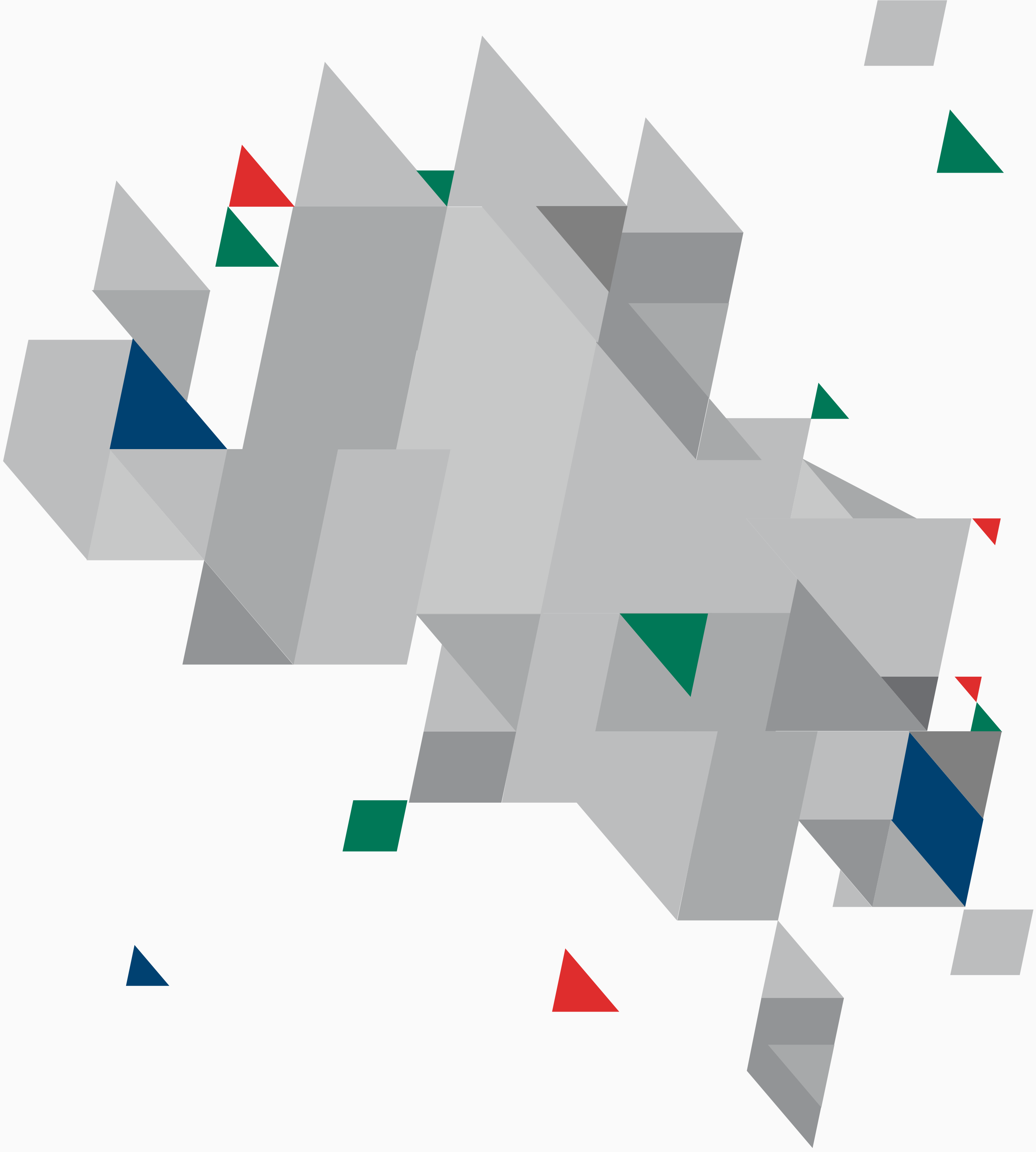

2017
Annual Report

Banesco
Here with you

Banesco USA Locations

Coral Gables

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

DORAL
9500 NW 41st Street,
Suite 100
Doral, Fl 33178

HIALEAH
795 W 49th Street
Hialeah, Fl 33016

WESTON
316 Indian Trace,
Weston Lakes Plaza
Weston, Fl 33326

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

Committed to Innovation & Growth

Banesco USA is committed to supporting our local community. We offer extensive loan products to help small and medium businesses grow. Our personal banking products and services allows families to plan for the future they want. We are constantly seeking to improve upon the safest and most innovative banking solutions in order to provide the best service possible to our clients. Our online and mobile banking options give busy clients easy access to their accounts on the go without any sacrifice to security. We believe banking should match the lifestyle of our clients, that is why we work tirelessly to offer them a personalized service along with innovative solutions that meets their needs.

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BANESCO INTERNATIONAL GROUP

Multinational Loan Portfolio:
$36,883 MM

Multinational Deposit Portfolio:
$40,788 MM

Multinational Assets:
$63,877 MM

More than 9 MM customers

More than 13,000 Employees

Presence over 15 Countries

Banesco
INTERNACIONAL

BANESCO USA IS A FLORIDA CHARTERED BANK COMPLETELY INDEPENDANT OF BANESCO IN OTHER COUNTRIES.

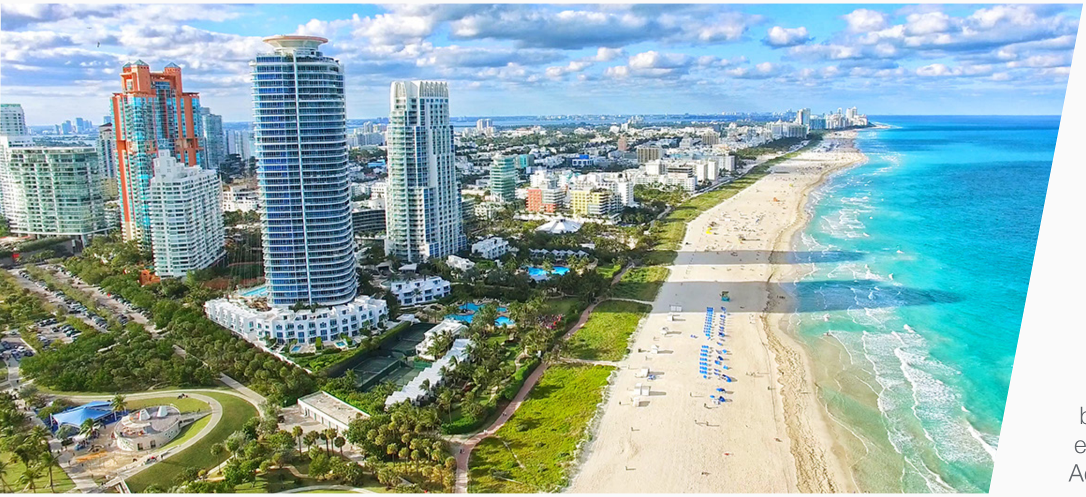
A Decade of Experience

For over 11 years, we have provided our community with personal and business banking in South Florida and Puerto Rico. We are long-term relationship bankers, meaning that we really get to know our clients in order to provide the most personalized service possible.

We are looking forward to the next chapter of innovation and growth. Our vision is to double our size in the next three years by investing in better customer service and going through a digital transformation.

We have added several features to our online and mobile banking platforms in order to make banking easier and more convenient than ever for our customers. We have also increased security measures by providing additional layers of security to protect online transactions and prevent identity theft.

A PRIVILEGED LOCATION



South Florida is known for its beautiful beaches, its diverse, booming population, and its strong potential for business success. According to the Economic Outlook Summit, Florida is forecast to reach a $1 trillion economy in 2018, and its population expected to climb from 21 million in 2017 to 26 million by 2030. Last year, about 144,000 people moved to the state of Florida from outside the U.S., and 160,000 residents moved to Florida from other states.

While still rebuilding after the devastating hurricanes in 2017, the governor of PR, Ricardo Rosselló, has expressed that “challenging times create enormous opportunities.” With the building of its new energy grid sparking innovative technology, low cost of living, pushes for investment, and the presence of companies like Microsoft, Lufthansa and now possibly Tesla, Puerto Rico is a smart choice for doing business.

Both South Florida and Puerto Rico are at the forefront of international business in the United States, making it an excellent region for business endeavors.

Additionally, both regions are known for their majority Hispanic populations, which happens to be the fastest growing population in the U.S. according to PEW research, hitting a new high of 58 million Latinos living in the U.S. as of 2016.

Our privileged locations and the support of Banesco International Group, makes Banesco USA a one-of-a-kind community bank. We are a bilingual, multicultural institution ready to meet the demands of our communities by supporting local businesses and families alike. With such a fast-growing population in our region and unparalleled potential for economic growth, we are Here With You to grow together!

Sources:

- Economic Outlook Summit x Sun Sentinel http://www.sun-sentinel.com/business/fl-bz-florida-chamber-jobs-20180109-story.html
- PEW Research http://www.pewresearch.org/fact-tank/2017/09/18/how-the-u-s-hispanic-population-is-changing/
- INC.com https://www.inc.com/james-paine/why-entrepreneurs-should-move-to-puerto-rico.html
- FastCompany.com https://www.fastcompany.com/40531252/here-are-10-great-reasons-to-do-business-in-puerto-rico-right-now

Letter From President & CEO of Banesco USA

"Thank You to Each And Every One of Our Customers, Investors And Staff For Your Unwavering Support And Commitment to Make Banesco USA The Outstanding Organization it is"

Dear Banesco USA family,

As we close another fiscal year, it is my pleasure to share with you the achievements we have undergone this year at Banesco USA. Along with the addition of a new local branch and improved products and services, I am pleased to announce that 2017 has been a year full of growth. In June 2017, Banesco USA increased its total assets to $1,076 MM, just over one billion dollars. Our net loan portfolio increased to over $815 MM and total deposits were more than $916 MM. Thank you to each and every one of our customers, investors and staff for your unwavering support and commitment to make Banesco USA the outstanding organization it is.

This year has brought on new growth and advancements. Banesco USA will have a new operating system powered by nCino, which gives our platform high quality, faster service and full transparency in credit processing. We have considerably grown our online deposits and thus, our lending capacity. We have also introduced a customer experience NPS driven software by Satmetrix, which allows us to better understand our customer's experience and feedback.

Banesco USA opened its newest location in Hialeah, the first of three new branches set to open within the next three years. We are committed to serving the local community and we are proud to take part in initiatives that benefit residents and local businesses alike.

We continue offering assistance to small and medium businesses throughout South Florida and PR by providing a robust value proposition, as well as specialized products, services and efficient processes to help local entrepreneurs reach their goals.

BanescoMobile now allows quick access to accounts with Touch ID for iPhone, as well as the option to preview account balances without logging in at all. We've rolled out a new and improved BanescoVoice to make account access available 24/7 over the phone, and BanescoToken is now available to make online transactions even more secure.

During the devastation of Hurricanes Irma and Maria, Banesco USA has stood united with our neighbors affected by the storms in efforts to help our clients rebuild their homes with the right loans and cover the needs of our employees at the Puerto Rico branch.

Finally, this year has been witness to national recognition and ongoing financial growth for Banesco USA. Bauer Financial gave Banesco USA a 5-star rating shortly after we received an upgrade by Fitch Ratings. We are deeply honored to have received a score that reflects our outstanding financial performance and the commitment we have to our growing number of satisfied clients.

We closed the year with Banesco USA's total assets amounting to $1,076 millions, a 10% increase compared to the previous year. Banesco USA's net loan portfolio increased by 11% reaching $815.4 millions. We are pleased to have taken part in this year of economic growth and commitment to innovation. As always, we know this growth wouldn't be possible without your support, and for that, we thank you.

Jorge Salas

Warm Regards,

Jorge Salas
Director, President and CEO
of Banesco USA

VALUES & COMMITMENT

We are committed to living and working by our upstanding values.

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

RESPONSIBILITY

We respond to our obligations with accuracy and passion.
We stand by our commitment.
We use our time wisely.
We give the best to everyone.

RELIABILITY

We say the truth under all circumstances.
We respond with honesty.
We acknowledge our mistakes.
We ask for assistance when necessary.

QUALITY

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

INNOVATION

We are visionary.
We offer new solutions.
We seek ideas and technologies that promote change.

Products

Personal Banking

Banesco USA offers personal banking that's secure, easy to use and available 24/7. Personal accounts include a variety of options for checking and savings, such as interest checking NOW accounts, money market accounts, and certificate of deposits. In addition, Banesco USA offers several loan options including residential mortgage loans, home equity lines, as well as boat and auto loans.

Business Banking

Banesco USA offers flexible banking solutions for businesses. Business banking includes checking accounts, money market accounts, savings accounts and certificate of deposit. Banesco USA is proud to support businesses by offering cash management options and a variety of commercial loans designed to fit their needs. These include commercial real estate mortgage loans, term commercial loans, commercial lines of credit, asset guaranteed loans and owner occupied / SBA 504.

Services

Banesco Mobile
Our essential and easy-to-use app allows clients to access their Banesco accounts from anywhere at anytime via their smart phones or tablets. Now even better, BanescoMobile allows quick access with Touch ID for iPhone®, and the new preview option that allows users to check account balances without having to log in.

Banesco Mobile Check Deposit
Our safe and convenient service lets you deposit personal and business checks from virtually anywhere at anytime by using the BanescoMobile app for iPhone®, Ipad® and Android™ devices.

Banesco Online
Enjoy the convenience of connecting to your accounts online with free, secure, easy access from any computer or device connected to the Internet. Check balances, make transfers, review account history, and more.

Banesco Visa® Check Card
Enjoy a wide range of services so you can easily and safely manage your Personal Checking and Business Accounts. To help business owners save time and money, we also offer the Banesco USA Visa® Business Check Card, which allows access to various services, such as giving local businesses the advantage of making online purchases.

Banesco Visa® Check Card Alerts
Receive alerts 24/7, every time your debit card is used.

Online Account Opening
Now you can open Money Market, Savings and Certificate of Deposit Accounts online in a few simple steps. From wherever you are!

Trusteer Rapport
The Trusteer Rapport Application is completely free of charge and will instantly add an additional security layer as soon as it's downloaded in your computer.

Banesco Digital Token
Online transactions are made even safer with this additional layer of security. This completely free service works to defeat malware programs by urging users to approve online transactions with a freshly generated security code known as a digital token.

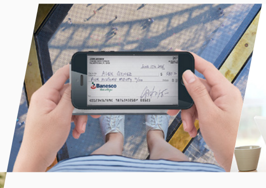
Banesco Voice
A new and improved automated voice system available 24/7 gives you the option to access accounts and other services.

Merchant Services
In collaboration with First Data, one of the leading credit and debit card processors in the world, Banesco USA offers payment processing solutions to fit every Domestic Business customer's needs:

- Account review: to analyze pricing, fees, equipment and services
- 24-48 hour funding
- E-commerce, mobile and point of sale solutions
- 24-hour technical support
- Charge back support

Cash Management Solutions
You can control your Business Account 24/7 securely and conveniently by using:

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



Financial Technology

Choosing The NPS Route With Fintech

With a software developed by Satmetrix, Banesco USA seeks to better understand the client's experience by measuring the Net Promoter Score in order to implement new strategies and optimize processes.

More Efficiency. Better Customer Experience

Banesco USA has selected nCino, the worldwide leader in cloud banking, to provide new levels of efficiency and transparency across the commercial loan process.

The nCino Bank Operating System employs automated workflow technology to control and monitor the various steps in loan processing as well as electronic document management to reduce delays and inefficiencies associated with paper documents.

"Customers will benefit from a transparent process that results in faster and easier access to credit".
Jorge Salas
President and CEO

ACHIEVEMENTS

In June 2017, Banesco USA's total assets increased to $1.02B, including diversified commercial loans to support local businesses.

BB-

FitchRatings upgraded Banesco USA's score from B+ to BB-. Furthermore, Fitch views Banesco USA structure as an independent bank.

Bauer Financial awarded Banesco USA with a 5-star rating, the highest rating possible.

Banesco USA's Vice President and Business Development Officer, José Ramón Purroy, was selected to serve as Adviser on the Board of Directors for the Spain-US Chamber of Commerce in Miami.

New Online Account Opening

In July , we implemented our online account opening platform allowing customers the possibility of opening a certificate of deposit online fast and secure. The results were incredibly positive:

More than 600 processed applications
More than $26 MM in accounts opened and customers in more than 38 states.

Given the success of the CDs, we will add new online products in 2018, including Money Market and Savings.

Our Greatest Asset is Our People

BOARD OF DIRECTORS

CARLOS PALOMARES
Chairman of the Board

JORGE SALAS
President and CEO
Director

SENO BRIL
Director

FRANCISCO J. PAREDES
Director

JUAN CARLOS ESCOTET ALVIAREZ
Director

MIGUEL ANGEL MARCANO
Director

MARIO OLIVA
Director

FREDERICK BRENNER
Director Emeritus

MERCEDES ESCOTET
Secretary of the Board

Management Team

Jorge Salas
President and CEO,
Director

Maritza Abadia
Executive Vice President, Puerto Rico Country Manager

Mercedes Escotet
Executive Vice President, Chief Financial Officer

Alina D. Garcia-Duany
Executive Vice President, Chief Lending Officer

Luis Alfredo Grau
Senior Vice President, Head of International Department

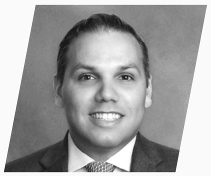
Leticia Pino
Executive Vice President, Operations & Administrative Officer

Alba Prestamo
Executive Vice President, Chief Compliance & Risk Officer

Michel Vogel
Senior Vice President, Chief Credit Officer

Julio Valle
Executive Vice President, Chief Information Officer

Jose E. Lopez
Senior Vice President, Head of SMB Leading & Branches



Gustavo Rengifo
Vice President, Head of Customer Experience

Rafael Navarro
Strategic Planning Officer

Banesco Family Comes Together as One

During the devastation of Hurricanes Irma and Maria, community outreach and working together have been more important than ever. Banesco USA stands united with our neighbors affected by the storms and we're here to help them get back on their feet.

In efforts to help our clients affected by Hurricane Irma, Banesco USA has offered a package of benefits including term loans for home renovations and Lines of Credit to cover the needs of working capital.

In addition, our South Florida employees were there to assist and cover the needs of our team in our Puerto Rico branch who were affected by Hurricane Maria. We know that without support from one another, our work would not be possible. Banesco USA continues to strive for excellence through its strong ties to local community.

The following management's discussion and analysis (MD&A) is intended to assist readers in understanding the financial condition and results of operations of the Bank as of December 31, 2017 and for the year then ended. This discussion should be read in conjunction with the audited financial statements, accompanying footnotes and other supplemental financial data included in this annual report.

Financial Statements

The Bank prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. In this section, we review the main variations of the summary balance sheets and statements of operations at the close of 2017 with respect to the amounts presented at the close of 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Condition and Results of Operations

Net Income

Net income of $3.5 million in 2017 represents an increase from the net income of $0.4 million in 2016. The main drivers contributing to these results were a significant decrease in the provision for loan losses of $5.4 million or 59 percent, an increase in net interest income of $1.8 million or 5 percent, an increase in non-interest income of $0.2 million or 2 percent and a decrease in non-interest expenses of $1.2 million or 3.6 percent.

Net Interest Income

Net interest income before provision for loan losses increased $1.8 million, or 5.3 percent, to $36.1 million in 2017, from $34.3 million in 2016. This was mainly a result of a 10 percent growth in the gross loan portfolio.

Provision For Loan Losses

The provision for loan losses totaled $3.7 million in 2017, a decrease of $5.4 million from 2016. The decrease was the result of additional reserve booked in 2016 due to one loan which was classified as impaired at year end. The impairment was due to an isolated incident and not due to weaknesses of a particular industry or to economic conditions.The loan was charged-off in 2017.

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

Non-Interest Income

In 2017, total non-interest income increased by $0.2 million, or 2 percent. The factors leading to this result were higher commissions, gain on sales of OREO and gain on acquired assets; partially offset by lower service fees on loans and deposits and lower gain on sale of investments.

Gains on securities for 2017 was $0.7 million; the sales of investment securities available for sale stem from the Treasury Unit's ongoing assessment of the total return profile of each security versus the market for investments of similar risk, the mitigation of the significant risk to equity arising from prepayments (beyond contractual) on investment securities with material market appreciation, and management of the duration of the balance sheet.

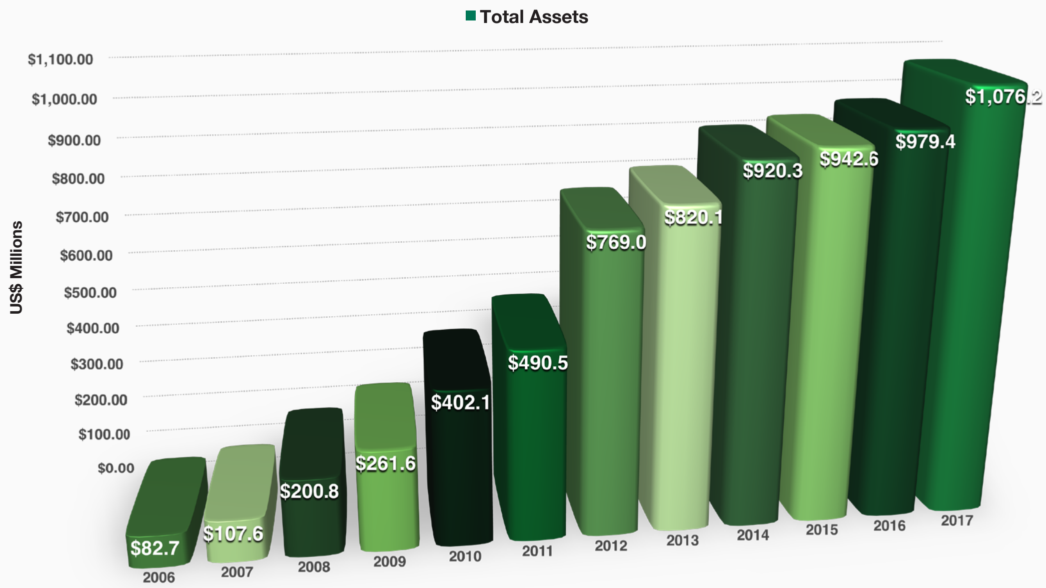
Non-Interest Expense

Total non-interest expense decreased by $1.2 million, or 3.6 percent, during the year. The bank's continued efforts in increasing its efficiency were vital in being able to reduce non-interest expenses in 2017.

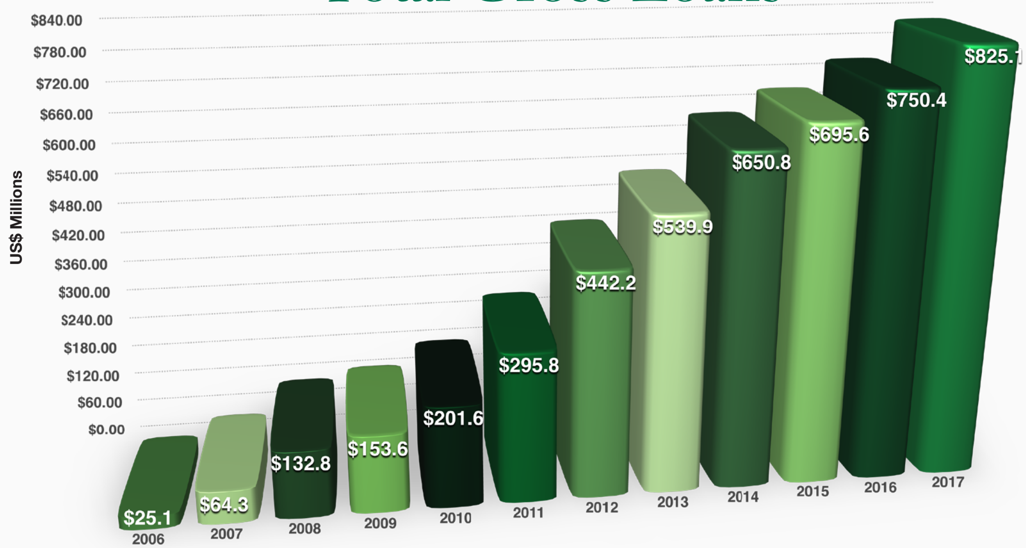
Income Taxes

In 2017, the Bank recorded an income tax expense of $5.2 million, compared to an income tax benefit of $0.3 million the prior year. On December 22, 2017, the President signed into law the Tax Act. The Tax Act includes a permanent reduction in the corporate income tax rate from 35% to 21%. The rate reduction took effect on January 1, 2018. As a result, the Bank remeasured its December 31, 2017 deferred tax assets and liabilities at the 21% tax rate. The effect on the change in rates on the Bank's deferred tax asset was a decrease of $1.9 million which the Bank recognized in the income tax expense.

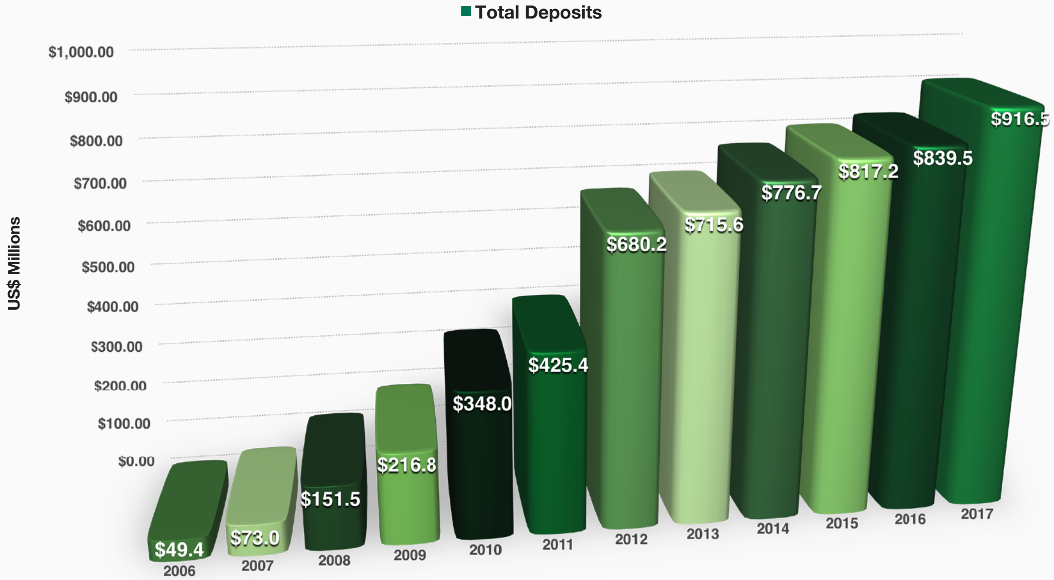
Total Assets



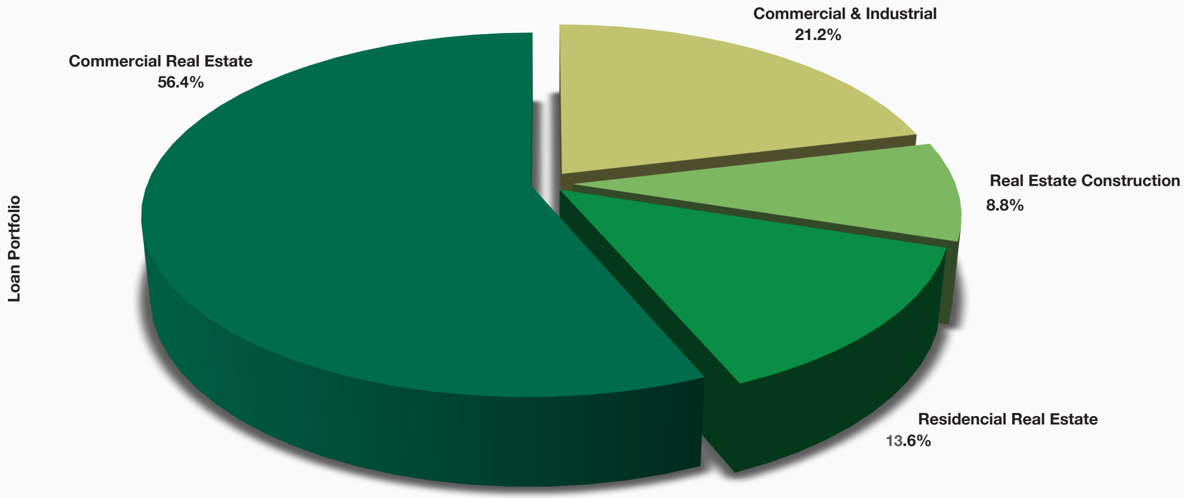
Total Gross Loans



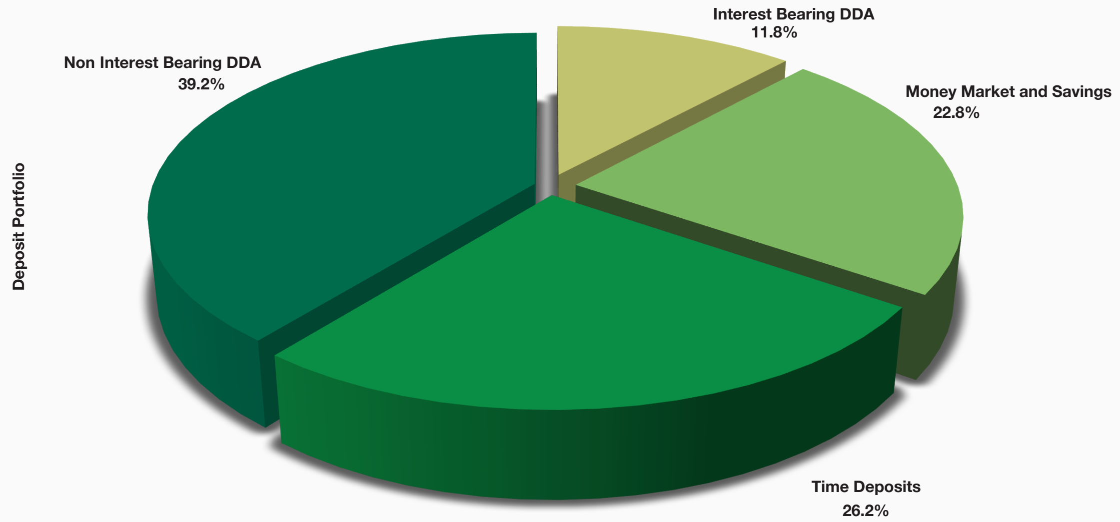
Total Deposits



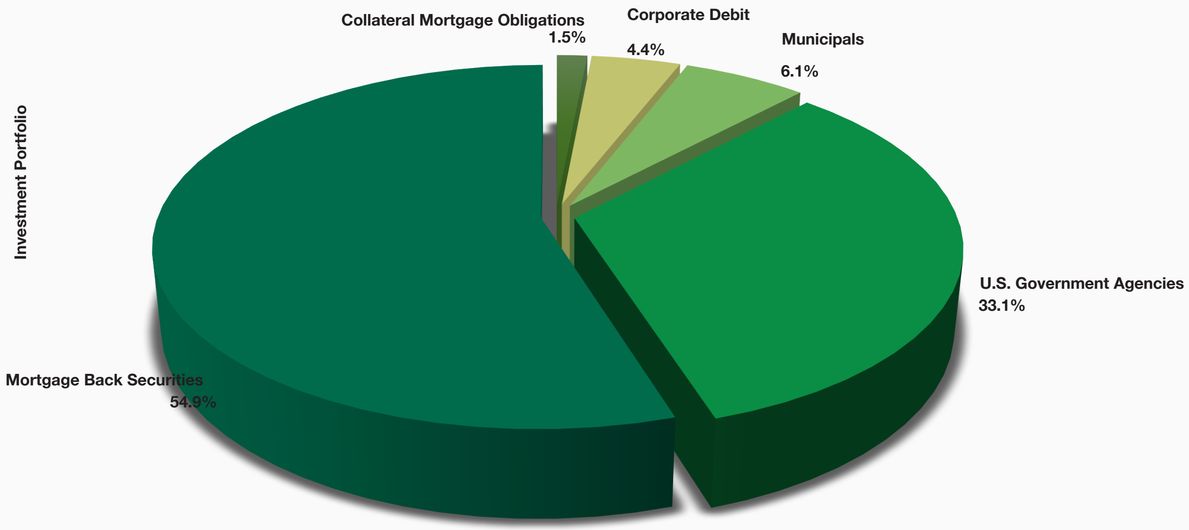
Loan Portfolio



Deposit Portfolio



Investment Portfolio



Total Assets

Total assets closed the year 2017 at $1,076 million, an increase of $96.8 million, or 10 percent, compared to the previous year. The net loan portfolio, which closed the year at $815.4 million, or 76 percent of total assets, grew by 11 percent since the end of 2016. The investment securities portfolio of $169 million at the end of 2017, or 16 percent of total assets, remained at a similar level as the previous year. Cash and cash equivalents showed an increase of $1.9 million, or 4 percent, compared to 2016.

Cash And Cash Equivalents

The Bank continues to maintain significantly high liquidity levels as part of its asset-liability management strategies. A significant part of those strategies is holding liquid assets in the form of cash and cash equivalents, primarily deposits with the Federal Reserve Bank. At the close of 2017, cash and cash equivalents reached $55.9 million, 5.2 percent of total assets, an increase of 4 percent compared to the close of 2016.

Investment Securities

The investment portfolio, which represents approximately 16 percent of total assets, is composed of high-quality debt instruments issued by U.S. Government Agencies (33 percent), U.S. Government Sponsored Enterprises MBSs (55 percent), U.S. Government Sponsored Enterprises CMOs (2 percent), Municipal Securities (6 percent) and Corporate Securities (4 percent).

The composition of the investment securities portfolio at December 31, 2017 is illustrated in the chart on page 21.

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

Net Loans

The net loan portfolio reached $815.4 million at the close of 2017, growing $82 million, or 11 percent, compared to the previous year. This increase was primarily driven by prudent growth in Commercial Real Estate, Construction and Residential Real Estate portfolios which grew a total of $96.3 million or 17 percent. Offset by a reduction in Commercial and Industrial portfolios of $21.4 million or 11 percent.

Other Assets

Other assets increased $13 million compared to prior year consisting of:

- $2.1 million in property and equipment, net, which decreased $0.3 million from prior year mostly attributed to depreciation expense.
- $2.9 million in accrued interest receivable which increased $0.3 million compared to prior year.
- $3.9 million in Deferred Tax Assets which decreased $5.3 million compared to prior year. This decrease is mainly attributed to a decrease in the Allowance for Loan Losses and due to a year end adjustment after the enactment of the Tax Cuts and Jobs Act in December 2017.
- The Bank sold all its foreclosed assets in the year which resulted in a reduction of $2.8 million for 2017.
- $20.3 million in Bank Owned Life Insurance which the Bank purchased in 2017.
- $2.2 million in prepaid and other assets, which increased by $0.7 million compared to prior year.

LIABILITIES

DEPOSITS AND SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

Deposits and securities sold under agreements to repurchase (repo accounts, including customer's overnight sweep repo accounts) reached an all-time high of $917.1 million at the close of 2017, representing an increase of $76.4 million from 2016.

There was an increase in non-interest bearing accounts of $39.9 million and an increase in interest bearing accounts of $37.1 which helped stimulate the growth in 2017. Repo accounts decreased $0.6 million compared to the previous year.

ADVANCES FROM THE FEDERAL HOME LOAN BANK

The Federal Home Loan Bank offers its member institutions fixed or variable rate secured lines of credit based on the institution's condition and creditworthiness. The Bank utilizes short to medium-term fixed rate advances as one of its pools to manage balance sheet interest rate sensitivity risk. Advances from the Federal Home Loan Bank closed the year at $60 million, which increased $20 million compared to 2016. All advances mature in 2018.

At December 31, 2017 the Bank had a credit line of approximately $258 million, with an unused borrowing capacity of approximately $198 million.

Stockholder's Equity

Stockholder's equity grew by $4.3 million or 5 percent during the year. Other comprehensive income of $0.5 million, primarily the after-tax net unrealized fair value losses in the available for sale investment portfolio and net income of $3.5 million were the main contributing factors for this increase in shareholder's equity.

Tier 1 Risk-Based Capital as a percentage of Risk-Weighted Assets decreased slightly to 11.3 percent in 2017 from 11.5 percent a year earlier. Total Risk-Based Capital to Risk-Weighted Assets decreased slightly to 12.5 percent in 2017 from 12.7 percent in 2016. These decreases are the result of an increase of 6 percent in total Risk-Weighted Assets, coupled with a less proportionate increase of 4.3 percent in Tier 1 Risk-Based Capital and Total Risk-Based Capital respectively.

Total Risk-Weighted Assets increased approximately $48.3 million, as a result of the growth in the portion of the loan portfolio allocated to a higher risk weight category for regulatory capital computation purposes.

Banesco USA Financial Statements

BANESCO USA

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

MBAF
MORRISON BROWN ARGIZ & FARRA, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

BANESCO USA

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MBAF
MORRISON BROWN ARGIZ & FARRA, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
of Banesco USA

We have audited the accompanying financial statements of Banesco USA (the "Bank") (a Florida corporation), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations, statements of comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banesco USA as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Morrison, Brown, Argiz & Farra

Miami, Florida
March 30, 2018

BANESCO USA

BALANCE SHEETS
DECEMBER 31,

ASSETS	2017	2016
CASH AND CASH EQUIVALENTS:		
Cash and due from banks	$ 6,736,099	$ 3,428,788
Interest bearing deposits in other financial institutions	49,121,160	50,506,653
TOTAL CASH AND CASH EQUIVALENTS	55,857,259	53,935,441
Investment securities available for sale	169,036,780	169,425,739
Investment securities held to maturity	1,039,642	1,199,290
Federal Home Loan Bank stock, at cost	3,428,500	2,548,400
Loans, net	815,385,840	733,804,531
Property and equipment, net	2,095,030	2,376,311
Accrued interest receivable	2,932,431	2,589,878
Foreclosed assets, net	-	2,775,700
Deferred tax assets, net	3,909,855	9,228,821
Bank-owned life insurance	20,305,083	-
Prepaid expenses and other assets	2,220,478	1,540,508
TOTAL ASSETS	**$ 1,076,210,898**	**$ 979,424,619**

LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Noninterest bearing demand deposits	$ 358,846,508	$ 318,954,162
Interest bearing demand deposits	107,989,198	98,695,347
Money market and savings accounts	209,359,022	213,334,206
Time deposits	240,282,661	208,466,559
TOTAL DEPOSITS	916,477,389	839,450,274
Securities sold under agreements to repurchase	646,790	1,241,524
Federal Home Loan Bank advances	60,000,000	40,000,000
Accrued interest payable	1,038,979	710,696
Accrued expenses and other liabilities	5,339,596	9,653,735
TOTAL LIABILITIES	983,502,754	891,056,229
COMMITMENTS AND CONTINGENCIES (NOTES 13 AND 15)		
STOCKHOLDERS' EQUITY:		
Common stock, $5 par value; 6,000,000 shares authorized; 5,926,304 shares issued and outstanding in 2017 and 2016	29,631,520	29,631,520
Additional paid-in capital	50,842,927	50,842,927
Retained earnings	14,099,428	10,243,110
Accumulated other comprehensive loss, net of taxes	(1,865,731)	(2,349,167)
TOTAL STOCKHOLDERS' EQUITY	92,708,144	88,368,390
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 1,076,210,898**	**$ 979,424,619**

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

BANESCO USA

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31,

	2017	2016
INTEREST AND DIVIDEND INCOME:		
Loan and fees on loans	$ 37,112,404	$ 34,416,091
Investment securities	3,903,520	4,004,230
Federal funds sold	529,132	255,186
Federal Home Loan Bank stock	132,990	151,767
TOTAL INTEREST AND DIVIDEND INCOME	41,678,046	38,827,274
INTEREST EXPENSES:		
Deposits	4,838,295	3,991,873
Federal Home Loan Bank advances	752,638	558,139
Other borrowed funds	9,451	7,160
TOTAL INTEREST EXPENSES	5,600,384	4,557,172
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	36,077,662	34,270,102
PROVISION FOR LOAN LOSSES	3,676,578	9,070,759
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	32,401,084	25,199,343
NONINTEREST INCOME:		
Service fees on loans and deposits	4,815,356	5,330,337
Banked-owned life insurance income	305,083	-
Gain on sales of investment securities, (includes $662,186 and $1,266,574 accumulated other comprehensive income reclassifications for unrealized net gains on available for sale securities, respectively)	662,186	1,266,574
Gain on resolution of acquired assets	272,309	58,891
Gain on sales of other real estate owned	133,265	-
Reversal of Provision for off-balance sheet	247,976	-
Commissions and other	3,057,880	2,401,635
TOTAL NONINTEREST INCOME	9,494,055	9,057,437
NONINTEREST EXPENSES:		
Salaries and employee benefits	21,446,985	22,036,225
Occupancy	2,861,328	2,944,699
Professional fees	2,571,213	1,691,085
Electronic data processing	1,663,296	1,706,844
FDIC insurance	791,356	526,599
Depreciation and amortization	985,611	1,277,447
Advertising	431,260	513,096
Communication	484,757	537,730
Travel and entertainment	204,269	225,826
Insurance and license fees	494,137	389,645
Office supplies	108,935	112,542
Foreclosed assets, net	69,718	89,069
Provision for off-balance sheet	-	757,486
Other	1,000,906	1,278,163
TOTAL NONINTEREST EXPENSES	33,113,771	34,086,456
INCOME BEFORE INCOME TAXES	8,781,368	170,324
PROVISION (BENEFIT) FOR INCOME TAXES, (includes approximately $249,000 and $477,000 of income tax expenses from reclassification items, respectively)	5,232,069	(255,276)
NET INCOME	**$ 3,549,299**	**$ 425,600**

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

BANESCO USA

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

2017		
NET INCOME		$ 3,549,299
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Unrealized gains (losses) on securities		
Unrealized holding gains arising during period (net of income taxes of approximately $726,000)	$ 1,203,461	
Less: reclassification adjustment for gains included in net income (net of income taxes of approximately $249,000)	(413,006)	790,455
COMPREHENSIVE INCOME		**$ 4,339,754**
2016		
NET INCOME		$ 425,600
OTHER COMPREHENSIVE LOSS, NET OF TAX		
Unrealized gains (losses) on securities		
Unrealized holding gains arising during period (net of income taxes of approximately $837,000)	$ 1,387,276	
Less: reclassification adjustment for gains included in net income (net of income taxes of approximately $477,000)	(789,963)	597,313
COMPREHENSIVE INCOME		**$ 1,022,913**

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

BANESCO USA

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Total
BALANCES AT JANUARY 1, 2016	5,926,304	$ 29,631,520	$ 50,842,927	$ 9,817,510	$ (2,946,480)	$ 87,345,477
Net income	-	-	-	425,600	-	425,600
Other comprehensive income	-	-	-	-	597,313	597,313
BALANCES AT DECEMBER 31, 2016	5,926,304	29,631,520	50,842,927	10,243,110	(2,349,167)	88,368,390
Net income	-	-	-	3,549,299	-	3,549,299
Reclassification of income tax effect to retained earnings (see Note 10)	-	-	-	307,019	(307,019)	-
Other comprehensive income	-	-	-	-	790,455	790,455
BALANCES AT DECEMBER 31, 2017	**5,926,304**	**$ 29,631,520**	**$ 50,842,927**	**$ 14,099,428**	**$ (1,865,731)**	**$ 92,708,144**

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

BANESCO USA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,549,299	$ 425,600
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,676,579	9,070,759
Provision for foreclosed assets	-	20,800
Gain on sales of foreclosed assets	(133,265)	-
Depreciation and amortization	985,611	1,277,447
Net amortization of discounts on investment securities available for sale	2,094,042	2,004,605
Net amortization of discounts on investment securities held to maturity	8,901	3,446
Gain on sales of investment securities avaiable for sale	(662,186)	(1,266,574)
Earnings on bank owned life insurance	(305,083)	-
Amortization of deferred loan fees	(249,489)	(135,700)
Amortization of intangible assets	34,049	93,670
Deferred income tax provision (benefit)	4,535,038	(3,976,746)
Changes in operating assets and liabilities:		
Accrued interest receivable	(342,553)	(172,802)
Prepaid expenses and other assets	(407,000)	326,918
Accrued interest payable	328,283	5,742
Accrued expenses and other liabilities	(4,314,139)	4,426,889
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,798,087	12,104,054
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities available for sale	(92,451,106)	(111,279,990)
Reduction of Federal Home Loan Bank stock	(880,100)	(444,900)
Maturities and principal repayments on investment securities available for sale	21,798,862	28,021,149
Principal repayments on investment securities held to maturity	150,746	30,314
Proceeds from sales of investment securities available for sale	70,876,712	102,997,917
Purchase of bank owned life insurance	(20,000,000)	-
Net increase in loans	(85,008,399)	(55,072,815)
Proceeds from sales of foreclosed assets	2,908,965	-
Net purchase of property and equipment	(704,330)	(271,194)
NET CASH USED IN INVESTING ACTIVITIES	(103,308,650)	(36,019,519)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	77,027,115	22,299,986
Net decrease in securities sold under agreements to repurchase	(594,734)	(895,383)
Net increase in Federal Home Loan Bank advances	20,000,000	10,000,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	96,432,381	31,404,603
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,921,818	7,489,138
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	53,935,441	46,446,303
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 55,857,259**	**$ 53,935,441**

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid on deposits and borrowed funds	**$ 5,272,101**	**$ 4,551,429**
Cash paid for income taxes	**$ 1,398,457**	**$ 3,712,798**

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

BANESCO USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. GENERAL

Banesco USA (the "Bank"), a state-chartered bank, incorporated in the State of Florida. The Bank operates in Southeast Florida and Puerto Rico, having 5 offices in operation at December 31, 2017 and 6 offices in operation at December 31, 2016. The Bank is a member of the Federal Deposit Insurance Corporation ("FDIC"), is supervised and regulated by the Office of the Financial Regulation of the State of Florida and by the FDIC.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

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

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

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, determination of fair values of acquired assets and assumed liabilities, loss estimates related to acquired loans and foreclosed assets, valuation of deferred tax assets and the fair value of financial instruments.

Acquisitions

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

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

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, 2017, the Bank did not have any intangible assets. Intangible assets amounted to $34,049 as of December 31, 2016 and are included in prepaid expenses and other assets on the accompanying balance sheets.

BANESCO USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

Investment Securities

Investment securities consist of U.S. government agencies issued securities, U.S. government agencies sponsored, collateralized mortgage obligations, mortgage-backed securities, corporate bonds, and municipal securities. Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive (loss). As of December 31, 2017 and 2016, the Bank's investment securities were all classified as available for sale, except for one U.S. government sponsored mortgage backed security which was classified as held to maturity.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available for sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investments in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. As of December 31, 2016, there was one security that was purchased in 2016 which settled in January 2017 in the amount of $3,370,563 and is included in the accompanying balance sheets in accrued expenses and other liabilities as of December 31, 2016.

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, 2017 and 2016, FHLB stock amounted to $3,428,500 and $2,548,400, respectively.

Loans

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

Legacy Loans and Leases:

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

BANESCO USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans (continued)

Legacy Loans and Leases: (continued)

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

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

Purchased Loans:

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

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

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

Non-accrual Loans, Impaired Loans and Restructured Loans:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans (continued)

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

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

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral less selling costs, if the loan is collateral dependent. If management determines that the value of the impaired loan is less than the recorded investment in the loan (outstanding principal balance, net of previous charge-offs, and net of deferred loan fees or cost), impairment is recognized through an allowance estimate or a charge-off to the allowance.

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

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

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

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

BANESCO USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses ("ALL")

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. Management uses a disciplined process and methodology to establish the allowance for losses each quarter. To determine the total allowance for loan losses, the Bank estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis.

In determining the balance of the allowance account, loans are pooled by portfolio segment and management evaluates the allowance for loan losses on each segment and as a whole on a regular basis to maintain the allowance at an adequate level based on factors which, in management's judgment, deserve current recognition in estimating loan losses. Such factors include changes in prevailing economic conditions, historical experience, changes in the character and size of the loan portfolio and the overall credit worthiness of the borrowers.

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

- Land and Land Development
- Real Estate Construction
- Commercial Real Estate Loans which includes Owner and Non-Owner Occupied and Multifamily loans
- Commercial and Industrial Loans which includes Working Capital Credit Lines, Asset Based Lending, Acceptances, Government Guaranteed and loans to Foreign Banks
- Residential Real Estate
- Consumer Loans

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

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

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

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

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

The Bank provides for loan losses through a provision for loan losses charged to operations. When management believes that a loan balance is uncollectible, the loan balance is charged against the allowance for loan losses. Subsequent recoveries, if any, are credited to the allowance for loan losses.

In addition to the allowance for loan losses, the Bank also estimates probable losses related to unfunded lending commitments, such as letters of credit, financial guarantees and unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and the Bank applies the same adjusted loss rates as those applied to similar loan pools based on risk classification in calculating the overall allowance for loan losses.

BANESCO USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses ("ALL") (continued)

These risk classifications, in conjunction with an analysis of historical loss experience, current economic conditions, performance trends within specific portfolio segments, and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments. Provision for credit losses related to the loan portfolio and unfunded lending commitments are reported in the statements of operations. At December 31, 2017 and 2016, the allowance for unfunded lending commitments amounts to $1,178,379 and $1,426,355, respectively, and is included in other liabilities, on the accompanying balance sheets.

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

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

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

Risk grading:

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

The Bank's internally assigned grades are as follows:

Pass – Loans indicate different levels of satisfactory financial condition and performance.
Special Mention – Loans are exhibiting potential weaknesses deserving management's close attention.
Substandard – Loans are exhibiting well-defined weaknesses that jeopardize repayment of the debt.
Doubtful – Loans where the possibility of loss is extremely high.
Loss – Loans are considered uncollectible.

Interest Income

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

Property and Equipment, Net

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment, Net (continued)

amortized over the remaining term of the applicable leases or their useful lives, whichever is shorter. Estimated useful lives of these assets are as follows:

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

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

Foreclosed Assets

Assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less cost to sell. At December 31, 2017, the Bank did not hold foreclosed assets. At December 31, 2016, foreclosed assets amounted to $2,775,700.

Securities Sold Under Agreements to Repurchase

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

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. See Note 10 for the effect of the enactment of the 2017 Tax Cuts and Jobs Act.

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

Impairment of Long-Lived Assets

The Bank's long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. The Bank did not recognize an impairment charge during the years ended December 31, 2017 and 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising Costs are expenses as incurred. At December 31, 2017 and 2016, advertising costs amounted to $431,260 and $513,096, respectively.

Interest Rate Risk

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

Concentration of Credit Risk

Credit risk represents the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. Concentrations of credit risk (whether on or off-balance sheet) arising from financial instruments exist in relation to certain groups of customers. A group concentration arises when a number of counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Bank does not have a significant exposure to any individual customer or counterparty.

Most of the Bank's business activity is with customers located within its primary market area, which includes Miami-Dade, Broward, Palm Beach and Monroe Counties, Florida and the entire Commonwealth of 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.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive (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.

In February 2018, the Financial Accounting Standards Board issued an accounting standard to allow a reclassification from accumulated other comprehensive income to retained earnings for certain tax effects resulting for the enactment of the Tax Act. The update is effective for annual periods beginning after December 15, 2018 and interim periods within those years. As permitted by the FASB, the Bank has elected to early adopt this accounting standard update and apply it to the financial statements for the period ended December 31, 2017. The effect of early implementation is further described in Note 10.

Fair Value Measurement

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The Bank has evaluated subsequent events through March 30, 2018 which is the date the financial statements were available to be issued.

Recent Accounting Pronouncements

Fair Value Measurement

In May 2015, the FASB issued an accounting standard update that removes the requirement to include investments in the fair value hierarchy for which fair value is measured at net asset value using the practical expedient. The update also changes certain disclosure requirements. The update is effective retrospectively for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early application is permitted. The adoption of this accounting standard did not have a material impact on the Bank's financial statements.

Revenue From Contracts With Customers

In May 2014, the FASB issued an accounting standard update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted, but no earlier than annual reporting periods beginning after December 15, 2016. The Bank is currently evaluating the effect the update will have on its financial statements.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued an accounting standard update which seeks to enhance the recognition, measurement, presentation and disclosure requirements of financial instruments. The update is effective for fiscal years beginning after December 15, 2018 and for interim periods within fiscal years beginning after December 15, 2019 with early adoption permitted for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Bank is currently evaluating the effect the update will have on its financial statements.

Lease Accounting

In February 2016, the FASB issued an accounting standard update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current US Generally Accepted Accounting Principles ("GAAP"). The Bank is currently evaluating the effect the update will have on its financial statements but expects upon adoption that the update will have a material effect on the Bank's financial condition due to the recognition of a right-of-use asset and related lease liability. The Bank does not anticipate the update having a material effect on the Bank's results of operations or cash flows, though such an effect is possible. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued an accounting standard update which will replace the current incurred loss impairment methodology in US GAAP with a methodology that reflects the expected credit losses. The update is intended to provide financial statement users with more decision-useful information about expected credit losses. This update is effective on a modified retrospective basis for financial statements issued for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted for fiscal years beginning after December 15, 2018 including interim periods in those fiscal years. The Bank is currently evaluating the effect the update will have on its financial statements.

Clarifying the Definition of a Business

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

Reclassification

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

3. INVESTMENT SECURITIES

Available for Sale

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of investment securities available for sale, by major security, as of December 31, 2017 and 2016 are as follows:

AVAILABLE FOR SALE

	December 31, 2017			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Securities available for sale:				
U.S. government agencies issued securities	$ 56,554,975	$ 48,283	$ (611,328)	$ 55,991,930
Collateralized mortgage obligations	2,682,154	-	(110,257)	2,571,897
Mortgage-backed securities	94,496,842	-	(1,632,361)	92,864,481
Municipals	10,414,959	44,627	(205,141)	10,254,445
Corporate bonds	7,386,988	4,295	(37,256)	7,354,027
	$ 171,535,918	**$ 97,205**	**$ (2,596,343)**	**$ 169,036,780**

	December 31, 2016			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Securities available for sale:				
U.S. government agencies issued securities	$ 44,892,951	$ 1,614	$ (570,129)	$ 44,324,436
Collateralized mortgage obligations	3,342,960	-	(121,447)	3,221,513
Mortgage-backed securities	81,269,694	-	(1,968,585)	79,301,109
Municipals	18,396,289	91,727	(689,911)	17,798,105
Corporate bonds	25,290,347	31,170	(540,941)	24,780,576
	$ 173,192,241	**$ 124,511**	**$ (3,891,013)**	**$ 169,425,739**

Investment securities pledged to secure borrowings under securities sold under agreements to repurchase had a fair value of approximately $970,000 and $1,660,000 at December 31, 2017 and 2016, respectively.

Proceeds from the sales of investment securities available for sale for the years ended December 31, 2017 and 2016 amounted to $70,876,712 and $102,997,917, respectively. For the years ended December 31, 2017 and 2016, there were net gains of $662,186 and $1,266,574, respectively.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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:

	2017 Securities Available for Sale	
	Amortized Cost	Fair Value
Less than one year	$ 2,000,012	$ 2,000,017
Due after one year through five years	2,419,659	2,390,472
Due after five years through ten years	28,097,765	27,586,109
Due after ten years	139,018,482	137,060,182
	$ 171,535,918	**$ 169,036,780**

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, 2017						
U.S. government agencies issued securities	$ 29,209,695	$ (220,739)	$ 21,497,341	$ (390,589)	$ 50,707,036	$ (611,328)
Collateralized mortgage obligations	-	-	2,571,897	(110,257)	$ 2,571,897	$ (110,257)
Mortgage-backed securities	35,711,124	(334,609)	57,153,357	(1,297,752)	$ 92,864,481	$ (1,632,361)
Municipals	1,566,156	(37,188)	6,453,837	(167,953)	$ 8,019,993	$ (205,141)
Corporate bonds	4,382,250	(3,146)	968,500	(34,110)	5,350,750	(37,256)
	$ 70,869,225	**$ (595,682)**	**$ 88,644,932**	**$ (2,000,661)**	**$ 159,514,157**	**$ (2,596,343)**

	Less than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
December 31, 2016						
U.S. government agencies issued securities	$ 13,273,480	$ (140,755)	$ 26,187,362	$ (429,374)	$ 39,460,842	$ (570,129)
Collateralized mortgage obligations	1,036,978	(31,467)	2,184,536	(89,980)	3,221,514	(121,447)
Mortgage-backed securities	68,546,037	(1,514,111)	10,755,072	(454,474)	79,301,109	(1,968,585)
Municipals	14,283,683	(689,911)	-	-	14,283,683	(689,911)
Corporate bonds	8,215,095	(221,819)	10,531,459	(319,122)	18,746,554	(540,941)
	$ 105,355,273	**$ (2,598,063)**	**$ 49,658,429**	**$ (1,292,950)**	**$ 155,013,702**	**$ (3,891,013)**

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

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

3. INVESTMENT SECURITIES (CONTINUED)

Available for Sale (continued)

As of December 31, 2017, the Bank had $1,632,361 in unrealized losses relating to its mortgage-backed securities. Recent changes in interest rates and central bank activity in financial markets have caused changes in the value of mortgage backed securities to fluctuate unsteadily. The contractual cash flows of these securities are from U.S. government sponsored agencies. As of December 31, 2017, the Bank does not consider those investments to be other-than-temporarily impaired because the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

At December 31, 2017, the Bank had unrealized losses on U.S. government agencies issued securities and collateralized mortgage obligations; totaling $721,585, respectively. The losses relate principally to interest rate changes, credit spread widening and reduced liquidity in applicable markets. However, without recovery in the near term such that liquidity returns to the applicable markets and spreads return to levels that reflect underlying credit characteristics, other-than-temporary impairments may occur in future periods. The contractual cash flows of these securities are guaranteed by an agency of the U.S. government. As of December 31, 2017, the Bank does not consider those investments to be other-than-temporarily impaired because the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

At December 31, 2017, the Bank had an unrealized loss on corporate bonds totaling $37,256. As of December 31, 2017, the Bank does not consider the corporate bonds to be other-than-temporarily impaired because the decline in market value is mainly attributable to changes in interest rates and not credit quality, the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

At December 31, 2017, the Bank had an unrealized loss on municipal bonds totaling $205,141. As of December 31, 2017, the Bank does not consider the municipal bonds to be other-than-temporarily impaired because the decline in market value is attributable to changes in interest rates and not credit quality, the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

Held to Maturity

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of investment securities held to maturity, by major security, as of December 31, 2017 and 2016 are as follows:

	December 31, 2017			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. government sponsored mortgage-backed securities	$ 1,039,642	$ -	$ (17,160)	$ 1,022,482

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

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

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

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

	2017					2016
	Legacy Loans	PNCI (1)	Total Loans	PCI (2)	Grand Total	
Land and land development	$ 3,675,965	$ -	$ 3,675,965	$ -	$ 3,675,965	$ 4,212,528
Real estate construction	72,847,144	-	72,847,144	-	72,847,144	56,717,888
Residential real estate	108,738,624	637,401	109,376,025	2,868,000	112,244,025	97,534,341
Commercial real estate	458,118,031	222,605	458,340,636	3,457,516	461,798,152	396,334,473
Commercial and Industrial	175,306,501	-	175,306,501	-	175,306,501	196,679,850
Consumer	340,872	-	340,872	-	340,872	377,718
	819,027,137	860,006	819,887,143	6,325,516	826,212,659	751,856,798
Less:						
Allowance for loan and lease losses	(9,665,947)	-	(9,665,947)	(21,173)	(9,687,120)	(16,638,986)
Deferred loan fees/unamortized discount	(1,139,699)	-	(1,139,699)	-	(1,139,699)	(1,413,281)
Net Loans	**$ 808,221,491**	**$ 860,006**	**$ 809,081,497**	**$ 6,304,343**	**$ 815,385,840**	**$ 733,804,531**

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

	2017	2016
Gross loans	$ 826,212,659	$ 751,856,798
Plus: Accured interest receivable	2,116,108	1,773,019
Less: Unearned income	1,139,699	1,413,281
Recorded investments in loans	**$ 827,189,068**	**$ 752,216,536**

The Bank has pledged approximately $227,108,000 and $253,250,000 of mortgage loans as collateral for advances from the Federal Home Loan Bank of Atlanta as of December 31, 2017 and 2016, respectively.

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

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Bank considers the allowance for loan losses of $9,687,120 and $16,638,986 adequate to cover the loan losses inherent in the loan portfolio at December 31, 2017 and 2016, respectively.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables summarize the Bank's loans acquired during 2012, the outstanding balance and related carrying amount as of December 31, 2017 and 2016.

December 31, 2017	PCI		PNCI		Total Portfolio	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
Real Estate						
1-4 single family residential	$ 4,639,267	$ 2,868,000	$ 701,897	$ 637,401	$ 5,341,164	$ 3,505,401
Commercial real estate	4,262,346	3,457,516	222,605	222,605	4,484,951	3,680,121
Total real estate	$ 8,901,613	$ 6,325,516	$ 924,502	$ 860,006	$ 9,826,115	$ 7,185,522

December 31, 2016	PCI		PNCI		Total Portfolio	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
Real Estate						
1-4 single family residential	$ 8,105,068	$ 6,091,923	$ 799,846	$ 728,315	$ 8,904,914	$ 6,820,238
Commercial real estate	4,843,148	3,943,644	252,820	252,820	5,095,968	4,196,464
Total real estate	$ 12,948,216	$ 10,035,567	$ 1,052,666	$ 981,135	$ 14,000,882	$ 11,016,702

The following table summarizes the Bank's amount of accretable yield discount at the beginning and end of the period, reconciled for additions, accretion, disposals of loans, and reclassifications to or from "non-accretable difference" as of December 31, 2017:

	PCI	PNCI	Total
Balance at December 31, 2016	$ 7,584,044	$ 71,531	$ 7,655,575
Accretable discount arising from acquisition of PCI loans	-	-	-
Accretion during the period	(861,382)	(5,658)	(867,040)
Reclassification from non-accretable difference	1,548,122	1,320	1,549,442
Loan resolution	(2,798,410)	(2,697)	(2,801,107)
Balance as of December 31, 2017	**$ 5,472,374**	**$ 64,496**	**$ 5,536,870**

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

	2017	2016
Beginning Balance	$ 11,146	$ 46,062
(Reversal of) Provision for loan losses	10,027	(34,916)
Ending Balance at December 31,	**$ 21,173**	**$ 11,146**

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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

For the Year Ended December 31, 2017

	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	$ 39,540	$ 745,600	$ 64,690	$ 3,997,942	$ 11,779,750	$ 318	$ -	$ 16,627,840
(Reversal of) provision for loan losses	(8,177)	248,504	124,304	2,030,560	1,117,407	9,204	144,749	3,666,551
Recoveries	-	-	-	-	14,750	-	-	14,750
Chargeoffs	-	-	-	-	(10,633,760)	(9,434)	-	(10,643,194)
Ending Balance	**$ 31,363**	**$ 994,104**	**$ 188,994**	**$ 6,028,502**	**$ 2,278,147**	**$ 88**	**$ 144,749**	**$ 9,665,947**
Ending balance: individually evaluated for impairment	$ 1,395	$ -	$ 51,165	$ 102,329	$ -	$ -	$ -	$ 154,889
Ending balance: collectively evaluated for impairment	$ 29,968	$ 994,104	$ 137,829	$ 5,926,173	$ 2,278,147	$ 88	$ 144,749	$ 9,511,058
Loans:								
Ending balance	**$ 3,675,965**	**$ 72,847,144**	**$109,376,025**	**$ 458,340,636**	**$ 175,306,501**	**$ 340,872**	**$ -**	**$ 819,887,143**
Ending balance: individually evaluated for impairment	$ 70,033	$ 178,296	$ 2,061,352	$ 4,870,561	$ 1,455,959	$ -	$ -	$ 8,636,201
Ending balance: collectively evaluated for impairment	$ 3,605,932	$ 72,668,848	$107,314,673	$ 453,470,075	$ 173,850,542	$ 340,872	$ -	$ 811,250,942

For the Year Ended December 31, 2016

	Land and Land Development	Real Estate Construction	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for Loan Losses:								
Balance at beginning of year	$ 344,652	$ 965,277	$ 107,134	$ 3,062,011	$ 2,609,652	$ 21,950	$ 798,999	$ 7,909,675
Provision for(reversal of) loan losses	(305,112)	(219,677)	(42,444)	935,527	9,542,158	(5,778)	(798,999)	9,105,675
Recoveries	-	-	-	404	8,563	-	-	8,967
Chargeoffs	-	-	-	-	(380,623)	(15,854)	-	(396,477)
Ending Balance	**$ 39,540**	**$ 745,600**	**$ 64,690**	**$ 3,997,942**	**$ 11,779,750**	**$ 318**	**$ -**	**$ 16,627,840**
Ending balance: individually evaluated for impairment	$ 1,997	$ -	$ 56,935	$ 89,455	$ 9,470,967	$ -	$ -	$ 9,619,354
Ending balance: collectively evaluated for impairment	$ 37,543	$ 745,600	$ 7,755	$ 3,908,487	$ 2,308,783	$ 318	$ -	$ 7,008,486
Loans:								
Ending balance	**$ 4,212,528**	**$ 56,717,888**	**$ 91,442,418**	**$ 392,390,829**	**$ 196,679,850**	**$ 377,718**	**$ -**	**$ 741,821,231**
Ending balance: individually evaluated for impairment	$ 72,232	$ 204,705	$ 1,029,456	$ 4,926,440	$ 11,199,201	$ -	$ -	$ 17,432,034
Ending balance: collectively evaluated for impairment	$ 4,140,296	$ 56,513,183	$ 90,412,962	$ 387,464,389	$ 185,480,649	$ 377,718	$ -	$ 724,389,197

The increase in the allowance in 2016 was mainly due to one commercial and industrial loan which was classified as impaired at year end. The impairment was due to an isolated incident and not due to weaknesses of a particular industry or due to economic conditions. This loan was charged-off in 2017.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

During the year ended December 31, 2017, the provision for loan losses amounted to $3,676,578 and is comprised of $3,666,551 for legacy and PNCI loans and $10,027 for PCI loans. During the year ended December 31, 2016, the provision for loan losses amounted to $9,070,759 and is comprised of $9,105,675 for legacy and PNCI loans and a reversal of ($34,916) for PCI loans.

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

December 31, 2017		**Special**		
Land and land development and real estate construction	**Pass**	**Mention**	**Substandard**	**Total**
Land and land development	$ 3,605,932	$ 70,033	$ -	$ 3,675,965
Real estate construction	72,668,848	-	178,296	72,847,144
Residential real estate				
1-4 family first lien	102,172,395	1,205,242	3,699,325	107,076,962
1-4 family second lien	2,299,063	-	-	2,299,063
Commercial real estate				
Commercial real estate term	329,801,934	3,080,831	1,050,397	333,933,162
Owner occupied commercial real estate	117,461,369	5,434,470	1,511,635	124,407,474
Commercial and industrial	172,946,837	903,705	1,455,959	175,306,501
Consumer	340,872	-	-	340,872
Total loans	**$ 801,297,250**	**$ 10,694,281**	**$ 7,895,612**	**$ 819,887,143**

December 31, 2016		**Special**		
Land and land development and real estate construction	**Pass**	**Mention**	**Substandard**	**Total**
Land and land development	$ 4,140,296	$ 72,232	$ -	$ 4,212,528
Real estate construction	56,513,183	-	204,705	56,717,888
Residential real estate				
1-4 family first lien	88,418,154	1,574,122	690,387	90,682,663
1-4 family second lien	759,755	-	-	759,755
Commercial real estate				
Commercial real estate term	286,027,432	4,267,059	895,776	291,190,267
Owner occupied commercial real estate	99,632,278	-	1,568,284	101,200,562
Commercial and industrial	180,704,433	4,776,216	11,199,201	196,679,850
Consumer	377,718	-	-	377,718
Total loans	**$ 716,573,249**	**$ 10,689,629**	**$ 14,558,353**	**$ 741,821,231**

BANESCO USA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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

December 31, 2017

Land and land development and real estate construction	Performing	Non Performing	Total
Land and land development	$ 3,675,965	$ -	$ 3,675,965
Real estate construction	72,668,848	178,296	72,847,144
Residential real estate			
1-4 family first lien	105,220,981	1,855,981	107,076,962
1-4 family second lien	2,299,063	-	2,299,063
Commercial real estate			
Commercial real estate term	333,933,162	-	333,933,162
Owner occupied commercial real estate	124,407,474	-	124,407,474
Commercial and industrial	175,261,649	44,852	175,306,501
Other Loans			
Consumer	340,872	-	340,872
Total loans	**$ 817,808,014**	**$ 2,079,129**	**$ 819,887,143**

December 31, 2016

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

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

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

Nonperforming loans, non-accrual loans and 90 days or more past due loans represent 0.25% and 1.70% of total loans as of December 31, 2017 and 2016.

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4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables includes an aging analysis of the outstanding balances of past due Legacy and PNCI loans as of December 31, 2017 and 2016. Certain loans over 90 days or more past due with interest and principal are still accruing.

As of December 31, 2017

Age Analysis of Past Due Loans by Loan Class	30-90 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans	Loans > 90 days and Accruing
Land and land development and real estate construction						
Land and land development	$ -	$ -	$ -	$ 3,675,965	$ 3,675,965	$ -
Real estate construction	-	-	-	72,847,144	72,847,144	-
Residential real estate						
1-4 family first lien	-	1,310,197	1,310,197	105,766,765	107,076,962	-
1-4 family second lien	-	-	-	2,299,063	2,299,063	-
Commercial real estate						
Commercial real estate term	-	-	-	333,933,162	333,933,162	-
Owner occupied commercial real estate	-	-	-	124,407,474	124,407,474	-
Commercial and industrial	-	-	-	175,306,501	175,306,501	-
Other Loans						
Consumer	-	-	-	340,872	340,872	-
Total loans	**$ -**	**$ 1,310,197**	**$ 1,310,197**	**$ 818,576,946**	**$ 819,887,143**	**$ -**

As of December 31, 2016

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

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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

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

December 31, 2017

Impaired Loans by Class	Recorded Investment	Unpaid Principal Balance	Valuation Allowance	Average Recorded Investment	Interest Income Recognized
With No Specific Allowance Recorded:					
Real estate construction	$ 178,296	$ 178,296	$ -	$ 190,584	$ -
1-4 family first lien	1,924,731	1,924,734	-	1,965,492	24,665
Commercial real estate term	180,885	180,584	-	183,476	11,188
Owner occupied commercial real estate	1,518,174	1,511,635	-	1,543,863	72,492
Commercial and industrial	1,452,736	1,455,959	-	3,771,906	70,564
Total	**$ 5,254,822**	**$ 5,251,208**	**$ -**	**$ 7,655,321**	**$ 178,909**
With an allowance recorded:					
Land and land development	$ 70,313	$ 70,033	$ 1,395	$ 71,308	$ 2,975
1-4 family first lien	137,058	136,618	51,165	338,166	5,054
Commercial real estate term	2,268,335	2,260,973	94,511	2,360,776	101,306
Owner occupied commercial real estate	919,280	917,369	7,818	935,621	59,348
Commercial and industrial	-	-	-	5,038,152	-
Total	**$ 3,394,986**	**$ 3,384,993**	**$ 154,889**	**$ 8,744,023**	**$ 168,683**
Impaired Loans by Class Total					
Land and land development	$ 70,313	$ 70,033	$ 1,395	$ 71,308	$ 2,975
Real estate construction	178,296	178,296	-	190,584	-
1-4 family first lien	2,061,789	2,061,352	51,165	2,303,658	29,719
Commercial real estate	4,886,674	4,870,561	102,329	5,023,736	244,334
Commercial and industrial	1,452,736	1,455,959	-	8,810,058	70,564
Total loans	**$ 8,649,808**	**$ 8,636,201**	**$ 154,889**	**$ 16,399,344**	**$ 347,592**

December 31, 2016

Impaired Loans by Class	Recorded Investment	Unpaid Principal Balance	Valuation Allowance	Average Recorded Investment	Interest Income Recognized
With No Specific Allowance Recorded:					
Real estate construction	204,705	204,705	-	216,810	-
1-4 family first lien	690,393	690,387	-	738,720	3,268
Commercial real estate term	-	-	-	79,717	-
Owner occupied commercial real estate	1,579,586	1,568,284	-	1,604,848	69,004
Commercial and industrial	262,704	272,219	-	1,428,118	-
Total	**$ 2,737,388**	**$ 2,735,595**	**$ -**	**$ 4,068,213**	**$ 72,272**
With an allowance recorded:					
Land and land development	$ 72,250	$ 72,232	$ 1,997.00	$ 1,245,639	$ 3,365.00
1-4 family first lien	339,119	339,069	56,935	64,410	6,267
Commercial real estate term	2,414,350	2,405,660	64,526	2,442,167	99,877
Owner occupied commercial real estate	954,315	952,496	24,929	969,538	61,671
Commercial and industrial	10,926,982	10,926,982	9,470,967	3,755,884	-
Total	**$ 14,707,016**	**$ 14,696,439**	**$ 9,619,354**	**$ 8,477,638**	**$ 171,180**
Impaired Loans by Class Total					
Land and land development	$ 72,250	$ 72,232	$ 1,997	$ 1,245,639	$ 3,365
Real estate construction	204,705	204,705	-	216,810	-
1-4 family first lien	1,029,512	1,029,456	56,935	803,130	9,535
Commercial real estate	4,948,251	4,926,440	89,455	5,096,270	230,552
Commercial and industrial	11,189,686	11,199,201	9,470,967	5,184,002	-
Total loans	**$ 17,444,404**	**$ 17,432,034**	**$ 9,619,354**	**$ 12,545,851**	**$ 243,452**

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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

	December 31, 2017	December 31, 2016
Land and land development and real estate construction		
Real estate construction	$ 178,296	$ 204,705
Residential real estate		
1-4 family first lien	1,855,981	616,284
Commercial and industrial	44,852	11,199,201
Total loans	**$ 2,079,129**	**$ 12,020,190**

The following tables present troubled debt restructurings as of December 31, 2017 and 2016:

2017	Accrual Status	Non-Accrual Status	Total Troubled Debt Restructured
Land and land development and real estate construction			
Land and land development	$ 70,033	$ -	$ 70,033
Residential real estate			
1-4 family first lien	136,618	98,371	234,989
Commercial real estate			
Commercial real estate term	2,260,973	-	2,260,973
Owner occupied commercial real estate	917,369	-	917,369
Total	**$ 3,384,993**	**$ 98,371**	**$ 3,483,364**

2016	Accrual Status	Non-Accrual Status	Total Troubled Debt Restructured
Land and land development and real estate construction			
Land and land development	$ 72,232	$ -	$ 72,232
Residential real estate			
1-4 family first lien	339,069	131,741	470,810
Commercial real estate			
Commercial real estate term	2,405,661	-	2,405,661
Owner occupied commercial real estate	952,496	-	952,496
Commercial and industrial	-	210,750	210,750
Total	**$ 3,769,458**	**$ 342,491**	**$ 4,111,949**

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

As of December 31, 2017 there were no newly restructured Legacy and PNCI loans that occurred during the year. The following table presents newly restructured Legacy and PNCI loans that occurred during the year ended December 31, 2016.

2016	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification
Residential real estate			
1-4 family first lien	1	$ 138,856	$ 138,856

As of December 31, 2017 and 2016, there were no troubled debt restructuring loans in which a concession was made and the loan re-defaulted during the same year.

As of December 31, 2017 and 2016, there were no commitments to lend additional funds to borrowers with an impaired loan.

5. PROPERTY AND EQUIPMENT, NET

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

	2017	2016
Leasehold improvements	$ 4,245,993	$ 4,332,007
Furniture and equipment	2,983,043	3,142,117
Computer equipment and software	2,447,445	2,220,723
Work in progress	121,208	66,977
Art work	12,911	12,911
	9,810,600	9,774,735
Less:		
Accumulated depreciation and amortization	7,715,570	7,398,424
Property and equipment, net	**$ 2,095,030**	**$ 2,376,311**

Depreciation and amortization of property and equipment amounted to $985,611 and $1,277,447 for the years ended December 31, 2017 and 2016, respectively.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

6. FORECLOSED ASSETS, NET

The Bank's inventory of foreclosed assets, net by property type, is listed below at December 31, 2017 and 2016:

	2017 Amount	2016 Amount
Land and land development	**$ -**	**$ 2,775,700**

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

	2017	2016
Balance at beginning of year	$ 234,991	$ 214,191
Provision for losses	-	20,800
Gain on sales of foreclosed assets	(133,265)	-
Charge offs	(101,726)	-
Balance at end of year	**$ -**	**$ 234,991**

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

	2017	2016
Provision for losses	$ -	$ 20,800
Gain on sales of foreclosed assets	(133,265)	
Operating expenses	69,718	68,269
Balance at end of year	**$ (63,547)**	**$ 89,069**

7. DEPOSITS

At December 31, 2017, the scheduled maturities of time deposits are as follows:

2017	$ 193,412,503
2018	39,735,003
2019	5,684,461
2020	1,350,693
2021	100,001
Thereafter	-
	$ 240,282,661

At December 31, 2017 and 2016, overdrafts amounting to $209,579 and $112,507, respectively, were reclassified from demand deposits to loans on the balance sheets.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

8. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

	2017	2016
Securities sold under agreements to repurchase	$ 646,790	$ 1,241,524
Fair value of securities pledged for repurchase agreements	$ 969,714	$ 1,659,849
Maximum amount outstanding at any month-end during the year	$ 2,169,503	$ 5,885,004
Average amount outstanding during the year	$ 1,380,945	$ 3,738,254
Weighted-average interest rate for the year	0.66%	0.18%

All securities sold under agreements to repurchase matured within 30 days of December 31, 2017 and 2016.

9. FEDERAL HOME LOAN BANK ADVANCES

At December 31, 2017 and 2016, the Bank had Federal Home Loan Bank ("FHLB") advances as follows:

Year of Maturity	Interest Rate	2017	2016
2017	0.61%	-	30,000,000
2017	3.90%	-	5,000,000
2018	1.41%	35,000,000	-
2018	1.42%	20,000,000	-
2018	3.64%	5,000,000	5,000,000
		$ 60,000,000	**$ 40,000,000**

The FHLB advances agreement requires the Bank to maintain certain loans as collateral for these advances (NOTE 4). At December 31, 2017 and 2016, the Bank was in compliance with this requirement of the FHLB membership agreement. At December 31, 2017 and 2016, FHLB stock held by the Bank amounted to $3,428,500 and $2,548,400, respectively.

The Bank has a line of credit with FHLB of Atlanta that allows drawing up to 20% of total assets. As of December 31, 2017 and 2016, the unused portion of the line amounted to approximately $197,967,000 and $202,485,000, respectively. Additionally, the Bank maintains unused lines of credits with other financial institutions for approximately $25,000,000.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

10. INCOME TAXES

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

	2017	2016
Current (Benefit) Expense:		
Federal	$ 212,295	$ 3,014,824
State	(29,543)	527,160
Foreign	514,279	179,486
	697,031	3,721,470
Deferred Expense (Benefit):		
Federal	$ 4,339,858	$ (3,588,221)
State	195,180	(388,525)
	4,535,038	(3,976,746)
Total	**$ 5,232,069**	**$ (255,276)**

The actual income tax expense for 2017 and 2016 differs from the statutory tax expense for the year (computed by applying the U.S. federal corporate tax rate of 34% to income before provision for (benefit from) income taxes) as follows:

	2017	Effective Tax Rate
Federal taxes at statutory rate	$ 2,985,665	34.0%
State income taxes, net of federal tax benefit	307,806	3.5%
Tax exempt income	(195,124)	(2.2%)
Impact of the Tax Cuts & Jobs Act	1,895,149	21.6%
Foreign income taxes	431,408	4.9%
Other, net	(192,835)	(2.2%)
Total	**$ 5,232,069**	**59.6%**

	2016	Effective Tax Rate
Federal taxes at statutory rate	$ 57,910	34.0%
State income taxes, net of federal tax benefit	8,937	5.3%
Tax exempt interest	(119,981)	(70.4%)
Other, net	(202,142)	(118.7%)
Total	**$ (255,276)**	**(149.9%)**

On December 22, 2017, the President signed into law the Tax Act. The Tax Act includes a permanent reduction in the corporate income tax rate from 35% to 21%. The rate reduction took effect on January 1, 2018. As a result, the Bank has remeasured its December 31, 2017 deferred tax assets and liabilities at the 21% tax rate. The effect on the change in rates on the Bank's deferred tax asset was a decrease of $1,895,149 which the Bank has recognized in the income tax expense caption in the accompanying statement of operations for the period ending December 31, 2017. In addition, the Bank reclassified $307,019 from accumulated other comprehensive income to retained earnings so that the tax effects of items within accumulated other comprehensive income reflect the appropriate tax.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

10. INCOME TAXES (CONTINUED)

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

	2017	2016
Deferred tax assets:		
Net unrealized loss on securities available-for-sale	$ 633,407	$ 1,417,335
Allowance for loan losses	2,461,587	6,292,884
Other real estate owned	-	235,714
Accruals	216,253	222,726
Loan fees	282,526	513,416
Organizational and start-up costs	28,494	56,407
Non-accrual interest	39,360	56,457
Core deposit intangibles	26,727	31,084
Provision for off balance sheet risk	298,660	536,737
Deferred tax assets	3,987,014	9,362,760
Deferred tax liabilities:		
Depreciable property	77,159	133,939
Deferred tax liability	77,159	133,939
Net deferred tax asset	**$ 3,909,855**	**$ 9,228,821**

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

The U.S. Federal jurisdiction, Florida, and Puerto Rico are the major tax jurisdictions where the Bank files income tax returns. The Bank is generally no longer subject to U.S. Federal, State, or foreign examinations by tax authorities for years before 2014.

For the year ended December 31, 2017 and 2016, the Bank did not have any unrecognized tax benefits as a result of tax positions taken during a prior period or during the current period. No interest or penalties have been recorded as a result of tax uncertainties.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

11. RELATED PARTY TRANSACTIONS

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

	2017	
	Range of Interest Rate	Balance
Loans	5.00%	$ 502,943
Deposits	0.00% to 1.15%	37,270,514
Securities sold under agreements to repurchase	1.10%	261,216

	2016	
	Range of Interest Rate	Balance
Loans	4.75%	$ 297,228
Deposits	0.00% to 1.15%	15,448,238
Securities sold under agreements to repurchase	0.30% to 0.40%	858,455

As of December 31, 2017 and 2016, interest income and interest expense for the years ended December 31, 2017 and 2016 amounted to $31,664 and $38,277 and $20,719 and $22,828, respectively. For the years ended December 31, 2017 and 2016 loan servicing fees from affiliates amounted to $1,024,500 and $1,183,250, respectively.

12. EMPLOYEE BENEFIT PLAN

The Bank has adopted a retirement savings plan (the “Retirement Plan”) (a 401k plan) covering substantially all eligible employees effective January 1, 2005. The Retirement Plan includes a provision that the Bank may contribute to the accounts of eligible employees for whom a salary deferral is made. Employees may contribute up to 90% of their compensation subject to certain limits based on federal tax laws. The Bank contributed $446,222 and $465,786 towards the Retirement Plan in 2017 and 2016, respectively.

13. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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

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

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

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Bank's standby letters of credit are secured by cash collateral at December 31, 2017 and 2016 in the amount of $36,977,474 and $26,756,300, respectively. A summary of the amounts of the Bank's financial instruments, with off-balance sheet risk, is as follows at December 31:

	2017 Contract Amount	2016 Contract Amount
Unused lines of credit	$ 117,999,285	$ 166,634,328
Commitment to extend credit	2,240,000	2,250,000
Standby letters of credit	38,888,018	29,588,232

14. REGULATORY MATTERS

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

14. REGULATORY MATTERS (CONTINUED)

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

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

As of December 31, 2017, the Bank was well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since December 31, 2017 that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios as of December 31, 2017 and 2016 are presented in the following table:

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2017						
Total risk-based capital (to risk-weighted assets)	$ 105,056,473	12.5%	$ 67,057,013	8.0%	$ 83,821,267	10.0%
Tier 1 capital (to risk-weighted assets)	$ 94,574,026	11.3%	$ 50,292,760	6.0%	$ 67,057,013	8.0%
Common equity tier 1 capital (to risk-weighted assets)	$ 94,574,026	11.3%	$ 37,719,570	4.5%	$ 54,483,823	6.5%
Tier 1 capital (to average total assets)	$ 94,574,026	8.9%	$ 42,341,587	4.0%	$ 52,926,984	5.0%

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016						
Total risk-based capital (to risk-weighted assets)	$ 100,690,326	12.7%	$ 63,189,710	8.0%	$ 78,987,137	10.0%
Tier 1 capital (to risk-weighted assets)	$ 90,715,799	11.5%	$ 47,392,282	8.0%	$ 63,189,710	8.0%
Common equity tier 1 capital (to risk-weighted assets)	$ 90,715,799	11.5%	$ 35,544,212	4.5%	$ 51,341,639	6.5%
Tier 1 capital (to average total assets)	$ 90,715,799	9.3%	$ 38,998,271	4.0%	$ 48,747,839	5.0%

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

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

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15. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Bank is obligated under noncancellable operating leases for office space and for the rental of office equipment expiring on various date through 2027. Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease. These leases contain escalation clauses providing for increased rent expense based on either a fixed rate or an increase in the average consumer price index. Rental expense for office space and for office equipment was $2,499,026 and $2,637,393 for the years ended December 31, 2017 and 2016, respectively, and is included in occupancy expense in the accompanying statements of operations.

At December 31, 2017, future minimum rental commitments under these noncancellable leases were approximately as follows:

Year ending December 31,	
2018	$ 2,076,685
2019	1,648,100
2020	1,449,999
2021	1,277,638
2022	250,308
Thereafter	315,663
	$ 7,018,393

Loss Contingencies

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

16. FAIR VALUE MEASUREMENTS

Determination of Fair Value

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

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

Fair Value Hierarchy

In accordance with this guidance, the Bank groups its financial assets and financial liabilities generally measured

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

16. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value Hierarchy (continued)

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, 2017 and 2016.

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:

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

<u>Investment Securities Available for Sale</u> - When instruments are traded in secondary markets and quoted market prices do not exist for such securities, management generally relies on prices obtained from independent vendors or third party broker-dealers. Management reviews pricing methodologies provided by the vendors and third party broker-dealers in order to determine if observable market information is being utilized. Securities measured with pricing provided by independent vendors or third party broker-dealers are classified within Level 2 of the hierarchy and often involve using quoted market prices for similar securities, pricing models or discounted cash flow analyses utilizing inputs observable in the market where available. The specific investment holdings which are included in the Level 2 classification are U.S government issued securities; U.S. government agencies collateralized mortgage obligations, mortgage-backed securities, corporate bonds and municipal securities.

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

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

<u>Bank Owned Life Insurance</u> - The fair value of the Bank owned life insurance policies approximates the carrying values which are based on the policies cash surrender value.

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

<u>Deposits</u> - Fair value of demand deposits, money market and saving accounts is the amount payable on demand (carrying amount) at December 31, 2017 and 2016. 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.

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DECEMBER 31, 2017 AND 2016

16. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value Hierarchy (continued)

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.

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, 2017				
U.S. government agencies issued securities	$ -	$ 55,991,930	$ -	$ 55,991,930
Collateralized mortgage obligations	-	2,571,897	-	2,571,897
Mortgage-backed securities	-	92,864,481	-	92,864,481
Corporate bond	-	10,254,445	-	10,254,445
Municipal securities	-	7,354,027	-	7,354,027
	$ -	**$ 169,036,780**	**$ -**	**$ 169,036,780**

	Level 1	Level 2	Level 3	Total
December 31, 2016				
U.S. government agencies issued securities	$ -	$ 44,324,436	$ -	$ 44,324,436
Collateralized mortgage obligations	-	3,221,513	-	3,221,513
Mortgage-backed securities	-	79,301,109	-	79,301,109
Corporate bond	-	17,798,105	-	17,798,105
Municipal securities	-	24,780,576	-	24,780,576
	$ -	**$ 169,425,739**	**$ -**	**$ 169,425,739**

There were no financial liabilities measured at fair value on a recurring basis at December 31, 2017 and 2016.

Items Measured at Fair Value on a Nonrecurring Basis

Impaired Loans

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

When a loan is deemed impaired, the Bank's management measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical method, impairment may be measured based on the fair value of the loan or on the fair value of the underlying collateral if the loan is collateral dependent. As of December 31, 2017 and 2016, loans deemed to be impaired based on fair value measurement totaled $3,528,694 and $5,088,000, respectively, with the portion deemed to be impaired included in the allowance for loan losses.

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

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DECEMBER 31, 2017 AND 2016

16. FAIR VALUE MEASUREMENTS (CONTINUED)

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

Foreclosed Assets

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Impaired loans	$ -	$ -	$ 3,528,694	$ 3,528,694

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Impaired loans	$ -	$ -	$ 5,088,000	$ 5,088,000
Foreclosed assets	-	-	2,775,700	$ 2,775,700
	$ -	$ -	$ 7,863,700	$ 7,863,700

There were no financial liabilities measured at fair value on a nonrecurring basis at December 31, 2017 and 2016.

The carrying amounts and estimated fair values of the Bank's financial instruments were as follows at December 31, 2017:

	2017	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 55,857,259	$ 55,798,114
Investment securities available for sale	169,036,780	169,036,780
Investment securities held to maturity	1,039,642	1,022,482
Federal Home Loan Bank stock	3,428,500	3,428,500
Loans, net	815,385,840	825,383,185
Accrued interest receivable	2,932,431	2,932,431
Financial liabilities:		
Demand, money market and saving accounts	$ 676,194,728	$ 676,194,728
Time deposits	240,282,661	239,460,286
Securities sold under agreements to repurchase	646,790	646,790
Federal Home Loan Bank advance	60,000,000	60,055,301
Accrued interest payable	1,038,979	1,038,979

16. FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

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

17. 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 maintains BOLI policies with two insurance carriers with a combined cash surrender value of $20,305,083 at December 31, 2017 covering certain present and former executives and officers. The Bank is the beneficiary of these policies. The Bank did not have any BOLI at December 31, 2016.

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