Mercantil Commercebank, N.A. and Subsidiaries

(A wholly owned subsidiary of Mercantil Commercebank Florida Bancorp Inc.)

Consolidated Financial Statements

December 31, 2011 and 2010

Mercantil Commercebank, N.A. and Subsidiaries
(A wholly owned subsidiary of Mercantil Commercebank Florida Bancorp Inc.)
Index
December 31, 2011 and 2010

Page(s)

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Report of Independent Certified Public Accountants

To the Board of Directors and Stockholders of
Mercantil Commercebank, N.A.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of changes in stockholder's equity and of cash flows present fairly, in all material respects, the financial position of Mercantil Commercebank, N.A. and subsidiaries (the "Bank") (a wholly owned subsidiary of Mercantil Commercebank Florida Bancorp Inc.) at December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 22, 2012

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Mercantil Commercebank, N.A. and Subsidiaries
(A wholly owned subsidiary of Mercantil Commercebank Florida Bancorp Inc.)
Consolidated Balance Sheets
December 31, 2011 and 2010

(in thousands of dollars, except per share data)	2011	2010
Assets		
Cash and due from banks	$ 16,828	$ 18,690
Interest earning deposits with banks	169,473	217,161
Cash and cash equivalents	186,301	235,851
Interest earning deposits with banks, with original maturities in excess of 90 days	100	200
Securities		
Available for sale	2,089,829	2,260,979
Federal Reserve Bank and Federal Home Loan Bank stock	52,408	45,152
Loans, gross	4,171,897	3,756,560
Less: Allowance for loan losses	67,146	59,065
Loans, net	4,104,751	3,697,495
Accrued interest receivable	20,719	20,128
Premises and equipment, net	79,629	81,973
Deferred tax asset, net	33,978	41,220
Customers' acceptance liability	1,614	1,570
Total due from investment securities brokers	4,928	5,283
Other real estate owned, net	13,678	30,495
Other assets	47,732	57,747
	$ 6,635,667	$ 6,478,093
Liabilities and Stockholder's Equity		
Deposits		
Demand		
Noninterest bearing	$ 932,205	$ 860,113
Interest bearing	1,598,172	1,491,929
Savings and money market	1,615,461	1,487,888
Time	792,267	875,428
Total deposits	4,938,105	4,715,358
Securities sold under agreements to repurchase	491,758	649,330
Advances from the Federal Home Loan Bank	487,250	429,750
Acceptances outstanding	1,614	1,570
Accrued interest payable	2,526	2,790
Total due to investment securities brokers	287	774
Accounts payable and accrued liabilities	32,090	20,082
	5,953,630	5,819,654
Commitments and contingencies (Notes 1 and 15)		
Stockholder's equity		
Common stock, $70 par value, 2,000,000 shares authorized, 1,699,449 shares issued and outstanding in 2011 and 2010	118,961	118,961
Additional paid in capital	308,333	308,505
Retained earnings	233,745	217,504
Accumulated other comprehensive income	20,998	13,469
	682,037	658,439
	$ 6,635,667	$ 6,478,093

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

Mercantil Commercebank, N.A. and Subsidiaries
(A wholly owned subsidiary of Mercantil Commercebank Florida Bancorp Inc.)
Consolidated Statements of Operations and Comprehensive Income
Years Ended December 31, 2011 and 2010

(in thousands of dollars)	2011	2010
Interest income		
Loans	$ 115,378	$ 109,633
Investment securities	65,147	68,511
Interest earning deposits with banks and other	673	673
Total interest income	181,198	178,817
Interest expense		
Interest bearing demand deposits	2,111	2,370
Savings and money market deposits	3,621	2,473
Time deposits	6,752	8,007
Securities sold under agreements to repurchase	9,827	14,365
Advances from the Federal Home Loan Bank	7,838	7,829
Other interest expense	-	310
Total interest expense	30,149	35,354
Net interest income	151,049	143,463
Provision for loan losses	49,811	72,700
Net interest income after provision for loan losses	101,238	70,763
Noninterest income		
Deposits and services fees	21,354	17,315
Brokerage fees	16,798	9,532
Securities and derivative instruments gains, net	10,780	25,971
Data processing, rental income and fees for other services to related parties	7,074	6,587
Loans and trade financing servicing fees	4,112	4,039
Rental and other income from other real estate owned	2,298	3,289
Other noninterest income	3,607	4,433
Total noninterest income	66,023	71,166
Noninterest expense		
Salaries and employee benefits	78,357	70,091
Occupancy and equipment	16,048	14,758
Professional and other services fees	10,440	9,942
FDIC assessments and insurance	7,804	9,296
Telecommunication and data processing	6,297	6,319
Depreciation and amortization	6,260	7,395
Net loss from valuation write-down of other real estate owned, net of gains on sale	5,039	9,321
Operating expenses on other real estate owned	3,721	5,237
Other operating expenses	7,796	7,761
Total noninterest expense	141,762	140,120
Net income before income tax expense	25,499	1,809
Income tax expense	(9,258)	(589)
Net income	16,241	1,220
Other comprehensive income, net of tax		
Net unrealized holding gains (losses) on securities available for sale arising during the year	5,578	(8,113)
Reclassification adjustment for net gains included in net income	1,951	10,881
Other comprehensive income	7,529	2,768
Comprehensive income	$ 23,770	$ 3,988

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

Mercantil Commercebank, N.A. and Subsidiaries
(A wholly owned subsidiary of Mercantil Commercebank Florida Bancorp Inc.)
Consolidated Statements of Changes in Stockholder's Equity
Years Ended December 31, 2011 and 2010

(in thousands of dollars, except per share data)

	Common Stock					
	Shares Issued and Outstanding	Par Value	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholder's Equity
Balance at December 31, 2009	1,699,449	$ 118,961	$ 308,505	$ 216,284	$ 10,701	$ 654,451
Net income	-	-	-	1,220	-	1,220
Other comprehensive income	-	-	-	-	2,768	2,768
Balance at December 31, 2010	1,699,449	118,961	308,505	217,504	13,469	658,439
Net Income				16,241		16,241
Stock options adjustment			(172)			(172)
Other comprehensive income					7,529	7,529
Balance at December 31, 2011	1,699,449	$ 118,961	$ 308,333	$ 233,745	$ 20,998	$ 682,037

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

Mercantil Commercebank, N.A. and Subsidiaries
(A wholly owned subsidiary of Mercantil Commercebank Florida Bancorp Inc.)
Consolidated Statements of Cash Flows
Years December 31, 2011 and 2010

(in thousands of dollars)	2011	2010
Cash flows from operating activities		
Net income	$ 16,241	$ 1,220
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	49,811	72,700
Net premium amortization on securities	29,465	32,855
Securities and derivative instruments gains, net	(10,780)	(26,001)
Depreciation and amortization	6,260	7,395
Deferred tax expense (benefit)	3,098	(1,070)
Net loss from valuation write-down of other real estate owned, net of gains on sale	5,039	9,321
Net changes in operating assets and liabilities		
Net due to and from investment securities brokers	(132)	(14,990)
Accrued interest receivable and other assets	9,018	3,220
Accrued interest payable, accounts payable and accrued liabilities	11,744	2,949
Net cash provided by operating activities	119,764	87,599
Cash flows from investing activities		
Purchases of investment securities		
Available for sale	(3,801,022)	(3,030,299)
Federal Reserve Bank and Federal Home Loan Bank stock	(8,778)	(13,185)
Maturities, sales and calls of investment securities		
Available for sale	3,965,160	3,061,382
Federal Reserve Bank and Federal Home Loan Bank stock	1,522	1,125
Net increase in loans	(487,170)	(570,824)
Net purchases of premises and equipment	(3,682)	(2,329)
Net proceeds from sale of other real estate owned	41,881	35,486
Net decrease in interest earning deposits with banks with maturities in excess of 90 days	100	-
Net cash used in investing activities	(291,989)	(518,644)
Cash flows from financing activities		
Net increase in demand, savings and money market accounts	305,908	413,523
Net decrease in time deposits	(83,161)	(97,776)
Net decrease in securities sold under agreements to repurchase	(157,572)	(44,797)
Net increase in advances from the Federal Home Loan Bank	57,500	227,996
Net cash provided by financing activities	122,675	498,946
Net (decrease) increase in cash and cash equivalents	(49,550)	67,901
Cash and cash equivalents		
Beginning of the year	235,851	167,950
End of the year	$ 186,301	$ 235,851
Supplemental disclosures of cash flow information		
Cash paid -		
Interests	$ 30,413	$ 36,165
Income taxes	1,757	1,146
Noncash investing activity -		
Loans transferred to other real estate owned	30,103	48,492

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

1. Organization and Summary of Significant Accounting Policies

Mercantil Commercebank, N.A. and its subsidiaries (collectively referred to as "the Bank") have been serving the communities in which they operate for 30 years. The Bank is headquartered in the City of Coral Gables, Florida and has 17 Banking Centers, 15 located in South Florida, one in New York City, New York and one in the City of Houston, Texas. The Bank offers a wide variety of domestic, international, personal and commercial banking services, including investment, trust and estate planning through its main operating subsidiaries Mercantil Commercebank Investment Services, Inc. and Mercantil Commercebank Trust Company, N.A.

The Bank is a wholly owned subsidiary of Mercantil Commercebank Florida Bancorp Inc. (the Parent Company), a Florida Corporation incorporated in 2008. The Parent Company is beneficially owned by Mercantil Commercebank Holding Corporation (the Holding Company). The Holding Company is a wholly owned subsidiary of Mercantil Servicios Financieros, S.A. ("MSF"), a corporation domiciled in the Bolivarian Republic of Venezuela.

Most of the Bank's investment activity is concentrated on security instruments issued or sponsored by the Government of the United States of America. Most of the Bank's banking activity is with domestic customers located within the States of Florida, New York and Texas, and with International customers located in Latin America. The Bank's lending and deposit-taking activities are concentrated in its primary market areas in those geographies. The Bank does not have any significant concentrations to any one industry or customer.

The effects of significant subsequent events, if any, have been adequately recognized or disclosed in these consolidated financial statements. Subsequent events have been evaluated through February 14, 2012, the date when these consolidated financial statements have been approved for issuance.

The following is a description of the significant accounting policies and practices followed by the Bank in the preparation of the accompanying consolidated financial statements. These policies conform with accounting principles generally accepted in the United States of America and general practice within the banking industry (U.S. GAAP).

Principles of Consolidation

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

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include the determination of the allowance for loan losses, the fair values of securities, other real estate owned and the reporting unit to which goodwill has been assigned during the annual goodwill impairment test, and the determination of whether the amount of deferred tax assets will more likely than not be realized. Management believes that these estimates are adequate. Actual results could differ from these estimates.

Income Recognition
Interest income is generally recognized on the accrual basis using the interest method. Unearned interest is amortized over the term of the related loan using the effective yield method. Loan fees and related origination costs are deferred and amortized over the term of the related loans as an adjustment to interest income using the effective yield method.

Cash and Cash Equivalents
The Bank has defined as cash equivalents those highly liquid instruments purchased with an original maturity of three months or less and include cash and cash due from banks, federal funds sold and deposits with banks.

Securities
The Bank classifies its investments in securities as trading or available for sale based on management's intention on the date of purchase. Securities purchased are recorded on the consolidated balance sheets as of the trade date. Securities that are bought and held principally for the purpose of resale in the near term are classified as trading securities and are carried at fair value with unrealized gains and losses included in the results of operations. Securities available for sale are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income ("OCI") in stockholder's equity on an after-tax basis. Investments in stock issued by the Federal Reserve Bank and Federal Home Loan Bank are stated at their original cost which approximates their realizable value.

Securities that the Bank had the positive intent and ability to hold to maturity had been designated as held-to-maturity securities and were carried at cost, adjusted for amortization of premium or accretion of discount, which was recognized as an adjustment to interest income. In 2009, the entire held to maturity securities portfolio held by the Bank was transferred from the held to maturity category to the available for sale category, reflecting a change in the Bank's original intention for reasons that were not considered isolated, nonrecurring or due to an unusual external event. This transfer was recorded at the fair value of the securities at the date of transfer into the available for sale category. The net unrealized holding loss that arose at the date of the transfer was recorded in OCI. For the held to maturity category to become available for use by the Bank, the passage of time is generally considered when evaluating in the future the positive intent and ability to hold to maturity future purchases of securities the Bank intends to classify as held to maturity.

The Bank considers an investment security to be impaired when a decline in fair value below the amortized cost basis is other-than-temporary. When an investment security is considered to be other-than-temporarily impaired, the cost basis of the individual investment security is written down through earnings by an amount that corresponds to the credit component of the other-than-temporary impairment. The amount of an other-than-temporary impairment that corresponds to the noncredit component of the other-than-temporary impairment is recorded in OCI and is associated with securities which the Bank does not intend to sell and it is more likely than not that the Bank will not be required to sell the securities prior to the recovery of its fair value.

The Bank estimates the credit component of an other-than-temporary impairment using a discounted cash flow model. The Bank estimates the expected cash flows of the underlying collateral using third party vendor models that incorporate management's best estimate of current key assumptions, such as default rates, loss severity and prepayment rates (based on historical performance and stress test scenarios). Assumptions used can vary widely from security to security and are influenced by such factors as current coverage ratio, historical prepayment rates, expected prepayment rates, and loans' current interest rate. The Bank then uses a third party vendor to determine how the underlying collateral cash flows will be distributed to each security issued from a structure. The present value of an impaired debt security results from estimating its future cash flows, discounted at the security's current effective interest rate. The Bank expects to recover the remaining noncredit related unrealized losses included as a component of OCI.

Loans

Loans represent extensions of credit which the Bank has the intent and ability to hold for the foreseeable future or until maturity or payoff. These extensions of credit consist of commercial real estate, single-family residential, land development and construction loans, commercial loans, loans to depository institutions and acceptances, and consumer loans. Amounts included in the loans portfolio are stated at the amount of unpaid principal, reduced by unamortized net deferred loan fees and origination costs and an allowance for loan losses. Unamortized net deferred loan fees and origination costs were $0.9 million and $2.7 million at December 31, 2011 and 2010, respectively.

A loan is placed in non-accrual status, when management believes that collection in full of the principal amount of the loan or related interest is in doubt. Management considers that collectability is in doubt when any of the following factors is present, among others: (1) there is a reasonable probability of inability to collect principal, interest or both, on a loan for which payments are current or delinquent for less than ninety days; and (2) when a required payment of principal, interest or both is delinquent for ninety days or longer, unless the loan is considered well secured and in the process of collection in accordance with regulatory guidelines. Once a loan to a single borrower has been placed in non-accrual status, management reviews all loans to the same borrower to determine their appropriate accrual status. When a loan is placed in non-accrual status, accrual of interest and amortization of net deferred loan fees or costs are discontinued, and any accrued interest receivable is reversed against interest income.

Payments received on a loan in non-accrual status are generally applied to its outstanding principal amount, unless there are no doubts on the full collection of the remaining recorded investment in the loan. When there are no doubts on the full collection of the remaining recorded investment in the loan, and there is sufficient documentation to support the collectability of that amount, payments of interests received may be recorded as interest income.

A loan in non-accrual status is returned to accrual status when none of the conditions noted when first placed in non-accrual status are currently present, none of its principal and interest is past due, and management believes there are reasonable prospects of the loan performing in accordance with its terms. For this purpose, management generally considers there are reasonable prospects of performance in accordance with the loan terms when at least six months of principal and interest payments or principal curtailments have been received, and current financial information of the borrower demonstrates that performance will continue into the near future.

The total outstanding principal amount of a loan is reported as past due thirty days following the date of a missed scheduled payment, based on the contractual terms of the loan.

Loans which have been modified because the borrowers were experiencing financial difficulty and the Bank, for economic or legal reasons related to the debtors' financial difficulties, granted a concession to the debtors that it would not have otherwise considered, are accounted for as troubled debt restructurings.

Allowance for Loan Losses
The allowance for loan losses represents an estimate of the current amount of loans that is probable the Bank will be unable to collect given facts and circumstances as of the evaluation date, and includes amounts arising from loans individually and collectively evaluated for impairment. These estimated amounts are recorded through a provision for loan losses charged against income. Management periodically evaluates the adequacy of the allowance for loan losses to ensure it is maintained at a reasonable level to provide for recognized and unrecognized but inherent losses in the loans portfolio. The Bank uses the same methods used to determine the allowance for loan losses, to assess any reserves needed for off-balance sheet credit risks such as unfunded loan commitments and contingent obligations on letters of credit. These reserves for off-balance sheet credit risks are presented in the liabilities section in the consolidated financial statements.

The Bank develops and documents its methodology to determine the allowance for loan losses at the portfolio segment level. The Bank determines its portfolio segments based on the type of loans it carries and their associated risk characteristics. The Bank's portfolio segments are: Real Estate, Commercial, Depository Institutions, Consumer and Other loans. Loans in these portfolios segments have distinguishing borrower needs and differing risks associated with each product type.

Real estate loans include commercial loans secured by real estate properties, and loans where the disposition of the property held as collateral represents the main source of repayment along with other credit enhancements. Commercial loans secured by non-owner occupied real estate properties are generally granted to finance the acquisition or operation of commercial real estate properties, with terms similar to the properties' useful lives or the operating cycle of the businesses. The main source of repayment of these real estate loans is derived from cash flows or conversion of productive assets and not from the income generated by the disposition of the property held as collateral. The main repayment source of loans granted to finance land acquisition and construction projects is generally derived from the disposition of the properties held as collateral, with the repayment capacity of the borrowers and any guarantors considered as alternative sources of repayment.

Commercial loans correspond to facilities established for specific business purposes such as financing working capital and capital improvements projects and asset-based lending, among others. These loans may be committed or uncommitted lines of credit, short term (one year or less) or longer term credit facilities, and may be secured, unsecured or partially secured. Terms on commercial loans generally do not exceed five years, and exceptions are adequately documented. Commercial loans secured by owner-occupied real estate properties are generally granted to finance the acquisition or operation of commercial real estate properties, with terms similar to the properties' useful lives or the operating cycle of the businesses. The main source of repayment of these commercial real estate loans is derived from cash flows or conversion of productive assets and not from the income generated by the disposition of the property held as collateral. Commercial loans to borrowers in similar businesses or products with similar characteristics or specific credit requirements are generally evaluated under a standardized commercial credit program. Commercial loans outside the scope of those programs are evaluated on a case by case basis, with consideration of any exposure under an existing commercial credit program.

Loans to depository institutions are facilities granted to fund certain allowed transactions classified according to their risk level, and primarily include trade financing facilities through letters of credits, bankers' acceptances, pre and post-export financing, among others. Loans in this portfolio segment are generally granted for terms not exceeding three years and on an unsecured basis under the limits of an existing credit program, primarily to financial institutions domiciled in Latin American countries. These loans are approved on an unsecured basis only when the result of the credit risk analyses indicate that the minimum financial and non-financial criteria established in our credit risk policies have been met or exceeded. Prior to approval, management also considers cross-border and portfolio limits set forth in those policies.

Consumer and other loans are retail open and closed-end credits extended to individuals for household, family and other personal expenditures. These loans include loans to individuals secured by their personal residence, including first mortgage, home equity and home improvements loans as well as revolving credit card agreements. Because these loans generally consist of a large number of relatively small-balance loans, their risk is generally evaluated collectively.

An individual loan is considered impaired when it is probable that the Bank will be unable to collect all amounts due, including both principal and interest, according to the contractual terms of the loan agreement. The Bank generally considers as impaired all loans in non-accrual status, and other loans classified in accordance with an internal risk grading system exceeding a defined threshold when it is probable that an impairment exist and the amount of the potential impairment may reasonably be estimable. To determine when it is probable that an impairment exist, the Bank considers the extent to which a loan may be inadequately protected by the current net worth and paying capacity of the borrower or any guarantor, or by the current value of the assets pledged as collateral.

When a loan is considered impaired, the potential impairment is measured as the excess of the carrying value of the loan and the present value of expected future cash flows at the measurement date, or the fair value of the collateral in the case where the loan is considered collateral dependent. If the amount of the present value of the loan's expected future cash flows exceeds the loan's carrying amount, the loan is still considered impaired but no impairment is recorded. The present value of an impaired loan results from estimating its future cash flows, discounted at the loan's current effective interest rate. In the case of loans considered collateral-dependent, which are generally certain real estate loans for which repayment is expected to be provided solely by the underlying collateral, the potential impairment is measured based on the fair value of the asset pledged as collateral. The allowance for loan losses on loans considered troubled debt restructuring is generally determined by discounting the restructured cash flows by the original effective rate of the loan.

Loans that do not meet the criteria of an individually impaired loan are collectively evaluated for impairment. These loans include large groups of smaller homogenous loan balances, such as loans in the consumer and other loans portfolio segment, and all other loans that have not been individually identified as impaired. This group of collective loans is evaluated for impairment based on a ratio of historical losses associated with loans within their respective portfolio segments adjusted by a variety of qualitative and primarily judgmental factors. The ratio of historical losses is determined by considering actual losses on loans within the corresponding portfolio segment over the past three years, as a percentage of the outstanding principal amount of the loans that experienced the loss at the beginning of the period being evaluated, grouped by the applicable internal risk grading criteria. These ratios are then judgmentally adjusted using qualitative factors that incorporate the most recent data reflecting current economic conditions, industry performance trends, geographic or obligor concentrations within each portfolio segment. Other adjustments may be made to the allowance for loans collectively evaluated for impairment based on any other pertinent information that management considers may affect the estimation of the allowance for loan losses, including a judgmental assessment of internal and external influences on credit quality that are not fully reflected in historical loss or their external risk rating data. The ratios of historical losses and the related qualitative adjustments are updated quarterly and semi-annually, respectively, to incorporate the most recent loan loss data reflecting current economic conditions.

Loans to borrowers that are domiciled in foreign countries, primarily loans in the depository institutions portfolio segment, are also evaluated for impairment by assessing the probability of additional losses arising from the Bank's exposure to transfer risk. The Bank defines transfer risk exposure as the possibility that an asset cannot be serviced in the currency of payment because the borrower's country of origin may not have sufficient available foreign currency or may have put restrains on its availability. To determine an individual country's transfer risk probability, the Bank assigns numerical values corresponding to the perceived performance of that country in certain macroeconomic, social and political factors generally considered in the banking industry for evaluating a country's transfer risk. A defined country's transfer risk probability is assigned to that country based on an average of the individual scores given to those factors, calculated using an interpolation formula. The results of this evaluation are also updated semi-annually.

Loans in the real estate, commercial and depository institutions portfolio segments are charged off against the allowance for loan losses when they are considered uncollectable. These loans are considered uncollectable when a loss becomes evident to management, which generally occurs when the following conditions are present, among others: (1) a loan or portions of a loan are classified as "loss" in accordance with the internal risk grading system; (2) a collection attorney has provided a written statement indicating that a loan or portions of a loan are considered uncollectible; and (3) the carrying value of a collateral-dependent loan exceeds the appraised value of the asset held as collateral.

Consumer and other retail loans are charged off against the allowance for loan losses the earlier of (1) when management becomes aware that a loss has occurred, or (2) when closed-end retail loans that become past due one hundred twenty cumulative days and open-end retail loans that become past due one hundred and eighty cumulative days from the contractual due date. For open and closed-end retail loans secured by residential real estate, any outstanding loan balance in excess of the fair value of the property, less cost to sell, is charged off no later than when the loan is one hundred and eighty days past due. Consumer and other retail loans may not be charged off when management can clearly document that a past due loan is well secured and in the process of collection such that collection will occur regardless of delinquency status in accordance with regulatory guidelines applicable to these type of loans.

Recoveries on loans represent collections received on amounts that were previously charged off against the allowance for loan losses. Recoveries are credited to the allowance for loan losses when received, to the extent of the amount previously charged off against the allowance for loan losses on the related loan. Any amounts collected in excess of this limit are first recognized as interest income, then as a reduction of collection costs, and then as other income.

Transfers of Financial Assets

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

Premises and Equipment, Net

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are amortized over the remaining term of the lease. Repairs and maintenance are charged to operations as incurred; renewals, betterments and interest during construction are capitalized.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of recognition and measurement of an impairment loss, when the independent and identifiable cash flow of a single asset may not be determined, the long-lived asset may be grouped with other assets of like cash flows. Recoverability of an asset or group of assets to be held and used is measured by comparing the carrying amount with future undiscounted net cash flows expected to be generated by the asset or group of assets. If an asset is considered impaired, the impairment recognized is generally measured by the amount by which the carrying amount of the asset or group exceeds its fair value.

Income Taxes
Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the resulting net deferred tax asset is determined based on the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax basis. A valuation allowance is established against the deferred tax asset to the extent that management believes that it is more likely than not that any tax benefit will not be realized. Income tax expense is recognized on the periodic change in deferred tax assets and liabilities at the current statutory rates.

The results of operations of the Bank and the majority of its wholly owned subsidiaries are included in the consolidated income tax return of the Holding Company and its subsidiaries as members of the same consolidated tax group. Under the intercompany income tax allocation policy, the Bank and the subsidiaries included in the consolidated tax group are allocated current and deferred taxes as if they were separate taxpayers. As a result, the Bank and the subsidiaries included in the consolidated group, pay their allocation of income taxes to the Holding Company, or receive payments from the Holding Company to the extent that tax benefits are realized.

Other Real Estate Owned, Net
Property acquired through foreclosure or deed in lieu of foreclosure is carried at estimated fair value less estimated costs to sell the property at the date of foreclosure. Any excess of the loan balance over the fair value less estimated costs to sell the property is charged to the allowance for loan losses at the time of foreclosure. The carrying value is reviewed periodically, and when necessary, any decline in the value of the real estate less estimated cost to sell is charged to operations through a valuation allowance account. Subsequent increases in fair value are adjusted only up to the amount of the valuation allowance, in which previous decreases in fair value would have been recorded. Significant property improvements, which enhance the saleable prospect of the property, are capitalized to the extent that the carrying value of the property does not exceed their estimated realizable values. Maintenance and carrying costs on the property are charged to operations as incurred. In connection with real estate owned, management obtains independent appraisals for properties.

Goodwill
Goodwill is not amortized but is reviewed for potential impairment at the reporting unit level on an annual basis, or on an interim basis if events or circumstances indicate a potential impairment. The impairment test is performed in two steps. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. However, if the carrying amount of the reporting unit exceeds its fair value, an additional procedure must be performed as a second step. In that second step, the implied fair value of the reporting unit’s goodwill is compared to the carrying amount of goodwill allocated to that reporting unit. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value at the measurement date. At December 31, 2011 and 2010, goodwill was considered not impaired and, therefore, no impairment charges were recorded.

Derivative Instruments
Derivative instruments are recognized on the balance sheet at fair value, with changes in fair value recorded each period in current earnings or other comprehensive income, depending on whether the derivative has been designated as part of a hedge transaction and, if it is, the type of hedge transaction. On the date the derivative contract is entered into, the Bank evaluates the instrument and chooses to designate the derivative as a hedge or not. The Bank has designated certain instruments as hedges of the fluctuations in the fair value of certain fixed rate instruments due to interest rate risk ("fair value" hedges). Management periodically evaluates the effectiveness of these hedges in offsetting the fluctuations in value of the fixed rate instruments arising from interest rate risk. Changes in the fair value of these derivatives are recorded in earnings, as well as changes in the fair value of the hedged instruments, unless the hedges are determined to be ineffective or the derivative contracts are terminated. In these cases, the Bank stops adjusting the carrying amount of the fixed rate instruments being hedged for changes in their fair value, with their fair value as of the date the hedging relationships is deemed ineffective, or the derivative contracts are terminated, remaining as the carrying value of the fixed rate instrument. The difference between this fair value and their previous carrying amount is amortized to earnings in the same manner as other components of the carrying amount of the fixed rate instrument.

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 received in connection with the transaction.

Broker Dealers Receivables and Payables
Receivables and payables due from or to broker dealers and clearing organizations include amounts related to securities pending to deliver, certain deposits for securities borrowed and amounts receivable and payable to and from clearing organizations relating to open transactions. It also includes commissions and floor-brokerage receivables and payables to broker dealers.

Interest Rate Risk
The Bank's profitability is dependent to a large extent on its net interest income, which is the difference between income on interest-earning assets and its 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 sensitivity gap), and is measured in terms of the ratio of the interest rate sensitivity gap to total assets. More assets repricing or maturing than liabilities over a given time frame is considered asset-sensitive, or a positive gap, and more liabilities repricing or maturing than assets over a given time frame is considered liability-sensitive, or a negative gap. An asset-sensitive position will generally enhance earnings in a rising interest rate environment and will negatively 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 attempted to structure its asset and liability management strategies to mitigate the impact on net interest income resulting from changes in interest rates.

Stock Option Plan
The Bank participates in a stock option plan for certain key officers, to acquire shares of MSF. The Bank determines the fair value of options granted and amortizes that expense over the vesting period with a credit to Additional Paid-in-Capital. The market value is determined at the option grant date using the Black-Scholes-Merton method.

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

Level 1 Inputs to the valuation methodology are quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities may include debt and equity securities that are traded in an active exchange market, as well as certain U.S. securities that are highly liquid and are actively traded over-the-counter markets.

Level 2 Observable inputs other than Level 1 prices, such as 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 assets and liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange traded instruments which value is determined by using a pricing model with inputs that are observable in the market or can be derived principally from, or corroborated by, observable market data. This category generally may include U.S. Government and U.S. Government Sponsored Enterprise mortgage backed debt securities and corporate debt securities.

Level 3 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 may include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the 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.

Recently Issued Accounting Pronouncements
Balance Sheet Offsetting Disclosures
In December 2011, the Financial Accounting Standards Board ("FASB") issued guidance on new balance sheet offsetting disclosure requirements. This new guidance requires disclosure of both gross and net information about eligible instruments and transactions, including those subject to master netting agreements. The new guidance also requires disclosure of collateral received and posted in connection with those and other similar agreements. This guidance is effective for the Bank in 2013. The Bank is currently evaluating the impact of this guidance, which is expected to only affect disclosure of eligible instruments and transactions and not the Bank's consolidated financial position or results of its operations.

Testing Goodwill for Impairment
In September 2011, the FASB amended existing guidance for testing goodwill for impairment. The amendments permit the Bank to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test required in existing guidance. Under the amendments, the Bank is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments also supersede the previous examples of events and circumstances that an entity should consider when testing goodwill for impairment between annual tests. Lastly, the amendments no longer permit the Bank to carry forward its detailed calculation of a reporting unit's fair value from a prior year. The amended guidance is effective for the Bank in 2012, with early adoption permitted under certain circumstances. We anticipate that adoption of this guidance in 2012 will not have an impact in the consolidated financial condition, results of operations or cash flows of the Bank.

Presentation of Comprehensive Income
In June 2011, the FASB issued guidance that eliminates the current option to report other comprehensive income and its components in the statement of changes in equity, among other amendments. The new guidance provides the option to present the total of comprehensive income, the components of net income and of other comprehensive income, either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This new guidance requires retrospective application and is effective for the Bank beginning in the year ending December 31, 2012, and it is not expected to impact the Bank's financial statements presentations and disclosures. Also, the new guidance requires presenting on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income as components of net income and as components of other comprehensive income. In December 2011, the FASB deferred indefinitely the effective date of this new requirement, which was expected to only affect the presentation of the Bank's reclassification adjustments of items of other comprehensive income into net income and not the Bank's consolidated financial position or results of its operations.

Determining Whether a Loan Modification is a Troubled Debt Restructuring
In April 2011, the FASB issued guidance to clarify existing standards for determining whether a loan modification represents a troubled debt restructuring ("TDR") from the perspective of the creditor. The guidance clarifies when a loan modification constitutes a TDR including how to determine whether a loan modification represents a concession and whether the debtor is experiencing financial difficulties. This guidance, among other requirements (1) prohibits the use of the borrowers' effective interest rate test to determine if a concession has been given by the creditor; (2) specifies that a borrower not currently in default may still be experiencing financial difficulty when payment default is "probable in the foreseeable future"; and (3) specifies that a delay in payment should be considered along with all other factors in determining classification as a TDR. The guidance is effective for the Bank beginning January 1, 2012. The Bank is currently evaluating the impact of this guidance.

Fair Value Measurements and Disclosures
In May 2011, the FASB amended existing fair value measurement and disclosure guidance to achieve common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. The amendments result in a consistent definition of fair value in both accounting frameworks. Among other changes, the new guidance requires disclosure of quantitative and qualitative information about unobservable inputs used in the valuation of Level 3 instruments, and to report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The Bank must adopt the new guidance in its annual consolidated financial statements in 2012. Application of this guidance is anticipated to only impact the Bank's fair value disclosures and not in its Consolidated Balance Sheets or Results of Operations.

In January 2010, the FASB issued guidance that requires new disclosures, and clarifies existing disclosure requirements about fair value measurements. The clarifications and the requirement to separately disclose transfers of instruments between Level 1 and Level 2 of the fair value hierarchy are effective for interim reporting periods beginning after December 15, 2009. The Bank has no Level 1 financial instruments. Therefore, application of this new disclosure requirement in 2010 does not require additional disclosures. In addition, a new requirement to provide a detail of purchases, sales, issuances and settlements in the Level 3 rollforward on a gross basis is effective for fiscal years beginning after December 15, 2010. Early adoption of the guidance is permitted. Adoption of this guidance in 2011 resulted in new disclosures which have been included in Note 16 – Fair Value Measurements.

Disclosures About the Credit Quality of Financing Receivables and the Allowance for Loan Losses
In July 2010, the FASB issued guidance that required enhanced disclosures about the credit characteristics of the Bank's loan portfolio. Under the new guidance, the Bank is required to disclose its accounting policies, the methods it uses to determine the components of the allowance for credit losses, and qualitative and quantitative information about the credit risk inherent in the loan portfolio, including additional information on certain types of loan modifications. The new disclosure requirements are effective for the Bank beginning in 2011. Adoption of this guidance in 2011 resulted in new disclosures of loans and the allowance for loan losses which have been included in this Note 1, Note 4 – Loans and Note 5 – Allowance for Loan Losses.

Accounting for Transfer of Financial Assets
On June 12, 2009, the FASB issued guidance which amended the existing sale accounting criteria requirements for transfers of financial assets. Among other revisions, the amended sale accounting criteria eliminated the concept of a Qualified Special Purpose Entity ("QSPE") and would generally require consolidation of existing QSPEs, typically present at Banks that engage in the business of mortgage loans and credit card receivables transfers ("securitization activities") which are not currently subject to consolidation by the transferor. The Bank does not engage in securitization activities nor does it own or sponsor entities that would be considered QSPEs. As a result, the adoption of this guidance on January 1, 2010 did not impact the Bank's consolidated financial statements or its disclosures.

Reclassifications
Certain reclassifications have been made to the December 31, 2010 consolidated financial statements to conform to current year presentation.

2. Interest Earning Deposits with Banks

At December 31, 2011 and 2010, interest earning deposits with banks are comprised of deposits with the Federal Reserve Bank in the amount of approximately $169 million and $217 million, respectively. At December 31, 2011 and 2010, the average interest rate on these deposits was approximately 0.25% in both years. These deposits mature within one year.

3. Securities

Amortized cost and approximate fair values of securities available for sale are summarized as follow:

	December 31, 2011			
	Amortized	Gross Unrealized		Estimated
(in thousands of dollars)	Cost	Gains	Losses	Fair Value
U.S. government agency debt securities	$ 1,187,185	$ 22,069	$ (442)	$ 1,208,812
U.S. government sponsored enterprise debt securities	651,755	11,497	(1,280)	661,972
Foreign sovereign debt	44,178	662	(53)	44,787
Corporate debt securities	167,493	1,907	(1,803)	167,597
U.S. treasury securities	6,357	74	(9)	6,422
Mutual funds	239	-	-	239
	$ 2,057,207	$ 36,209	$ (3,587)	$ 2,089,829

	December 31, 2010			
	Amortized	Gross Unrealized		Estimated
(in thousands of dollars)	Cost	Gains	Losses	Fair Value
U.S. government agency debt securities	$ 1,378,082	$ 16,073	$ (3,483)	$ 1,390,672
U.S. government sponsored enterprise debt securities	489,623	11,697	(1,827)	499,493
Foreign sovereign debt	46,509	208	(597)	46,120
Corporate debt securities	294,875	1,379	(2,620)	293,634
U.S. treasury securities	30,768	89	(36)	30,821
Mutual funds	239	-	-	239
	$ 2,240,096	$ 29,446	$ (8,563)	$ 2,260,979

The Bank's investment securities available for sale with unrealized losses that are deemed temporary, including debt securities for which a portion of other-than-temporary impairment has been recognized in OCI, aggregated by length of time that individual securities have been in a continuous unrealized loss position, are summarized below:

	December 31, 2011					
	Less Than 12 Months		12 Months or More		Total	
(in thousands of dollars)	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
U.S. government agency debt securities	$ 140,227	$ (405)	$ 6,060	$ (37)	$ 146,287	$ (442)
U.S. government sponsored enterprise debt securities	170,207	(1,139)	9,814	(141)	180,021	(1,280)
Foreign sovereign debt	5,332	(53)	-	-	5,332	(53)
Corporate debt securities	33,400	(872)	24,069	(931)	57,469	(1,803)
U.S. treasury securities	2,235	(9)	-	-	2,235	(9)
	$ 351,401	$ (2,478)	$ 39,943	$ (1,109)	$ 391,344	$ (3,587)

	December 31, 2010					
	Less Than 12 Months		12 Months or More		Total	
(in thousands of dollars)	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
U.S. government agency debt securities	$ 481,456	$ (3,006)	$ 97,055	$ (477)	$ 578,511	$ (3,483)
U.S. government sponsored enterprise debt securities	173,872	(1,514)	9,665	(313)	183,537	(1,827)
Foreign sovereign debt	26,853	(597)	-	-	26,853	(597)
Corporate debt securities	193,670	(2,229)	9,564	(391)	203,234	(2,620)
U.S. treasury securities	20,201	(36)	-	-	20,201	(36)
	$ 896,052	$ (7,382)	$ 116,284	$ (1,181)	$ 1,012,336	$ (8,563)

The Bank deems these unrealized losses to be related to normal fluctuations in interest rates and in the investment securities markets, and as a result, temporary in nature. In addition, management expects that these securities would not be settled at a price less than the carrying amount.

The following table presents a rollforward of the credit loss component of other-than-temporary impairment losses that have been recognized in earnings:

(in thousands of dollars)	**2011**	**2010**
Balances at the beginning of the year	$ 358	$ 358
Additions for new credit losses on existing impaired securities	198	-
Reductions for impaired securities sold	(206)	-
Balances at end of the year	$ 350	$ 358

The following table presents the components of other-than-temporary impairment losses on trust preferred securities as of December 31, 2011, which the Bank does not intend to sell and that have credit losses that have been recognized in earnings:

(in thousands of dollars)	**2011**
Total other-than-temporary impairment losses (unrealized)	$ 449
Less: Unrealized other-than-temporary impairment losses recognized in OCI [(1)]	(251)
Net impairment losses recognized in earnings [(2)]	$ 198

[(1)] Represents the noncredit component of the other-than-temporary impairment

[(2)] Represents the credit component of the other-than-temporary impairment

The most significant assumptions incorporated in the discounted cash flow models used to measure the credit component of the unrealized losses of securities considered other-than-temporarily impaired were: i) current prepayment, default and severity levels (probability: 30%), ii) two times the current default, and severity levels and half the prepayment speeds, (probability: 50%) and iii) stressed default and severity levels and half the prepayment speeds (probability: 20%).

Contractual maturities of securities available for sale are as follows:

	December 31, 2011	
(in thousands of dollars)	**Amortized Cost**	**Estimated Fair Value**
Within 1 year	$ 3,452	$ 3,449
After 1 year through 5 years	214,299	215,610
After 5 years through 10 years	135,063	138,032
After 10 years	1,704,154	1,732,499
No contractual maturities	239	239
	$ 2,057,207	$ 2,089,829

Actual maturities of investment securities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties. Proceeds from sales and calls of securities available for sale in 2011 and 2010 were approximately $2,109 million and $2,484 million, respectively, with net realized gains of approximately $ 11 million in 2011 and $26 million in 2010.

At December 31, 2011 and 2010, securities available for sale with a fair value of approximately $883 million and $1,011 million, respectively, were pledged as collateral to secure federal tax deposits, securities sold under agreements to repurchase, and advances from the federal home loan bank.

4. Loans

The loan portfolio consists of the following loan classes:

(in thousands of dollars)	2011	2010
Real estate loans		
Commercial		
Non-owner occupied	$ 453,215	$ 452,559
Owner-occupied	396,623	375,559
Multi-family residential	264,618	276,783
	1,114,456	1,104,901
Single-family residential	135,898	135,306
Land development and construction loans	192,062	282,549
	1,442,416	1,522,756
Commercial loans	1,705,639	1,142,694
Loans to depository institutions and acceptances	975,768	1,048,560
Consumer loans and overdrafts	48,074	42,550
	4,171,897	3,756,560

The amounts in the table above include approximately $520 million and $339 million at December 31, 2011 and 2010, respectively, in loan participations purchased under a loan syndication program managed by the Bank's Treasury Division. Loans in this program are primarily designed for providing working capital to certain qualified domestic commercial entities meeting strict credit quality criteria and concentration limits as approved by the Bank's Executive Committee.

While maintaining a diversified loan portfolio, the Bank is dependent mostly on the economic conditions that affect the South Florida market. Also, the Bank's primary geography for its international lending activities is Latin America. These activities are concentrated in 90 to 180 day trade financing lines of credit mainly to Latin American banks with which the Bank or MSF has had prior banking relationships. Diversification is managed through policies with limitations for exposure to individual or related debtors and for country risk exposure.

The following tables summarize international loans by country, net of collateral of cash of approximately $46 million and $27 million at December 31, 2011 and 2010, respectively.

December 31, 2011

(in thousands of dollars)	**Brazil**	**Chile**	**Peru**	**Mexico**	**Venezuela**	**Costa Rica**	**Colombia**	**Others (1)**	**Total**
Real estate loans									
Single-family residential	217	-	-	397	87,480	-	379	4,387	92,860
Commercial loans	128,455	5,000	135,718	186,604	20,632	29,997	14,497	99,429	620,332
Loans to depository institutions and acceptances	303,860	302,062	84,891	-	-	57,000	66,079	152,644	966,536
Consumer loans and overdrafts	195	150	-	-	23,805	-	-	477	24,627
	$ 432,727	$ 307,212	$ 220,609	$ 187,001	$ 131,917	$ 86,997	$ 80,955	$ 256,937	$ 1,704,355

(1) Includes loans to borrowers in Guatemala and eighteen other countries which do not individually exceed 1% of total assets

December 31, 2010

(in thousands of dollars)	**Brazil**	**Chile**	**Peru**	**Mexico**	**Venezuela**	**Colombia**	**Others (1)**	**Total**
Real estate loans								
Single-family residential	-	-	-	410	84,705	424	4,409	89,948
Commercial loans	73,361	30,074	122,317	144,868	28,210	4,084	84,737	487,651
Loans to depository institutions and acceptances	358,047	305,541	106,557	30,000	-	82,565	155,351	1,038,061
Consumer loans and overdrafts	157	-	-	152	22,197	-	52	22,558
	$ 431,565	$ 335,615	$ 228,874	$ 175,430	$ 135,112	$ 87,073	$ 244,549	$ 1,638,218

(1) Includes loans to borrowers in Guatemala and sixteen other countries which do not individually exceed 1% of total assets

There is a foreign currency exchange control regime in Venezuela since 2003 which restricts the ability of borrowers in that country to ready access funds in foreign currencies, including the US dollar, for the repayment of foreign obligations and the acquisition of goods and services abroad. Additionally, the country exposure to Venezuelan debtors, at December 31, 2011 includes approximately $65 million in mortgages on properties situated in the United States of America ($63 million at December 31, 2010).

The age analysis of the loan portfolio by class, including non-accrual loans, as of December 31, 2011 is summarized in the following table.

December 31, 2011

(in thousands of dollars)	Total Loans, Net of Unearned Income	Current	Past Due 30-59 days	Past Due 60-89 days	Past Due Greater than 90 days	Past Due Total Past Due	Total Loans in Non-Accrual Status	Total Loans 90 Days Past Due and Accruing
Real estate loans								
Commercial								
Non-owner occupied	$ 453,215	$ 434,457	$ 370	$ 2,010	$ 16,378	$ 18,758	$ 57,705	$ -
Owner-occupied	396,623	378,567	3,833	256	13,967	18,056	24,047	33
Multi-family residential	264,618	242,258	2,047	4,846	15,467	22,360	22,546	517
	1,114,456	1,055,282	6,250	7,112	45,812	59,174	104,298	550
Single-family residential	135,898	130,265	3,220	2,050	363	5,633	5,413	-
Land development and construction loans	192,062	111,314	-	137	80,611	80,748	118,947	-
	1,442,416	1,296,861	9,470	9,299	126,786	145,555	228,658	550
Commercial loans	1,705,639	1,705,144	-	-	495	495	11,757	25
Loans to depository institutions and acceptances	975,768	975,768	-	-	-	-	-	-
Consumer loans and overdrafts	48,074	47,062	952	60	-	1,012	-	216
	$ 4,171,897	$ 4,024,835	$ 10,422	$ 9,359	$ 127,281	$ 147,062	$ 240,415	$ 791

The Bank had approximately $310 million of loans where the accrual of interest had been discontinued at December 31, 2010. If nonaccrual loans had been on full accrual, additional interest income of approximately $15 million would have been recorded in 2010.

5. Allowance for Loan Losses

An analysis by loan segment of the changes in the allowance for loan losses for the year ended December 31, 2011, and its allocation by impairment methodology and the related investment in loans, net as of December 31, 2011, is as follows:

(in thousands of dollars)	Real Estate	Commercial	Deposity institutions	Consumer and others	Total
Balance, beginning of the period	**$ 32,043**	**$ 17,102**	**$ 3,835**	**$ 6,085**	**$ 59,065**
Provision for loan losses	21,961	12,417	5,678	9,755	49,811
Loans charged-off					
Domestic	(35,181)	(7,429)	-	(7,205)	(49,815)
International	(1,326)	-	-	-	(1,326)
Recoveries	7,180	1,833	-	398	9,411
Balance, end of the period	**$ 24,677**	**$ 23,923**	**$ 9,513**	**$ 9,033**	**$ 67,146**
Allowance for loan losses by impairment methodology -					
Individually evaluated	7,585	2,061	-	1,317	10,963
Collectivelly evaluated	17,092	21,862	9,513	7,716	56,183
	24,677	23,923	9,513	9,033	67,146
Investment in loans, net of unearned income-					
Individually evaluated	200,649	31,428	-	8,363	240,440
Collectivelly evaluated	576,576	2,076,351	982,044	296,486	3,931,457
	777,225	2,107,779	982,044	304,849	4,171,897

An analysis of the changes in the allowance for loan and lease losses for the year ended December 31, 2010 is as follows:

(in thousands of dollars)

Balances at beginning of the year	$	76,635
Provision charged to operations		72,700
Loans charged off		(98,060)
Recoveries		7,790
Balances at end of the year	$	59,065

The following is a summary of impaired loans as of December 31, 2011:

December 31, 2011

	Recorded Investment						
(in thousands of dollars)	With a Valuation Allowance	Without a Valuation Allowance	Total	Average (1)	Total Unpaid Principal Balance (2)	Valuation Allowance	Interest Income Recognized
Real estate loans							
Commercial							
Non-owner occupied	$ 24,801	$ 47,195	$ 71,996	$ 62,856	$ 81,016	$ 2,244	$ -
Multi-family residential	3,348	10,020	13,368	18,944	31,548	412	-
Owner-occupied	1,098	18,268	19,366	23,317	31,355	852	-
	29,247	75,483	104,730	105,117	143,919	3,508	-
Single-family residential	2,544	8,411	10,955	7,354	14,109	1,545	-
Land development and construction loans	24,391	91,736	116,127	142,140	351,604	5,091	-
	56,182	175,630	231,812	254,611	509,632	10,144	-
Commercial loans	2,098	7,560	9,658	11,492	20,438	819	-
Consumer loans and overdrafts	-	-	-	-	857	-	-
	$ 58,280	$ 183,190	$ 241,470	$ 266,103	$ 530,927	$ 10,963	$ -

(1) Corresponds to average year-to-date month-end balances
(2) Corresponds to the amount of the contractual unpaid principal balance before any direct charge off.

The following is a summary of the investments in impaired loans as of and for the year ended December 31, 2010:

(in thousands of dollars)		**2010**
Investment in impaired loans		
With a related valuation allowance	$	203,184
Without a related valuation allowance		87,230
		290,414
Valuation allowance	$	8,602
Average recorded investment in impaired loans		382,347
Interest income not recognized on impaired loans		14,719

The recorded investment as of December 31, 2011 in loans considered troubled debt restructurings ("TDRs") during the year totaled $11 million ($28 million as of December 31, 2010 for TDRs completed in 2010). There were no TDRs completed since 2010 that subsequently defaulted under the modified terms of the loan agreement. Substantially all TDRs at December 31, 2011 and December 31, 2010 were Real Estate Loans under modifications terms that did not substantially impact the allowance for loan losses since these impaired loans were recorded at their realizable value, which approximated their fair value previous to their designation as TDRs. There are no unfunded commitments to borrowers whose loans are considered TDRs.

Credit Risk Quality

At least quarterly, the sufficiency of the allowance for loan losses is reviewed by the Chief Risk Officer and the Chief Financial Officer and discussed within the Management's Credit Risk Committees. As of December 31, 2011 and 2010, the Bank considers the allowance for loan losses to be sufficient to absorb losses in the loans portfolio in accordance with US GAAP.

Loans may be classified but not considered impaired due to one of the following reasons: (1) The Bank has established minimum dollar amount thresholds for loan impairment testing, which results in loans under those thresholds being excluded from impairment testing and therefore not included in impaired loans; (2) loans tested for impairment may be considered, after testing, to be non-impaired and are therefore not included in impaired loans.

As part of the on-going monitoring of the credit quality of the Bank's loan portfolio, management tracks certain credit quality indicators including trends related primarily to (i) the risk rating of loans, (ii) the loan payment status, (iii) net charge-offs, (iv) non-performing loans and (v) the general economic conditions in the main geographies where the Bank's borrowers conduct their businesses.

The Bank utilizes a credit risk rating system to identify the risk characteristics of each of its loans. Loans are rated on a quarterly basis (or more frequently when the circumstances require it) on a scale from 1 (worst credit quality) to 10 (best credit quality). Loans are then grouped in five master risk categories for purposes of monitoring rising levels of potential loss risks and to enable the activation of collection or recovery processes as defined in the Bank's Credit Risk Policy. The following is a summary of the master risk categories and their associated loan risk ratings, as well as a description of the general characteristics of the master risk category:

Master Risk Category	Loan Risk Rating
Non-classified	4 to 10
Classified	1 to 3
Substandard	3
Doubtful	2
Loss	1

Non-classified. This category includes loans considered as Pass and Special Mention. A loan classified as pass is considered of sufficient quality to preclude a lower adverse rating. These loans are generally well protected by the current net worth and paying capacity of the borrower or by the value of any collateral received. Special Mention loans are defined as having potential weaknesses that deserve management's close attention which, if left uncorrected, could potentially result in further credit deterioration. Special Mention loans may include loans originated with certain credit weaknesses or that developed those weaknesses since their origination.

Classified – This classification indicates the presence of credit weaknesses which could make loan repayment unlikely, such as partial or total late payments and other contractual defaults.

Substandard – A loan classified substandard is inadequately protected by the sound worth and paying capacity of the borrower or the collateral pledged. They are characterized by the distinct possibility that the Agency will sustain some loss if the credit weaknesses are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual assets.

Doubtful – These loans have all the weaknesses inherent in a loan classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. These are poor quality loans in which neither the collateral, if any, nor the financial condition of the borrower presently ensure collectability in full in a reasonable period of time. As a result, the possibility of loss is extremely high; in fact, there is a permanent impairment in the collateral securing the loan.

Loss – Loans classified as loss are considered uncollectible and of such little value that the continuance as bankable assets is not warranted. This classification does not mean that the assets have absolutely no recovery or salvage value, but not to the point where a write-off should be deferred even though partial recoveries may occur in the future. This classification is based upon current facts, not probabilities. As a result, loans in this category should be promptly charged off in the period in which they surface as uncollectible.

The Bank's investment in loans by credit quality indicators as of December 31, 2011 is summarized in the following table.

December 31, 2011

(in thousands of dollars)	Credit Risk Rating Non-classified	Classified Substandard	Doubtful	Loss	Total
Real estate loans					
Commercial					
Non-owner occupied	$ 376,356	$ 76,036	$ 823	$ -	$ 453,215
Multi-family residential	235,832	28,786	-	-	264,618
Owner-occupied	362,477	33,637	509	-	396,623
	974,665	138,459	1,332	-	1,114,456
Single-family residential	119,190	16,533	175	-	135,898
Land development and construction loans	68,128	121,089	2,845	-	192,062
	1,161,983	276,081	4,352	-	1,442,416
Commercial loans	1,692,529	12,295	815	-	1,705,639
Loans to depository institutions and acceptances	975,768	-	-	-	975,768
Consumer loans and overdrafts	48,026	48	-	-	48,074
	$ 3,878,306	$ 288,424	$ 5,167	$ -	$ 4,171,897

6. Premises and Equipment, Net

Premises and equipment, net includes the following:

(in thousands of dollars)	2011	2010	Estimated Useful Lives (in Years)
Land	$ 6,402	$ 6,402	-
Buildings and improvements	61,097	59,053	10–30
Equipment leased under an operating lease	19,318	19,318	15
Furniture and equipment	16,623	15,913	3–10
Computer equipment and software	24,578	23,714	3
Leasehold improvements	4,737	4,808	5–10
Work in progress	3,411	3,793	-
	136,166	133,001	
Less: Accumulated depreciation and amortization	(56,537)	(51,028)	
	$ 79,629	$ 81,973	

Depreciation and amortization expense was approximately $6 million and $7 million for the years ended December 31, 2011 and 2010, respectively. In 2011, the original cost of fully depreciated premises and equipment of approximately $0.5 million were written-off with a charge to their respective accumulated depreciation ($2 million in 2010).

7. Derivative Instruments

The Bank uses, from time to time, several derivative instruments as part of its interest rate risk management activities. Those derivative instruments may or not be accounted for as hedges.

During 2011 the Bank had no interest rate swap contracts outstanding. During 2010, the Bank had outstanding one interest rate swap contract used to reduce the risk of changes in interest rate associated with specific fixed rate loans receivable outstanding. This contract qualified and was accounted for as a fair value hedge. In 2010, the Bank terminated this swap contract which had an aggregate outstanding notional amount exposure and a negative fair market value at the beginning of the year of $25 million and $1 million (liability), respectively. As a result, the Bank: (1) derecognized the interest rate swap by paying approximately $1.4 million in cash to the counterparty and (2) stopped adjusting the carrying amount of the loans that were being hedged for changes in their fair value. The adjustment of the carrying amount of the loans for changes in their fair value as of the date of termination of approximately $1.2 million remains part of the carrying value of the loans and will be amortized to interest income in the same manner as the carrying amount of the loans in accordance with current accounting guidance.

8. Time Deposits

Time deposits in denominations of $100,000 or more amounted to approximately $591 million and $651 million at December 31, 2011 and 2010, respectively. The average interest rate paid on time deposits, which generally mature within one year, was approximately 0.84% in 2011 and 0.85% in 2010.

9. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are primarily used to fund asset matching transactions or to accommodate major customer deposits. At December 31, 2011 and 2010, securities sold under agreements to repurchase amounted to approximately $492 million and $649 million, respectively. In 2011, the highest month-end outstanding balance and month average outstanding balance were approximately $692 million and $670 million, respectively ($879 million and $789 million in 2010, respectively). The average interest rate paid in 2011 was 1.5% and 1.8% in 2010.

10. Advances From the Federal Home Loan Bank

At December 31, 2011 and 2010, the Bank had outstanding advances from the Federal Home Loan Bank of Atlanta ("FHLB") as follows:

Year of Maturity	Interest Rate	2011	2010
2011	0.36% to 5.58%	$ -	$ 92,500
2012	0.22% to 3.45%	275,000	150,000
2013	0.49% to 4.52%	160,000	135,000
2014	1.39%	25,000	25,000
2016	3.43% to 5.84%	11,250	11,250
2018	5.35%	1,000	1,000
2019	3.86%	15,000	15,000
		$ 487,250	$ 429,750

At December 31, 2011 and 2010, the Bank held stock of the FHLB for approximately $39 million and $32 million, respectively. The terms of the advance agreement require the Bank to maintain certain investment securities as collateral for these advances. At December 31, 2011, the Bank was in compliance with this requirement of the FHLB membership agreement.

11. Income Taxes

The components of the income tax expense for the years ended December 31, 2011 and 2010 are as follows:

(in thousands of dollars)	2011	2010
Current provision		
Federal	$ 5,714	$ 1,252
State	446	407
Deferred tax expense (benefit)	3,098	(1,070)
	$ 9,258	$ 589

The composition of the net deferred tax asset is as follows:

(in thousands of dollars)	**2011**	**2010**
Tax effect of temporary differences		
Provision for loan losses	$ 21,239	$ 17,942
Loss recognized on equity-method investment	18,055	19,366
Other real estate owned	4,249	7,685
Interest income on nonaccrual loans	6,563	7,484
Deferred compensation expense	1,193	1,073
Goodwill amortization	(2,588)	(2,133)
Depreciation and amortization	(5,249)	(4,884)
Unrealized gains on securities available for sale, net	(11,557)	(7,413)
Other	2,073	2,100
	$ 33,978	$ 41,220

At December 31, 2011 and 2010, the Bank had federal net deferred tax assets of approximately $34 million and $41 million, respectively. Management believes that the weight of all the positive evidence currently available exceeds the negative evidence in support of the realization of the future tax benefits associated with the federal net deferred tax asset. As a result, management has concluded that the federal net deferred tax asset in its entirety will more likely than not be realized. Therefore, a valuation allowance is not considered necessary.

The Bank evaluates the deferred tax asset for recoverability using a consistent approach which considers the relative impact of negative and positive evidence, including historical financial performance and projections of future taxable income. This evaluation involves significant judgment by management about assumptions that are subject to change from period to period. Currently the Bank’s projections provide support for the realization of the entire deferred tax asset. If future results differ significantly from the Banks’ current projections, a valuation allowance against the net deferred tax asset may be required.

At December 31, 2011, the Bank had no unrecognized tax benefits or associated interest or penalties that needed to be accrued for.

12. Other Comprehensive Income

The related tax effect allocated to each component of other comprehensive income for the years ended December 31, 2011 and 2010 is as follows:

(in thousands of dollars)	**Before-Tax Amount**	**Tax Effect**	**Net-of-Tax Amount**
2011			
Net unrealized holding losses on securities available for sale arising during the year	$ 8,648	$ (3,070)	$ 5,578
Reclassification adjustment for net gains included in net income	3,024	(1,074)	1,951
Other comprehensive income	$ 11,672	$ (4,144)	$ 7,529
2010			
Net unrealized holding losses on securities available for sale arising during the year	$ (12,013)	$ 3,900	$ (8,113)
Reclassification adjustment for net gains included in net income	16,870	(5,989)	10,881
Other comprehensive income	$ 4,857	$ (2,089)	$ 2,768

13. Related Party Transactions

Included in the consolidated balance sheets are amounts with related parties as follows:

(in thousands of dollars)	**2011**	**2010**
Assets		
Due from related parties included in cash and due from banks	$ -	$ -
Short-term advances to foreign bank affiliates	-	5,500
Total due from related parties	-	5,500
Liabilities		
Demand deposits, noninterest bearing	16,836	14,618
Money market and securities sold under agreements to repurchase	90,007	154,307
Time deposits and other liabilities	48,037	90
Total due to related parties	154,880	169,015
Net due to related parties	$ (154,880)	$ (163,515)

In December 2010, the Bank sold to a domestic related party, in separate transactions, certain repossessed properties received by the Bank during 2010. The Bank received cash for approximately $14 million and recorded no gain or loss since these transactions were completed at their carrying amounts, which approximated fair value.

For the years ended December 31, 2011 and 2010, loan participations sold to related parties amounted to approximately $49 million and $20 million, respectively. There were no participations purchased from related parties in 2011 and in 2010. These loans were made to unrelated borrowers under terms consistent with the Bank's normal lending practices. The Bank recorded no gain or loss on these transactions.

Deposits from related parties are accepted under essentially the same terms and conditions as transactions with third parties.

Included in the consolidated statements of operations are amounts with related parties as follows:

	2011	2010
Income		
Interest income on short-term advances	$ 4	$ 20
Data processing and other services	3,412	3,495
Rental income from an operating lease	2,190	2,190
Service charges	1,472	902
	7,078	6,607
Expenses		
Interest expense	241	225
Fees	1,703	1,660
	1,944	1,885
Net income from related parties	$ 5,134	$ 4,722

Because of the relationship between the Bank and its related parties, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

14. Employee Benefit Plan

The Mercantil Commercebank Holding U.S.A. Retirement Plan (the "Plan") is a 401(k) benefit plan covering substantially all employees of the Bank.

Contributions by the Bank to the Plan are based upon a fixed percentage of participants' salaries as defined by the Plan. In addition, employees with at least three months of service and who have reached the age of 21 may contribute a percentage of their salaries to the Plan as elected by each participant. The Bank matches 100% of each participant's contribution up to a maximum of 5% of their annual salary. All contributions made by the Bank to the participants' accounts vest incrementally in the second through completion of the sixth year of employment.

During 2011 and 2010, the Bank contributed approximately $2 million and $1 million, respectively, to the 401(k) benefit plan in matching contributions.

The Bank offers a stock option plan to eligible officers approved by the Board in order to acquire shares of MSF. These shares are allotted over three-year periods and awarded annually. No compensation expense was recorded for this plan in 2011 and 2010.

15. Commitments and Contingencies

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

The Bank occupies various branch office facilities under noncancelable lease agreements expiring through the year 2018. Actual rental payments expensed may include deferred rents but are recognized as rent expense on a straight-line basis. Rent expense under these leases for the years ended December 31, 2011 and 2010 approximated $8 million and $7 million, respectively.

Future minimum annual lease payments under such leases are as follows:

Year	Approximate Amount
2013	$ 2,541
2014	2,566
2015	2,374
2016	2,098
2017	1,561
Thereafter	1,694
	$ 12,834

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 and letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Bank controls the credit risk of loan commitments and letters of credit through credit approvals, customer limits, and monitoring procedures.

Loan commitments are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Loan commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. 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. Collateral held varies but may include cash, accounts receivable, inventory, property and equipment, real estate in varying stages of development, and income-producing commercial properties.

Standby letters of credit are conditional commitment issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support borrowing arrangements. They generally have one year terms and are renewable on a yearly basis. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds deposits, investments and real estate as collateral supporting those commitments. The extent of collateral held for those commitments at December 31, 2011 ranges from unsecured commitments to commitments fully collateralized by cash and securities.

Commercial letters of credit are conditional commitments issued by the Bank to guarantee payment by a customer to a third party upon proof of shipment or delivery of goods as agreed. Commercial letters of credit are used primarily for importing or exporting goods and are terminated when proper payment is made by the customer.

Financial instruments whose contract amount represents off-balance sheet credit risk at December 31, 2011 are generally short-term and are as follows (dollars in thousands):

	Approximate Contract Amount
Commitments to extend credit	$ 378,438
Credit card facilities	130,437
Standby letters of credit	21,871
Commercial letters of credit	7,004

16. Fair Value Measurement

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	December 31, 2011			
(in thousands of dollars)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Third-Party Models With Observable Market Inputs Inputs (Level 2)**	**Internal Models With Unobservable Market Inputs (Level 3)**	**Total Carrying Value in the Consolidated Balance Sheet**
Assets				
U.S. government agency debt securities	$ -	$ 1,193,909	$ 14,903	$ 1,208,812
U.S. government sponsored enterprise debt securities	-	661,972	-	661,972
Foreign sovereign debt	-	44,787	-	44,787
Corporate debt securities	-	153,987	13,610	167,597
U.S. treasury securities	-	6,422	-	6,422
Mutual funds	-	239	-	239
	$ -	$ 2,061,316	$ 28,513	$ 2,089,829

	December 31, 2010			
(in thousands of dollars)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Third-Party Models With Observable Market Inputs Inputs (Level 2)**	**Internal Models With Unobservable Market Inputs (Level 3)**	**Total Carrying Value in the Consolidated Balance Sheet**
Assets				
U.S. government agency debt securities	$ -	$ 1,390,672	$ -	$ 1,390,672
U.S. government sponsored enterprise debt securities	-	499,191	302	499,493
Foreign sovereign debt	-	46,120	-	46,120
Corporate debt securities	-	284,070	9,564	293,634
U.S. treasury securities	-	30,821	-	30,821
Mutual funds	-	239	-	239
	$ -	$ 2,251,113	$ 9,866	$ 2,260,979

Level 2 Valuation Techniques

The valuation of securities available for sale and derivative instruments is performed through a monthly pricing process using data provided by third parties considered leading global providers of independent data pricing services ("the Pricing Providers"). These pricing providers collect, use and incorporate descriptive market data from various sources, quotes and indicators from leading broker dealers to generate independent and objective valuations.

The valuation techniques and the inputs used in our consolidated financial statements to measure the fair value of our recurring Level 2 financial instruments consider, among other factors, the following:

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

Level 3 Valuation Techniques

The valuation of certain securities available for sale is determined in a manner consistent to the monthly pricing process described for Level 2 instruments. However, it also includes certain unobservable inputs. These securities are generally certain private label Collateralized-Mortgage Obligations ("CMOs") and municipal bonds.

The valuation techniques and the inputs used in our consolidated financial statements to measure the fair of our recurring Level 3 financial instruments consider, among other factors, the following:

- Recent market transactions for similar securities
- Resulted yield is adjusted to incorporate specific characteristics for each security (e.g., state, maturity, bank-qualified designation) which represent unobservable market inputs.
- The calculated yield is used to obtain the fair value for each related security
- Additional assumptions are incorporated into the analysis and the yield calculation such as recovery rates and delinquency rates, which represent unobservable market inputs. Also, credit enhancement features of each security are used.

On a quarterly basis, the Bank evaluates the reasonableness of the monthly pricing process described for the valuation of the financial instruments. This evaluation includes the challenging of a random sample selection of the different types of securities in the investment portfolio as of the end of the quarter selected. This challenge consists of obtaining from the Pricing Providers a document explaining the methodology applied to obtain their fair value assessments for each type of investment included in the sample selection. The Bank then analyzes in detail the various inputs used in the fair value calculation, both observable and unobservable (e.g., prepayment speeds, yield curve benchmarks, spreads, delinquency rates). Management considers that the consistent application of this methodology allows the Bank to understand and evaluate the categorization of the investment portfolio.

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

The tables below include a rollforward of the balance sheet amounts for financial instruments classified by the Bank within Level 3 of the valuation hierarchy. Our financial instruments are classified as Level 3 when a determination is made that significant unobservable inputs have been used. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated with external sources). Accordingly, the gains and losses shown in these tables include changes in fair value due, in part, to observable factors that are part of the valuation methodology.

(in thousands of dollars)	**2011**
Beginning balance	$ 9,866
Unrealized loss included in other comprehensive income	(444)
Purchases	15,133
Maturities, sales and calls	(19,781)
Realized loss on sales	(944)
Transfers in (a) (b)	24,985
Transfer out (a) (c)	(302)
Ending balance	$ 28,513

(in thousands of dollars)	**2010**
Beginning balance	$ 160,933
Unrealized loss included in other comprehensive income	(712)
Net purchases	294
Transfer out, net (a)	(150,649)
Ending balance	$ 9,866

(a) Transfers are assumed to occur at the end of the reporting period
(b) Comprised of corporate debt securities
(c) Comprised of U.S. government sponsored enterprise debt securities

There were no recurring liabilities measured at fair value in the Bank's financial statements as of December 31, 2011.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis
The following table presents the major category of assets measured at fair value on a nonrecurring basis:

	December 31, 2011			
(in thousands of dollars)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**	**Total Impairments**
Description				
Loans (1)	$ -	$ -	$ 9,540	$ 4,984
Other real estate owned	-	-	13,678	2,650
	$ -	$ -	$ 23,218	$ 7,634

	December 31, 2010			
(in thousands of dollars)	**Quoted prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**	**Total Impairments**
Description				
Loans [(1)]	$ -	$ -	$ 179,210	$ 8,541
Other real estate owned	-	-	30,495	13,036
	$ -	$ -	$ 209,705	$ 21,577

(1) Represents the value of collateral-dependent impaired loans for which impairment is measured based on changes in the fair value of the collateral.

As of December 31, 2011, no disclosure is provided for liabilities measured on a nonrecurring basis because the Bank does not measure any liability at fair value.

Collateral Dependent Loans Measured For Impairment
The Bank measures the impairment of collateral-dependent loans based on the fair value of the collateral as required under U.S.GAAP. The Bank primarily uses independent third party appraisals to assist in measuring impairment on collateral dependent impaired loans. The Bank also primarily uses independent third party appraisal reviewers for loans with an outstanding balance of $1 million and above. These appraisals generally use the market or income approach valuation techniques and use market observable data to formulate an opinion of the fair value of the loan’s collateral. However, the appraiser also uses professional judgment in determining the fair value of the collateral or properties and may also adjust these values for changes in market conditions subsequent to the appraisal date. When current appraisals are not available for certain loans, the Bank uses judgment on market conditions to adjust the most current appraisal. The sales prices may reflect prices of sales contracts not closed and the amount of time required to sell out the real estate project may be derived from current appraisals of similar projects. As a consequence, the fair value of the collateral is considered a Level 3 valuation.

Other Real Estate Owned
Other real estate owned are generally foreclosed properties that are valued using independent third party appraisals or discounted cash flows when appraisals are not available at period-end, net of an estimated cost-to-sell amount. The amounts obtained from the appraisals generally are derived from the use of the market approach valuation technique which generally considers market observable data to formulate an opinion of the fair value of the properties. However, the appraisers also use their professional judgment in determining the fair value of the properties and may also adjust these values for changes in market conditions subsequent to the valuation date. As a consequence of using appraiser price opinions and adjustments to appraisals, the fair values of the properties are considered a Level 3 valuation.

17. Fair Value of Financial Instruments

The fair value of a financial instrument represents the price that would be received to sell them in an orderly transaction between market participants at the measurement date. The best indication of the fair value of a financial instrument is determined based upon quoted market prices. However, in many cases, there are no quoted market prices for the Bank's various financial instruments. As a result, the Bank derives the fair value of the financial instruments held at the reporting period-end, in part, using present value or other valuation techniques. Those techniques are significantly affected by management's assumptions, the estimated amount and timing of future cash flows and estimated discount rates included in present value and other techniques. The use of different assumptions could significantly affect the estimated fair values of the Bank's financial instruments. Accordingly, the net realized values could be materially different from the estimates presented below.

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

- Because of their nature and short-term maturities, the carrying values of the following financial instruments were used as a reasonable estimate of their fair value: cash and cash equivalents, interest earning deposits with banks, variable-rate loans with re-pricing terms shorter than twelve months, demand and savings deposits, short-term time deposits and securities sold under agreements to repurchase.

- The fair value of securities, including securities sold under agreements to repurchase, and derivate instruments are based on quoted market prices, when available. If quoted market prices are unavailable, fair value is estimated using the pricing process described in Note 15.

- The fair value of commitments and letters of credit is based on the assumption that the Bank will be required to perform on all such instruments. The commitment amount approximates estimated fair value.

- The fair value of fixed-rate loans and advances from the FLHB are estimated using a present value technique by discounting the future expected contractual cash flows using the current rates at which similar instruments would be issued with comparable credit ratings and terms at the measurement date.

- The fair value of long-term time or certificate of deposits is determined using a present value technique by discounting the future expected contractual cash flows using current rates at which similar instruments would be issued at the measurement date.

The estimated fair value of financial instruments where fair value differs from book value is as follows:

	2011		2010	
(in thousands of dollars)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets				
Loans	$ 1,331,113	$ 1,307,975	$ 994,241	$ 960,809
Financial liabilities				
Time Deposits	792,443	795,812	1,031,372	1,037,583
Advances from the Federal Home Loan Bank	487,250	497,331	429,750	439,481
Securities sold under agreements to repurchase	187,000	208,938	202,000	222,873

18. Regulatory Matters

The Bank is subject to various regulatory requirements administered by federal banking agencies. The following is a summary of restrictions related to dividend payments and capital adequacy.

Dividend Restrictions
Dividends payable by the Bank as a national bank subsidiary of the Parent Company, are limited by the regulator to the lesser of the amounts calculated under a “recent earnings” test and an “undivided profits” test. Under the recent earnings test, a dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year’s net income combined with the retained net income of the two preceding years, unless the national bank obtains the approval of the Office of the Controller of the Currency (“OCC”). Under the undivided profits test, a dividend may not be paid in excess of a bank’s “undivided profits.” In 2011, the Bank could not pay dividends to the Parent Company without the approval of its banking regulators.

Capital Adequacy
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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. As of December 31, 2011, management believes that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2011, the most recent examination from the Bank's regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events since the examination that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are presented in the following table:

	Actual		Required for Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2011						
Total capital ratio	$ 658,358	17.2 %	$ 306,426	8.0 %	$ 383,033	10.0 %
Tier I capital ratio	610,232	15.9 %	153,213	4.0 %	229,820	6.0 %
Tier I leverage ratio	610,232	9.0 %	270,479	4.0 %	337,256	5.0 %
As of December 31, 2010						
Total capital ratio	$ 640,184	18.1 %	$ 282,547	8.0 %	$ 353,184	10.0 %
Tier I capital ratio	595,838	16.9 %	141,273	4.0 %	211,910	6.0 %
Tier I leverage ratio	595,838	9.0 %	257,102	4.0 %	320,512	5.0 %

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