty and the presentation of gross write-offs in the vintage disclosures. The guidance related to the recognition and measurement of TDRs may be adopted on a prospective or modified retrospective transition method. The adoption of this standard did not have a material effect on the Bank's operating results or financial condition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions

The amendments in this Update clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. The amendments also require the following disclosures for equity securities subject to contractual sale restrictions:

- The fair value of equity securities subject to contractual sale restrictions reflected in the balance sheet
- The nature and remaining duration of the restriction(s)
- The circumstances that could cause a lapse in the restriction(s)

For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance.

The adoption of this standard is not expected to have a material effect on the Bank's operating results or financial condition.

BANESCO USA AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

3. INVESTMENT SECURITIES

Available for Sale

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of investment securities available for sale, by major security type, as of December 31, 2023 and 2022 are as follows:

	December 31, 2023			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Securities available for sale:				
U.S. treasury securities	$ 14,903,153	$ 49,467	$ (3,401)	$ 14,949,219
U.S. government agencies issued securities	88,225,194	93,676	(3,449,986)	84,868,884
Municipals	22,788,000	-	(5,242,540)	17,545,460
Collateralized mortgage obligations	13,980,123	33,602	(113,456)	13,900,269
Collateralized loan obligations	55,629,391	111,170	(64,265)	55,676,296
Mortgage-backed securities	128,701,379	1,680,352	(11,123,755)	119,257,976
Asset backed Securities	4,860,140	-	(8,274)	4,851,866
Corporate bonds	81,543,012	41,994	(10,262,191)	71,322,815
	$ 410,630,391	**$ 2,010,261**	**$ (30,267,868)**	**$ 382,372,785**

	December 31, 2022			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Securities available for sale:				
U.S. treasury securities	$ -	$ -	$ -	$ -
U.S. government agencies issued securities	53,910,882	-	(2,934,644)	50,976,238
Municipals	22,829,729	-	(6,356,349)	16,473,380
Collateralized mortgage obligations	-	-	-	-
Collateralized loan obligations	23,337,500	3,716	(63,208)	23,278,008
Mortgage-backed securities	62,136,855	-	(12,980,434)	49,156,421
Asset backed Securities	-	-	-	-
Corporate bonds	95,099,300	-	(15,602,681)	79,496,619
	$ 257,314,266	**$ 3,716**	**$ (37,937,316)**	**$ 219,380,666**

Investment securities pledged to secure borrowings from the Federal Reserve's Bank Term Funding Program ("BTFP") had an outstanding balance of approximately $295,767,000 at December 31, 2023. The Bank did not have securities pledged to secure borrowings at December 31, 2022.

Proceeds from the sales of investment securities available for sale for the year ended December 31, 2023 amounted to $25,646,000. There were no sales of investment securities available for sale in 2022. For the year ended December 31, 2023 the Bank realized losses of $2,816,834 with an estimated tax benefit of $746 thousand and no securities were sold for a gain in 2023. No gains or losses from the sale of investment securities available for sale were recorded in 2022. As of December 31, 2023 and 2022, there were no holdings of securities of any one issuer in an amount greater than 10% of stockholders' equity.

3. INVESTMENT SECURITIES (CONTINUED)

Available for Sale (continued)

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

	2023 Securities Available for Sale	
	Amortized Cost	Fair Value
Within one year	$ 4,957,698	$ 4,954,297
One to five years	28,906,282	28,775,129
Five to ten years	127,615,168	113,892,892
Beyond ten years	45,980,211	41,064,061
Collateralized mortgage obligations	13,980,123	13,900,269
Collateralized loan obligations	55,629,391	55,676,295
Mortgage-backed securities	128,701,379	119,257,976
Asset backed securities	4,860,140	4,851,866
	$ 410,630,392	**$ 382,372,785**

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

	Less than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
December 31, 2023						
U.S. treasury securities	$ 4,954,297	$ (3,401)	$ -	$ -	$ 4,954,297	$ (3,401)
U.S. government agencies issued securities	30,582,236	(133,984)	44,220,812	(3,316,002)	74,803,048	(3,449,986)
Municipals	-	-	17,545,460	(5,242,540)	17,545,460	(5,242,540)
Collateralized mortgage obligations	9,610,954	(113,456)	-	-	9,610,954	(113,456)
Collateralized loan obligations	10,375,784	(209)	5,878,445	(64,056)	16,254,229	(64,265)
Mortgage-backed securities	-	-	44,676,547	(11,123,755)	44,676,547	(11,123,755)
Asset backed Securities	4,851,866	(8,274)	-	-	4,851,866	(8,274)
Corporate bonds	10,942,682	(99,007)	55,546,914	(10,163,184)	66,489,596	(10,262,191)
	$ 71,317,819	**$ (358,331)**	**$ 167,868,178**	**$ (29,909,537)**	**$ 239,185,996**	**$ (30,267,869)**

	Less than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
December 31, 2022						
U.S. treasury securities	$ -	$ -	$ -	$ -	$ -	$ -
U.S. government agencies issued securities	29,649,394	(1,077,223)	21,326,844	(1,857,421)	50,976,238	(2,934,644)
Municipals	3,258,680	(756,082)	13,214,700	(5,600,267)	16,473,380	(6,356,349)
Collateralized mortgage obligations	10,523,951	(2,462,115)	-	-	10,523,951	(2,462,115)
Collateralized loan obligations	5,936,792	(63,208)	-	-	5,936,792	(63,208)
Mortgage-backed securities	-	-	38,632,470	(10,518,319)	38,632,470	(10,518,319)
Asset backed Securities	-	-	-	-	-	-
Corporate bonds	13,507,542	(1,546,767)	65,989,077	(14,055,914)	79,496,619	(15,602,681)
	$ 62,876,359	**$ (5,905,395)**	**$ 139,163,091**	**$ (32,031,921)**	**$ 202,039,450**	**$ (37,937,316)**

3. INVESTMENT SECURITIES (CONTINUED)

Available for Sale (continued)

The Bank is proactive in determining what possible negative effects could impact the investment portfolio. In accordance with ASC 326, the Bank measures its credit losses on its investment portfolio on a quarterly basis. The Bank performs assessments to determine whether a security on which there is an unrealized loss declined in fair value below amortized cost as a result of credit loss or other factors. Management considers many factors in their analysis including the (1) severity and duration of the impairment, (2) the specific credit rating of the security, (3) the intent and ability to hold these securities for a period of time until the value of the security recovers, (4) whether the current market is considered an inactive market where most sales are considered distressed sales or disorderly transactions, and (5) management estimates the portion of loss attributable to credit using a discounted cash flow model. The Bank estimates the expected cash flows of the underlying collateral using interest rate and prepayment risk models that incorporate management's best estimate of current key assumptions, such as default rates, loss severity and prepayment rates. If a portion of the decline in fair value below amortized cost is due to credit factors, then a allowance for credit losses will be taken.

At December 31, 2023, the Bank concluded that the decline in fair value did not result from credit losses but was predominantly a result of market interest rate movements and other market conditions. The Bank's AFS securities are reflected on the balance sheet at fair value. Based on the expected cash flows derived from the model, the Bank expects the fair value to recover as the securities approach maturity. In addition, Management does not intend to sell any of the AFS securities with unrealized losses and it is likely that management will not be required to sell any of these securities prior to their anticipated recovery. Thus, at December 31, 2023 an ACL was not required for the AFS securities.

At December 31, 2023, the Bank had $3,453,387 in unrealized losses relating to seventeen U.S. government agencies issued securities and US treasury securities. The losses relate principally to interest rate changes, credit spread widening and reduced liquidity in applicable markets. However, the contractual cash flows of these securities are guaranteed by an agency of the U.S. government. As of December 31, 2023, the Bank does not consider those investments to require an allowance for credit losses because the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

At December 31, 2023, the Bank had $177,721 in unrealized losses relating to seven collateralized loan obligation and collateralized mortgage obligation. Recent changes in interest rates and central bank activity in financial markets have caused changes in the value of collateralized mortgage obligations to fluctuate unsteadily. As of December 31, 2023, the Bank does not consider those investments to require an allowance for credit losses because the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

At December 31, 2023, the Bank had $11,132,029 in unrealized losses relating to nine mortgage-backed securities and asset-backed securities. Recent changes in interest rates and central bank activity in financial markets have caused changes in the value of mortgage-backed securities to fluctuate unsteadily. The contractual cash flows of these securities are from U.S. government sponsored agencies. As of December 31, 2023, the Bank does not consider those investments to require an allowance for credit losses because the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

At December 31, 2023, the Bank had $5,242,540 in unrealized loss relating to seven municipal bonds. As of December 31, 2023, the Bank does not consider the municipal bonds to require an allowance for credit losses because the decline in market value is mainly attributable to changes in interest rates and not credit quality, the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

At December 31, 2023, the Bank had $10,262,191 in unrealized loss relating to fourteen corporate bonds. As of December 31, 2023, the Bank does not consider the corporate bonds to require an allowance for credit losses because the decline in market value is mainly attributable to changes in interest rates and not credit quality, the

Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

3. INVESTMENT SECURITIES (CONTINUED)

Held to Maturity

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of investment securities held to maturity, by major security type, as of December 31, 2023 and 2022 are as follows:

	December 31, 2023			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. treasury securities	$ 9,691,855	$ -	$ (47,324)	$ 9,644,531
U.S. government agencies issued securities	9,041,806	-	(1,021,397)	8,020,409
Collateralized mortgage obligations	285,646	-	(2,020)	283,626
Mortgage-backed securities	174,635,536	78,043	(3,024,489)	171,689,090
	$ 193,654,843	**$ 78,043**	**$ (4,095,230)**	**$ 189,637,655**

	December 31, 2022			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. treasury securities	$ 19,264,436	$ -	$ (58,186)	$ 19,206,250
U.S. government agencies issued securities	8,960,910	-	(1,056,611)	7,904,299
Collateralized mortgage obligations	405,725	-	(1,774)	403,951
Mortgage-backed securities	189,574,269	304,556	(2,693,750)	187,185,075
	$ 218,205,340	**$ 304,556**	**$ (3,810,321)**	**$ 214,699,575**

During the second and fourth quarters of 2022, the Bank reclassified debt securities with an amortized cost of $259,022,719 from available for sale to held to maturity, as it has the ability and intent to hold these securities to maturity. These securities had net unrealized losses of $42,136,815 at the date of transfer, which will continue to be reported in accumulated other comprehensive loss and will be amortized over the remaining life of the transferred securities as an adjustment of yield. The Bank did not transfer any securities from available for sale to held to maturity in 2023.

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

	2023 Securities Held to Maturity	
	Amortized Cost	Fair Value
Within one year	$ -	$ -
One to five years	9,691,855	9,644,531
Five to ten years	-	-
Beyond ten years	9,041,806	8,020,410
Collateralized mortgage obligations	285,646	283,626
Collateralized loan obligations	-	-
Mortgage-backed securities	174,635,536	171,689,090
Asset backed securities	-	-
	$ 193,654,843	**$ 189,637,657**

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

	2023	2022
Land and land development	$ 9,766,647	$ 4,841,846
Real estate construction	189,648,982	152,959,760
Residential real estate	608,899,038	527,884,098
Commercial real estate	1,619,121,285	1,343,433,798
Commercial and Industrial	456,935,741	310,873,236
Consumer	273,783	563,139
	2,884,645,476	2,340,555,877
Less:		
Allowance for credit losses	(35,595,228)	(26,454,134)
Deferred loan fees/unamortized discount	(3,169,223)	(1,928,930)
Net Loans	**$ 2,845,881,025**	**$ 2,312,172,813**

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

	2023	2022
Gross Loans	$ 2,884,645,476	$ 2,340,555,877
Plus: Accrued interest recivable	9,842,359	7,976,700
Less: Unearned income	3,169,223	1,928,930
Recorded investments in loans	**$ 2,891,318,612**	**$ 2,346,603,647**

The Bank has pledged $794,874,338 and $695,979,966 of mortgage loans as collateral for advances from the Federal Home Loan Bank of Atlanta as of December 31, 2023 and 2022, respectively. The loans pledged are unencumbered and retain full liquidity, allowing the Bank the flexibility to reallocate assets as needed to fully secure our line at FHLB. As of December 31, 2023 and 2022, the Bank's total line at FHLB amounts to $929,518,500 and $694,438,500, respectively.

Management has an established methodology to determine the adequacy of the allowance for credit losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for credit losses, the Bank has segmented the loans in the portfolio by product type. Loans are segmented into the following pools: land and land development, real estate construction, residential real estate, commercial real estate, commercial and industrial, and consumer.

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES

The total allowance reflects management's estimate of losses inherent in the loan portfolio at the balance sheet date. The Bank considers the allowance for credit losses of $35,595,228 and $26,454,134 adequate to cover the loan losses inherent in the loan portfolio at December 31, 2023 and 2022, respectively.
Changes in the allowance for credit losses and the outstanding balances in loans are as follows:

For the Year Ended December 31, 2023

	Land and Land Development	Real Estate Construction	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for Credit Losses:								
Beginning balance, prior to	$ 22,682	$ 1,957,152	$ 2,743,110	$ 16,375,547	$ 5,353,839	$ 1,804	$ -	$ 26,454,134
Impact of adopting ASC 32	41,548	1,362,986	3,654,275	204,926	(3,829,356)	(39)	-	1,434,340
Credit loss expense	105,329	1,278,518	2,066,826	2,666,639	1,778,289	(1,353)	(15,540)	7,878,708
Recoveries	-	-	-	-	177,537	-	15,540	193,077
Chargeoffs	-	-	-	-	(365,030)	-	-	(365,030)
Total ending allowance bal	**$ 169,559**	**$ 4,598,656**	**$ 8,464,210**	**$ 19,247,112**	**$ 3,115,279**	**$ 412**	**$ -**	**$ 35,595,228**
Loans:								
Ending balance	**$ 9,766,647**	**$ 189,648,982**	**$ 608,899,038**	**$ 1,619,121,285**	**$ 456,935,741**	**$ 273,783**	**$ -**	**$ 2,884,645,476**

For the Year Ended December 31, 2022

	Land and Land Development	Real Estate Construction	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for Loan Losses:								
Balance at beginning of year	$ 42,915	$ 618,467	$ 3,241,170	$ 13,501,292	$ 3,515,851	$ 3,160	$ 8,626	$ 20,931,481
(Reversal of) provision for loan losses	(20,233)	1,338,685	(498,061)	2,942,734	237,006	(1,356)	(8,626)	3,990,149
Recoveries	-	-	-	-	1,600,982	-	-	1,600,982
Chargeoffs	-	-	-	(68,478)	-	-	-	(68,478)
Ending Balance	**$ 22,682**	**$ 1,957,152**	**$ 2,743,109**	**$ 16,375,548**	**$ 5,353,839**	**$ 1,804**	**$ -**	**$ 26,454,134**
Ending balance: individually evaluated for impairment	$ -	$ -	$ 111,517	$ -	$ 564,037	$ -	$ -	$ 675,554
Ending balance: collectively evaluated for impairment	$ 22,682	$ 1,957,152	$ 2,631,592	$ 16,375,547	$ 4,789,803	$ 1,804	$ -	$ 25,778,580
Loans:								
Ending balance	**$ 4,841,846**	**$ 152,959,760**	**$ 525,712,382**	**$ 1,342,573,259**	**$ 310,873,236**	**$ 563,139**	**$ -**	**$ 2,337,523,622**
Ending balance: individually evaluated for impairment	$ -	$ -	$ 1,531,497	$ 26,238,197	$ 7,255,531	$ -	$ -	$ 35,025,225
Ending balance: collectively evaluated for impairment	$ 4,841,846	$ 152,959,760	$ 524,180,885	$ 1,316,335,062	$ 303,617,705	$ 563,139	$ -	$ 2,302,498,397

During the year ended December 31, 2023, the provision for credit losses amounted to $7,878,708 in addition to a day 1 CECL adjustment of $1,434,340 for the on-balance sheet loan provision. During the year ended December 31, 2022, the provision for loan losses amounted to $3,990,149.

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Total loan credit exposures by internally assigned grades are as follows:

December 31, 2023	Pass	Special Mention	Substandard	Total
Land and land development and real estate construction				
Land and land development	$ 9,766,647	$ -	$ -	$ 9,766,647
Real estate construction	189,648,982	-	-	189,648,982
Residential real estate				
1-4 family first lien	607,947,377	-	827,765	608,775,141
1-4 family second lien	123,897	-	-	123,897
Commercial real estate				
Commercial real estate term	1,258,767,728	2,921,177	29,778,147	1,291,467,052
Owner occupied commercial real estate	321,370,120	233,378	6,050,735	327,654,233
Commercial and industrial	433,105,773	17,206,940	6,623,027	456,935,741
Consumer	273,783	-	-	273,783
Total loans	**$ 2,821,004,306**	**$ 20,361,496**	**$ 43,279,674**	**$ 2,884,645,476**

December 31, 2022	Pass	Special Mention	Substandard	Total
Land and land development and real estate construction				
Land and land development	$ 4,841,846	$ -	$ -	$ 4,841,846
Real estate construction	152,959,760	-	-	152,959,760
Residential real estate				
1-4 family first lien	523,366,836	-	1,531,497	524,898,333
1-4 family second lien	814,049	-	-	814,049
Commercial real estate				
Commercial real estate term	1,067,753,593	28,754,702	20,366,830	1,116,875,125
Owner occupied commercial real estate	219,826,768	-	5,871,366	225,698,134
Commercial and industrial	303,617,704	-	7,255,532	310,873,236
Consumer	563,139	-	-	563,139
Total loans	**$ 2,273,743,695**	**$ 28,754,702**	**$ 35,025,225**	**$ 2,337,523,622**

As of December 31, 2023 and 2022, the Bank did not classify any loans to be considered "doubtful" or "loss."

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

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

December 31, 2023

Land and land development and real estate construction	Performing	Non Performing	Total
Land and land development	$ 9,766,647		$ 9,766,647
Real estate construction	189,648,982		189,648,982
Residential real estate			
1-4 family first lien	607,947,377	827,765	608,775,141
1-4 family second lien	123,897		123,897
Commercial real estate			
Commercial real estate term	1,291,467,052		1,291,467,052
Owner occupied commercial real estate	327,654,233		327,654,233
Commercial and industrial	450,463,606	6,472,135	456,935,741
Other Loans			
Consumer	273,783		273,783
Total loans	**$ 2,877,345,576**	**$ 7,299,900**	**$ 2,884,645,476**

December 31, 2022

Land and land development and real estate construction	Performing	Non Performing	Total
Land and land development	$ 4,841,846	$ -	$ 4,841,846
Real estate construction	152,959,760	-	152,959,760
Residential real estate			
1-4 family first lien	523,366,836	1,531,497	524,898,333
1-4 family second lien	814,049	-	814,049
Commercial real estate			
Commercial real estate term	1,116,875,125	-	1,116,875,125
Owner occupied commercial real estate	225,698,134	-	225,698,134
Commercial and industrial	304,300,784	6,572,452	310,873,236
Other Loans			
Consumer	563,139	-	563,139
Total loans	**$ 2,329,419,673**	**$ 8,103,949**	**$ 2,337,523,622**

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

Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered to be nonperforming when the loan is greater than 90 days delinquent. Certain modified loans that are greater than 90 days past due are considered performing, based on their adherence with their modified terms.

Nonperforming loans, non-accrual loans and 90 days or more past due loans represent 0.25% and 0.35% of total loans as of December 31, 2023 and 2022, respectively.

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The following tables include an aging analysis of the outstanding balances of past due loans as of December 31, 2023 and 2022.

As of December 31, 2023

Age Analysis of Past Due Loans by Loan Class	30-90 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans
Land and land development and real estate construction					
Land and land development	$ -	$ -	$ -	$ 9,766,647	$ 9,766,647
Real estate construction	-	-	-	189,648,982	189,648,982
Residential real estate					
1-4 family first lien	3,198,591	827,765	4,026,356	604,748,785	608,775,141
1-4 family second lien	-	-	-	123,897	123,897
Commercial real estate					
Commercial real estate term	-	-	-	1,291,467,052	1,291,467,052
Owner occupied commercial real estate	-	-	-	327,654,233	327,654,233
Commercial and industrial	50,000	6,472,135	6,522,135	450,413,606	456,935,741
Other Loans					
Consumer	-	-	-	273,783	273,783
Total loans	**$ 3,248,591**	**$ 7,299,900**	**$ 10,548,491**	**$ 2,874,096,985**	**$ 2,884,645,476**

As of December 31, 2022

Age Analysis of Past Due Loans by Loan Class	30-90 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans
Land and land development and real estate construction					
Land and land development	$ -	$ -	$ -	$ 4,841,846	$ 4,841,846
Real estate construction	-	-	-	152,959,760	152,959,760
Residential real estate					
1-4 family first lien	2,883,847	674,165	3,558,011	521,340,322	524,898,333
1-4 family second lien	-	-	-	814,049	814,049
Commercial real estate					
Commercial real estate term	-	-	-	1,116,875,125	1,116,875,125
Owner occupied commercial real estate	-	-	-	225,698,134	225,698,134
Commercial and industrial	75,117	6,572,452	6,647,568	304,225,668	310,873,236
Other Loans					
Consumer	-	-	-	563,139	563,139
Total loans	**$ 2,958,964**	**$ 7,246,617**	**$ 10,205,579**	**$ 2,327,318,043**	**$ 2,337,523,622**

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

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

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

December 31, 2022 Impaired Loans by Class	Recorded Investment	Unpaid Principal Balance	Valuation Allowance	Average Recorded Investment	Interest Income Recognized
With No Specific Allowance Recorded:					
1-4 family first lien	$ 1,347,497	$ 1,347,497	$ -	$ 1,306,456	$ 48,439
Commercial real estate term	20,147,347	20,366,830	-	6,728,218	1,018,778
Owner occupied commercial real estate	5,890,993	5,871,366	-	6,011,849	364,727
Commercial and industrial	1,630,269	1,629,014	-	1,094,234	43,533
Total	**$ 29,016,106**	**$ 29,214,707**	**$ -**	**$ 15,140,757**	**$ 1,475,477**
With an allowance recorded:					
1-4 family first lien	$ 305,136	$ 306,237	$ 65,724	$ 597,857	$ 5,137
Commercial real estate term	-	-	-	-	-
Owner occupied commercial real estate	-	-	-	716,064	-
Commercial and industrial	4,460,704	5,620,375	564,037	4,958,325	122,726
Total	**$ 4,765,840**	**$ 5,926,612**	**$ 629,761**	**$ 6,272,246**	**$ 127,863**
Impaired Loans by Class Total					
1-4 family first lien	$ 1,652,633	$ 1,653,734	$ 65,724	$ 1,904,313	$ 53,576
Commercial real estate term	20,147,347	20,366,830	-	6,728,218	1,018,778
Owner occupied commercial real estate	5,890,993	5,871,366	-	6,727,913	364,727
Commercial and industrial	6,090,973	7,249,389	564,037	6,052,559	166,259
Total loans	**$ 33,781,946**	**$ 35,141,319**	**$ 629,761**	**$ 21,413,003**	**$ 1,603,340**

Loans on non-accrual status by loan segment are as follows:

	December 31, 2023	December 31, 2022
Residential real estate		
1-4 family first lien	$ 827,765	$ 1,531,497
Commercial and industrial	6,472,135	6,572,452
Total loans	**$ 7,299,900**	**$ 8,103,949**

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Loans on non-accrual with no allowance for credit loss:

As of December 31, 2023	Nonaccrual With No Allowance for Credit Loss	Nonaccrual	Loans > 90 days and Accruing
Residential real estate			
1-4 family first lien	$ 827,765	$ -	$ -
Commercial and industrial	-	6,472,135	-
	$ 827,765	**$ 6,472,135**	**$ -**

As of December 31, 2023, the Bank had one loan, with an amortized cost of $10.9 million, that was experiencing financial difficulty and was modified during the year.

The following table includes the amortized cost basis of collateral-dependent loans for individually evaluated loans as of December 31,2023:

	2023	2022
Residential real estate		
1-4 family first lien	$ 827,765	$ 1,653,734
Commercial real estate		
Commercial real estate term	29,778,147	20,366,830
Owner occupied commercial real estate	6,050,735	5,871,366
Commercial and industrial	1,417,201	683,080
	$ 38,073,848	**$ 28,575,011**

5. DERIVATIVES AND HEDGING ACTIVITIES

Cash Flow Hedges of Interest Rate Risk

The Bank's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Bank primarily uses interest rate caps as part of its interest rate risk management strategy. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium. During 2022 and 2023, such derivatives were used to hedge the variable cash flows associated with existing variable-rate FHLB.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in Accumulated Other Comprehensive Income and subsequently reclassified into interest expense in the same period(s) during which the hedged transaction affects earnings. Gains and losses on the derivative representing hedge components excluded from the assessment of effectiveness are recognized over the life of the hedge on a systematic and rational basis, as documented at hedge inception in accordance with the Company's accounting policy election. The earnings recognition of excluded components is presented in interest expense. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Bank's variable-rate debt. During the next 12 months, the Bank estimates that an additional $104,726 will be reclassified as a reduction to interest expense.

Fair Value Hedges of Interest Rate Risk

On March 28, 2022, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2022-01, Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method. The purpose of this updated guidance is to further align risk management objectives with hedge accounting results on the application of the last-of-layer method, which was first introduced in ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. ASU 2022-01 is effective for public business entities for fiscal years beginning after December 15, 2022, with early adoption in the interim period, permitted. For entities who have already adopted ASU 2017-12, immediate adoption is allowed. ASU 2022-01 requires a modified retrospective transition method for basis adjustments in which the entity will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. The Company adopted this ASU on July 1, 2022 on a prospective basis.

The Bank is exposed to changes in the fair value of certain pools of fixed-rate assets due to changes in benchmark interest rates. The Bank uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the designated benchmark interest rate. Interest rate swaps designated as fair value hedges involve the payment of fixed-rate amounts to a counterparty in exchange for the Company receiving variable-rate payments over the life of the agreements without the exchange of the underlying notional amount.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in interest income.

5. DERIVATIVES AND HEDGING ACTIVITIES (CONTINUED)

As of December 31, 2023, the following amounts were recorded on the balance sheet related to cumulative basis adjustment for fair value hedges:

	Carrying Amount of the Hedged Assets/(Liabilities)		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets/(Liabilities)	
	2023	2022	2023	2022
AFS Securities	$ 50,917,558	$ 24,079,477	$ (1,691,704)	$ (920,523)
Fixed Rate Loans	201,635,456	-	1,635,456	-
Total [1]	**$ 252,553,014**	**$ 24,079,477**	**$ (56,247)**	**$ (920,523)**

[1] These amounts include the amortized cost basis of closed portfolios used to designate hedging relationships in which the hedged item is the stated amount of assets in the closed portfolios anticipated to be outstanding for the designated hedged period. At December 31, 2023 and 2022, the amortized cost basis of the closed portfolios used in these hedging relationships was $121,510,400 and $95,099,300, respectively.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Balance Sheet as of December 31:

	Derivative Assets			Derivative Liabilities		
			2023			2023
	Notional Amount	Balance Sheet Location	Fair Value	Notional Amount	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments						
Interest Rate Products	50,000,000	Other Assets	$ 94,789	250,000,000	Other Liabilities	$ 2,407,247
Total derivatives designated as hedging instruments			$ 94,789			$ 2,407,247
Net Derivatives on the Balance Sheet			$ 94,789			$ 2,407,247
Gross Amounts Not Offset in the Statement of Financial Position						
Financial Instruments			94,789			94,789
Cash collateral (1)			-			2,312,459
Net Derivative Amounts			$ -			$ -

(1) Cash collateral represents the amount that cannot be used to offset our derivative assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance. The application of the cash collateral cannot reduce the net derivative position below zero. Therefore, excess cash collateral, if any, is not reflected above.

	Derivative Assets			Derivative Liabilities		
			2022			2022
	Notional Amount	Balance Sheet Location	Fair Value	Notional Amount	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments						
Interest Rate Products	66,000,000	Other Assets	$2,995,526		Other Liabilities	$ -
Total derivatives designated as hedging instruments			$2,995,526			$ -
Net Derivatives on the Balance Sheet			$2,995,526			$ -
Gross Amounts Not Offset in the Statement of Financial Position						
Financial Instruments						-
Cash collateral (1)			2,580,000			-
Net Derivative Amounts			$ 415,526			$ -

5. DERIVATIVES AND HEDGING ACTIVITIES (CONTINUED)

The table below presents the effect of fair value and cash flow hedge accounting on Accumulated Other Comprehensive Income as of December 31, 2023:

	Amount of Gain or (Loss) Recognized in OCI on Derivative	Amount of Gain or (Loss) Recognized in OCI Included Component	Amount of Gain or (Loss) Recognized in OCI Excluded Component
Derivatives in Cash Flow Hedging Relationships			
Interest Rate Products	$ (444,322)	$ 928,882	$ (1,373,203)
Total	**$ (444,322)**	**$ 928,882**	**$ (1,373,203)**

	Location of Gain or (Loss) Recognized from Accumulated Other Comprehensive Income into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income Included Component	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income Excluded Component
Derivatives in Cash Flow Hedging Relationships				
Interest Rate Products	Interest Expense	$ 376,047	$ 338,628	$ 37,419
Total		**$ 376,047**	**$ 338,628**	**$ 37,419**

The table below presents the effect of the Company's derivative financial instruments on the Income Statement as of December 31, 2023:

	Location and Amount of Gain or (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships	
	Interest Expense	**Interest Income**
Total amounts of income and expense line items presented in the statement of financial performance in which the effects of fair value or cash flow hedges are recorded	$ 376,047	602,242
The effects of fair value and cash flow hedging:		
Interest contracts		
Hedged items		691,615
Derivatives designated as hedging instruments		(89,373)
Gain or (loss) on cash flow hedging relationships in Subtopic 815-20		
Interest contracts		
Amount of gain or (loss) reclassified from accumulated other comprehensive income into income	376,047	
Amount of gain or (loss) reclassified from accumulated other comprehensive income into income as a result that a forecasted transaction is no longer probable of occurring	-	
Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income - Included Component	338,628	
Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income - Excluded Component	37,419	

6. PROPERTY AND EQUIPMENT, NET

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

	2023	2022
Land	4,638,710	4,638,710
Building	21,716,848	7,663,955
Leasehold improvements	2,664,597	4,070,207
Furniture and equipment	2,990,412	2,086,478
Computer equipment and software	8,660,060	7,655,413
Work in progress	1,555,517	13,858,724
Art work	445,780	350,168
	42,671,925	40,323,655
Less:		
Accumulated depreciation and amortization	10,214,920	9,627,833
Property and equipment, net	**$ 32,457,004**	**$ 30,695,823**

Depreciation and amortization of property and equipment amounted to $2,717,050 and to $1,639,476 for the years ended December 31, 2023 and 2022, respectively.

7. DEPOSITS

At December 31, 2023, the scheduled maturities of time deposits are as follows:

2024	$ 962,986,677
2025	14,515,323
2026	127,238,221
2027	1,169,000
Thereafter	-
	$ 1,105,909,221

At December 31, 2023, the bank had a total of $1.1 billion in time deposits maturing over the next 4 years. Callable Brokered deposits account for $126.9 million of the maturities in 2026.

8. FORECLOSED ASSETS, NET

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

	2023	2022
Commercial Real Estate	$ -	$ 506,000
	$ -	**$ 506,000**

8. FORECLOSED ASSETS, NET (CONTINUED)

Foreclosed assets are presented net of allowance for credit losses. At December 31, 2023 and December 31, 2022 there was no allowance for losses associated to foreclosed assets.

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

	2023	2022
Loss/(gain) on sales of foreclosed assets	$ 158,612	$ -
Operating expenses	33,530	72,114
	$ 192,142	**$ 72,114**

9. OTHER BORROWINGS - BTFP

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

	2023	2022
Bank Term Funding Program Borrowing	$ 284,000,000	$ -
Securities pledged as collateral	$ 295,766,873	$ -
Interest rate	4.38%	0.00%

Market events that occurred in the first quarter of 2023, which led to the 2nd and 3rd largest bank failure in US history, led to uncertainty and concerns regarding liquidity positions of the banking sector. In response to the economic conditions, the Bank participated in the Federal Reserve's Bank Term Funding Program (BTFP). The Plan offered loans/borrowings of up to one year to institutions pledging collateral for purchase by the FED. As a precaution to the runoff of liquidity from the large banks, the Bank borrowed a total of $300 million under the BTFP at a rate of 4.38%. As of December 31, 2023, the Bank held $284 million in borrowed funds from the BTFP.

10. FEDERAL HOME LOAN BANK ADVANCES

At December 31, 2023, the Bank had Federal Home Loan Bank ("FHLB") advances amounting to $50,000,000 with an average rate of 5.45% and a term of one month maturities. In 2022, the Bank had FHLB advances amounting to $141,000,000 with a weighted average rate of 4.47%.

The FHLB advances agreement requires the Bank to maintain certain loans or securities as collateral for these advances. The collateral pledged is unencumbered and retain full liquidity, allowing the Bank the flexibility to relocate assets as needed to fully secure our line. As of December 31, 2023 and 2022, the Bank has pledged $794,874,338 and $695,979,966 of mortgage loans as collateral, respectively, and was in compliance with the FHLB membership agreement. At December 31, 2023 and 2022, FHLB stock held by the Bank amounted to $4,471,100 and $7,059,300, respectively.

The Bank's line of credit with FHLB of Atlanta allows drawing up to 25% of total assets. As of December 31, 2023 and 2022, the unused portion of the line amounted to approximately $744,874,338 and $553,438,500, respectively. Additionally, the Bank maintains secured and unsecured lines of credits with other financial institutions for approximately $50,000,000 and $60,000,000, respectively.

11. INCOME TAXES

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

	2023	2022
Current Expense (Benefit):		
Federal	$ 5,071,147	$ 5,349,066
State	1,908,137	1,770,320
Foreign	4,004,267	3,429,221
	10,983,551	10,548,607
Deferred (Benefit) Expense:		
Federal	$ (870,691)	$ (1,334,861)
State	(171,811)	(248,293)
Foreign	(35,175)	(322,702)
	(1,077,677)	(1,905,856)
Total	$ 9,905,874	$ 8,642,751

The actual income tax expense for 2023 and 2022 differs from the statutory tax expense for the year (computed by applying the U.S. federal corporate tax rate of 21% to income before provision for (benefit from) income taxes) as follows:

	2023	Effective Tax Rate
Federal taxes at statutory rate	$ 6,943,086	21.0%
Increase in income taxes resulting from:		
State income taxes, net of federal tax benefit	1,596,152	4.8%
Foreign taxes	2,376,778	7.2%
Bank-owned life insurance	(616,485)	(1.9%)
Other, net	(393,657)	(1.2%)
	$ 9,905,874	29.9%

	2022	Effective Tax Rate
Federal taxes at statutory rate	$ 6,667,804	21.0%
State income taxes, net of federal tax benefit	1,140,798	3.6%
Foreign taxes	1,195,298	3.8%
Bank-owned life insurance	(373,313)	(1.2%)
Other, net	12,164	0.0%
	$ 8,642,751	**27.2%**

11. INCOME TAXES (CONTINUED)

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

	2023	2022
Deferred tax assets:		
Net unrealized losses on securities available for sale	$ 16,369,935	$ 19,150,955
Allowance for loan losses	10,311,432	7,743,360
Net operating losses	2,206,996	2,248,799
Accruals	938,459	75,888
Loan discounts	200,732	184,091
Loan fees	1,481,053	879,840
Non-accrual interest	156,135	199,828
Provision for off balance sheet risk	793,096	649,522
	32,457,838	31,132,283
Less valuation allowance	-	-
Deferred tax assets	32,457,838	31,132,283
Deferred tax liabilities:		
Core deposit intangibles	13,044	12,815
Depreciable property	3,625,835	775,625
Deferred tax liability	3,638,879	788,440
Net deferred tax asset	**$ 28,818,959**	**$ 30,343,843**

As of December 31, 2023 and 2022, the Bank had federal and state net operating loss carryforwards remaining of approximately $8,828,000 and $9,000,000, respectively, which is available to reduce the taxable income of the consolidated federal and state tax returns. As a result of the Brickell Bank acquisition, the future utilization of these carryforwards is limited pursuant to the provisions of Internal Revenue Code section 382. The annual limitation amount is $167,000. For the years ended on December 31, 2017 and prior, the net operating loss carryforwards expire in various years through 2037. For the years ended December 31, 2019 and 2018, the net operating loss carryforwards do not expire.

In assessing the realizability of deferred tax assets, management considered whether it is more likely than not some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment.

The U.S. Federal jurisdiction, Florida, and Puerto Rico are the major tax jurisdictions where the Bank files income tax returns. The Bank is generally no longer subject to U.S. Federal, State, or foreign examinations by tax authorities for years before 2020.

For the years ended December 31, 2023 and 2022, the Bank did not have any unrecognized tax benefits as a result of tax positions taken during a prior period or during the current period. No interest or penalties have been recorded as a result of tax uncertainties.

12. RELATED PARTY TRANSACTIONS

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

	2023	
	Range of Interest Rate	**Balance**
Loans	4.63% to 7.75%	$ 18,817,767
Deposits	0.00% to 5.25%	$ 80,331,714

	2022	
	Range of Interest Rate	**Balance**
Loans	4.63%	$ 14,961,954
Deposits	0.00% to 4.40%	$ 45,145,717

As of December 31, 2023, related party transactions amounted to $696,472 in interest income and $354,758 in interest expense. As of December 31, 2022, related party transactions amounted to $639,383 in interest income and $21,302 in interest expense. In 2023 and 2022, the Bank sold participations of approximately $38 million and $52 million in loans to related parties, respectively.

13. EMPLOYEE BENEFIT PLAN

The Bank has adopted a retirement savings plan (the "Retirement Plan") (a 401k plan) covering substantially all eligible employees effective January 1, 2005. The Retirement Plan includes a provision that the Bank may contribute to the accounts of eligible employees for whom a salary deferral is made. Employees may contribute up to 90% of their compensation subject to certain limits based on federal tax laws. The Bank contributed $1,062,642 and $951,252 towards the Retirement Plan in 2023 and 2022, respectively.

In 2023, the Bank offered a Long-Term Incentive Plan (LTI) to align the interest of management, key employees and equity holders, to attract and retain key leadership, and to reward key executives and employees for the achievement of the Bank's long-term strategies, priorities, and objectives. As of December 31, 2023, the Bank provisioned $123 thousand towards the LTI Plan.

14. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unused lines of credit and standby letters of credit.

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

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

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed-expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Bank's standby letters of credit are secured by cash collateral at December 31, 2023 and 2022 in the amount of $5,095,784 and $5,507,576, respectively. A summary of the amounts of the Bank's financial instruments, with off-balance sheet risk, is as follows at December 31:

	2023	2022
	Contract Amount	Contract Amount
Unused lines of credit	385,433,130	269,967,790
Commitment to extend credit	37,675,000	32,170,000
Standby letters of credit	9,817,040	10,274,567

15. REGULATORY CAPTIAL MATTERS

The Bank, as a state-chartered bank, is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Management believes, as of December 31, 2023, that the Bank meets all capital adequacy requirements to which it is subject.

In 2023, the Bank elected to opt into the community bank leverage ratio framework (CBLR framework), which was established in 2019 by the federal banking agencies. The rule allows qualifying community banking organizations to opt-out of calculating and reporting risk-based capital and allow banks to only be required to calculate and report Tier 1 to average assets ratio, also known as Tier 1 Capital, or Leverage Ratio. In addition, to qualify into the CBLR framework, a bank must maintain a ratio greater than the required minimum of 9%. As of December 31, 2023, the Bank has maintained a ratio greater than 9%, which meets the requirements for the CBLR.

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

15. REGULATORY CAPITAL MATTERS (CONTINUED)

As of December 31, 2023, the Bank was well-capitalized under the CBLR regulatory framework. There are no conditions or events since December 31, 2023 that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios as of December 31, 2023 and 2022 are presented in the following table:

	Actual		To be Well Capitalized	
As of December 31, 2023	Amount	Ratio	Amount	Ratio
Tier I capital (to average total assets	$ 495,007,700	13.2%	$ 337,021,091	9.0%

	Actual		To be Well Capitalized	
As of December 31, 2022	Amount	Ratio	Amount	Ratio
Tier I capital (to average total assets	$ 459,312,588	15.8%	$ 261,985,416	9.0%

On June 22, 2022, the Bank issued 250,000 shares of Senior Non-Cumulative Perpetual Preferred stock, Series (the "Designated Senior preferred Stock"), for the capital investment of $250 million from the U.S. Treasury under the Emergency Capital Investment Program ("ECIP"). ECIP investment is treated as Tier 1 Capital for the regulatory capital treatment.

The Designated Senior preferred Stock may be redeemed at the option of the Bank on or after the fifth anniversary of issuance (or earlier in the event of loss of regulatory capital treatment), subject to the approval of the appropriate federal banking regulator in accordance with the federal banking agencies' regulatory capital regulations.

The initial dividend rate of the Designated Senior preferred Stock is zero percent for the first two years after issuance, and thereafter the floor dividend rate is 0.50% and the ceiling dividend rate is 2.00%.

On July 13, 2023, the Bank received $15,000,000 in additional capital from its shareholders to support continued organic growth in line with the Bank's strategic plan.

16. LEASES

Lessee Arrangements

The Bank enters into leases in the normal course of business primarily for financial centers, back-office operations locations, business development offices, information technology data centers, and equipment. The Bank's leases have remaining terms ranging from 1 to 5 years, some of which include renewal options to extend the lease for up to 5 years.

	2023	2022
Right-of-use assets:		
Operating leases	$ 4,446,468	$ 5,453,272
Finance leases	80,870	22,581
Total right-of-use assets	**$ 4,527,338**	**$ 5,475,853**
Lease liabilities:		
Operating leases	$ 4,719,294	$ 5,709,296
Finance leases	82,488	22,581
Total lease liabilities	**$ 4,801,782**	**$ 5,731,877**

Lease Expense

The components of total lease cost were as follows for the period ending:

	2023	2022
Finance lease expense		
Amortization of ROU assets	$ 33,741	$ 10,898
Interest on lease liabilities	3,166	370
Operating lease expense	1,095,339	1,054,481
Total lease expense	**$ 1,132,246**	**$ 1,065,749**

BANESCO USA AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

16. LEASES (CONTINUED)

Lease Obligations

Future undiscounted lease payments for finance and operating leases with initial terms of one year or more as of December 31, 2023:

	Operating Leases	Finance Leases
2024	$ 1,015,583	$ 38,185
2025	1,042,765	36,349
2026	856,002	11,644
2027	834,518	-
2028	855,113	-
Thereafter	330,463	-
Total undiscounted cash flows	4,934,444	86,178
Less: imputed interest	215,150	3,690
Total lease liabilities	**$ 4,719,294**	**$ 82,488**

Supplemental Lease Information

	2023	2022
Finance lease weighted average remaining lease term (years)	2.30	3.00
Finance lease weighted average discount rate	3.64%	1.33%
Operating lease weighted average remaining lease term (years)	5.03	6.00
Operating lease weighted average discount rate	1.70%	1.67%
Cash paid for amounts included in the measurement of Lease Liabilities:		
Operating cash flows from finance leases (i.e. Interest)	3,166	10,898
Financing cash flows from finance leases (i.e. principal portion)	32,519	-
Operating cash flows from operating leases	1,078,284	1,021,514
Right-of-use assets obtained in exchange for new finance lease liabilities	91,990	33,479
Right-of-use assets obtained in exchange for new operating lease liabilities	-	6,507,753

17. FAIR VALUE MEASUREMENTS

Determination of Fair Value

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

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

In accordance with this guidance, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. There have been no changes in the methodologies used at December 31, 2023 and 2022.

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

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

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

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

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

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

Investment Securities Available for Sale and Held to Maturity - When instruments are traded in secondary markets and quoted market prices do not exist for such securities, management generally relies on prices obtained from independent vendors or third-party broker-dealers. Management reviews pricing methodologies provided by the

17. FAIR VALUE MEASUREMENTS (CONTINUED)

Determination of Fair Value (continued)

vendors and third-party broker-dealers in order to determine if observable market information is being utilized. Securities measured with pricing provided by independent vendors or third-party broker-dealers are classified within Level 2 of the hierarchy and often involve using quoted market prices for similar securities, pricing models or discounted cash flow analyses utilizing inputs observable in the market where available. The specific investment holdings which are included in the Level 2 classification are U.S government issued securities; U.S. government agencies, collateralized mortgage obligations, mortgage-backed securities, corporate bonds and municipal securities.

Equity securities – The fair value of equity securities is based on quoted prices in active markets for identical assets or liabilities that the Bank can access at the measurement date and is considered a Level 1 classification. A quoted market price in an active market provides the most reliable evidence of fair value and is used without adjustment to measure fair value whenever available, with limited exceptions.

Loans - For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on amortized costs. Fair values for certain fixed-rate mortgage (e.g. one-to-four family residential), commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

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

Deposits - Fair value of demand deposits, money market and saving accounts is the amount payable on demand (carrying amount) at December 31, 2023 and 2022. The fair value of fixed-maturity time deposits are estimated using discounted cash flow analysis, using the rates currently offered for deposits of similar remaining maturities.

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

Unused Lines of Credit, Commitments to Extend Credit, and Standby Letters of Credit - The fair value of off-balance-sheet, credit-related financial instruments are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties.

17. FAIR VALUE MEASUREMENTS (CONTINUED)

Items Measured at Fair Value on a Recurring Basis

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

	Level 1	Level 2	Level 3	Total
December 31,2023				
U.S. treasury securities	$ -	$ 14,949,219	$ -	$ 14,949,219
U.S. government agencies issued securities	-	84,868,884	-	84,868,884
Municipals	-	17,545,460	-	17,545,460
Collateralized mortgage obligations	-	13,900,269	-	13,900,269
Collateralized loan obligations	-	55,676,296	-	55,676,296
Mortgage-backed securities	-	119,257,976	-	119,257,976
Asset backed Securities	-	4,851,866	-	4,851,866
Corporate bonds	-	71,322,815	-	71,322,815
Equity Securities	6,601,564	-	-	6,601,564
	$ 6,601,564	**$ 382,372,785**	**$ -**	**$ 388,974,349**

	Level 1	Level 2	Level 3	Total
December 31,2022				
U.S. treasury securities	$ -	$ -	$ -	$ -
U.S. government agencies issued securities	-	50,976,238	-	50,976,238
Municipals	-	16,473,380	-	16,473,380
Collateralized mortgage obligations	-	-	-	-
Collateralized loan obligations	-	23,278,008	-	23,278,008
Mortgage-backed securities	-	49,156,421	-	49,156,421
Asset backed Securities	-	-	-	-
Corporate bonds	-	79,496,619	-	79,496,619
Equity Securities	1,826,283	-	-	1,826,283
	$ 1,826,283	**$ 219,380,666**	**$ -**	**$ 221,206,949**

There were no financial liabilities measured at fair value on a recurring basis at December 31, 2023 and 2022.

Items Measured at Fair Value on a Nonrecurring Basis

Individually Evaluated Loans

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

When a loan is deemed impaired, the Bank's management measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical method, impairment may be measured based on the fair value of the loan or on the fair value of the underlying collateral if the loan is collateral dependent.

As of December 31, 2023 and 2022, loans deemed to be impaired based on fair value measurement totaled $5,205,826 and $4,765,840, respectively, with the portion deemed to be impaired included in the allowance for credit losses.

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

17. FAIR VALUE MEASUREMENTS (CONTINUED)

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

	Level 1	Level 2	Level 3	Total
December 31, 2023				
Individually Evaluated loans	$ -	$ -	$ 3,085,243	$ 3,085,243
Foreclosed assets	-	-	-	-
	$ -	**$ -**	**$ 3,085,243**	**$ 3,085,243**

	Level 1	Level 2	Level 3	Total
December 31, 2022				
Individually Evaluated loans	$ -	$ -	$ 4,136,079	$ 4,136,079
Foreclosed assets	-	-	506,000	506,000
	$ -	**$ -**	**$ 4,642,079**	**$ 4,642,079**

There were no financial liabilities measured at fair value on a nonrecurring basis at December 31, 2023 and 2022.

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of the Bank's financial instruments were as follows at December 31, 2023:

	2023	
	Carrying Amount	**Fair Value**
Financial assets:		
Cash and cash equivalents	$ 173,940,664	$ 173,940,664
Investment securities available for sale	382,372,785	382,372,785
Investment securities held to maturity	193,654,843	189,637,656
Equity securities	6,601,564	6,601,564
Loans, net	2,845,881,025	2,700,078,243
Accrued interest receivable	13,567,868	13,567,868
Financial liabilities:		
Demand, money market and saving accounts	$ 1,865,649,268	$ 1,865,649,268
Time deposits	1,105,909,221	1,105,574,260
Securities sold under agreements to repurchase	284,000,000	284,000,000
Federal Home Loan Bank advance	50,000,000	50,000,000
Subordinated Debt	14,868,163	13,233,913
Accrued interest payable	16,218,378	16,218,378

17. FAIR VALUE MEASUREMENTS (CONTINUED)

The carrying amounts and estimated fair values of the Bank's financial instruments were as follows at December 31, 2022:

	2022	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 89,418,523	$ 89,418,523
Investment securities available for sale	219,380,666	219,380,666
Investment securities held to maturity	218,205,340	214,699,575
Equity securities	1,826,283	1,826,283
Loans, net	2,312,172,813	2,261,658,334
Accrued interest receivable	10,346,012	10,346,012
Financial liabilities:		
Demand, money market and saving accounts	$ 1,370,076,117	$ 1,370,076,117
Time deposits	1,039,890,945	1,032,081,084
Federal Home Loan Bank advance	141,000,000	141,000,000
Subordinated Debt	14,802,245	14,141,195
Accrued interest payable	3,372,034	3,372,034

18. BANK OWNED LIFE INSURANCE

Bank owned life insurance ("BOLI") is carried at the amount that could be realized under the contract at the balance sheet date, which is typically the cash surrender value. Changes in cash surrender value are recorded in non-interest income. The Bank maintained BOLI policies with three insurance carriers with a combined cash surrender value of $61,478,500 at December 31, 2022. At December 31, 2023, the Bank maintained BOLI policies with five insurance carriers with a combined realizable cash surrender value of $109,414,141. The Bank is the beneficiary of these policies, which covers certain present and former executives and officers.

19. REVENUE RECOGNITION

Revenue from Contracts with Customers (Topic 606), ASU 2014-09, implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

The Bank has elected to apply the ASU and all related ASUs using the modified retrospective method. The implementation of the guidance had no material impact on the measurement or recognition of revenue of prior periods. The Bank generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgement involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers. All of the Bank's revenue from contracts with customers in the scope of topic 606 is recognized within noninterest income on the accompanying consolidated statements of earnings. A description of the Bank's revenue streams accounted for under Topic 606 follows:

BANESCO USA AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

19. REVENUE RECOGNITION (CONTINUED)

Service Charges and Fees on Deposit Accounts – Deposits are included as liabilities in the consolidated balance sheets. Service charges and fees on deposit accounts include: overdraft fees, which are charged when customers overdraw their accounts beyond available funds; automated teller machine (ATM) fees charged for withdrawals by deposit customers from other financial institutions' ATMs; and a variety of other monthly or transactional fees for services provided to retail and business customers, mainly associated with checking accounts.

All deposit liabilities are considered to have one-day terms and therefore related fees are recognized in income at the time when services are provided to the customers. Incremental cost of obtaining deposit contracts are not significant and are recognized within noninterest expense in the accompanying consolidated statements of operations.

20. SUBORDINATED DEBT

On December 29, 2020, the Bank completed an offering of $15,000,000 in Subordinated Debt with various institutions. The issuance is of a 10-year term, which is callable after the first five years, with fixed semiannual payments at 5.50% for the first five years and floating rate quarterly payments thereafter. The issuance cost amounted to $322,080 and is presented as a direct reduction of the debt payable on the accompanying consolidated balance sheets. The debt issuance cost is amortized over five years, which is the initial call date.

Decmeber 31, 2023	
Subordinated Debt	$ 15,000,000
Unamortized Debt Issuance Cost	(131,837)
	14,868,163

Products & Services

Deposit Products

Certificates of Deposit

Checking

Money Market

Savings

Lending

Commercial & Industrial

Commercial Real Estate

Commercial Lines of Credit

Commercial Term Loans

Construction

Equipment Financing

Minority-owned Business Loans (ECIP)

Owner-Occupied Commercial Real Estate

Real Estate Investment

Residential Mortgage

SBA Loans

Treasury Management

ACH Services

ACH and Payee Positive Pay

Intrabank & Interbank Electronic Transfers

Lockbox Services

Merchant Services

Remote Deposit Capture

Digital Banking

Wire Transfers

Mobile Banking

Online Banking

Visa Debit Card with Card Controls

Zelle® and Zelle® for your business

Specialty Banking & Services

Business & Professional Banking

EXIM Financing

Foreign Correspondent Banking

Multinational Client Employee Accounts

Locations & Addresses

Corporate Headquarters

3155 NW 77th Ave.
Miami, FL 33122

Aventura

Aventura Parksquare
2980 NE 207th St., Suite 106
Aventura, FL 33180

Brickell

Brickell Arch
1395 Brickell Ave.
Miami, FL 33131

Coral Gables

150 Alhambra Circle, Suite 100
Coral Gables, FL 33134

East Doral

3155 NW 77th Ave.
Doral, FL 33122

Hialeah

795 W 49th St.
Hialeah, FL 33012

San Juan

Lobby MCS Plaza
255 Ave Juan Ponce de León
San Juan, PR 00917

West Palm Beach

Loan & Deposit Production Office
700 S. Rosemary Ave., Suite 204-155
West Palm Beach, FL 33401

Loans are subject to credit approval. Home loans available only to domestic customers in the Continental U.S. Property must be located in Florida. Additional conditions may apply.

Money Market accounts are available to domestic clients only.

Card Controls available with personal checking accounts.

Merchant Services provided by FiServ.

To send or receive money with a small business, both parties must be enrolled with Zelle® directly through their financial institution's mobile banking app. Zelle® and the Zelle® related marks are wholly owned by Early Warning Services, LLC and are used herein under license.

Reflecting on our accomplishments in 2023, we remain confident that we have the right core business strategies for sustainable growth, the right teams of specialists with the experience and expertise to attract and expand a loyal client base, and the right organizational culture to maintain the momentum to win in the markets where we choose to do business.

Our biggest opportunity to build value is right now.

— Calixto (Cali) García-Vélez

The water feature symbolizes the vision and creativity of Juan Carlos Escotet Alviarez, which will forever inspire us.

**In loving memory of
Juan Carlos Escotet Alviarez**

banescousa.com

EQUAL HOUSING LENDER