Mercantil Commercebank, N.A. and Subsidiaries

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

Consolidated Financial Statements
December 31, 2014 and 2013

Mercantil Commercebank, N.A. and Subsidiaries
(A wholly owned subsidiary of Mercantil Commercebank Florida Bancorp Inc.)
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Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated financial statements of Mercantil Commercebank, N.A. and its subsidiaries (the "Bank"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, of comprehensive income, of changes in shareholder's equity, and of cash flows for the years then ended. We also have audited the Bank's internal control over financial reporting as of December 31, 2014 based on criteria established in *Internal Control - Integrated Framework 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).*

Management's Responsibility

The Bank's management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, for maintaining internal control over financial reporting including the design, implementation, and maintenance of controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to error or fraud, and for its assertion about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting.

Certified Public Accountants' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements and an opinion on the Bank's internal control over financial reporting based on our audits. We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and our audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of internal control over financial reporting involves obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinions.

Definition and Inherent Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Bank's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions for preparation of Consolidated Reports of Condition and Income (FFIEC 031). A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and those charged with governance; and (iii) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mercantil Commercebank, N.A. and its subsidiaries at December 31, 2014 and 2013, 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. Also in our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).*

PricewaterhouseCoopers LLP

February 19, 2015
Miami, Florida

Mercantil Commercebank, N.A. and Subsidiaries
(A wholly owned subsidiary of Mercantil Commercebank Florida Bancorp Inc.)
Consolidated Balance Sheets
December 31, 2014 and 2013

(in thousands of dollars, except per share data)

	2014	2013
Assets		
Cash and due from banks	$ 44,158	$ 18,298
Interest earning deposits with banks	144,673	109,890
Cash and cash equivalents	188,831	128,188
Interest earning deposits with banks, with original maturities in excess of 90 days	100	100
Securities		
Available for sale	2,179,474	1,727,977
Federal Reserve Bank and Federal Home Loan Bank stock	50,000	38,140
Loans, gross	5,298,330	4,810,610
Less: Allowance for loan losses	65,385	60,468
Loans, net	5,232,945	4,750,142
Accrued interest receivable	21,874	18,705
Premises and equipment, net	142,964	67,482
Deferred tax asset, net	20,008	22,560
Customers' acceptance liability	18,538	-
Due from investment securities brokers	7,072	15,602
Other real estate owned, net	3,024	12,650
Goodwill and other intangibles, net	20,591	19,522
Other assets	17,870	19,258
	$ 7,903,291	$ 6,820,326
Liabilities and Stockholder's Equity		
Deposits		
Demand		
Noninterest bearing	$ 1,259,947	$ 962,835
Interest bearing	2,197,975	2,049,196
Savings and money market	1,992,162	1,890,100
Time	868,250	657,260
Total deposits	6,318,334	5,559,391
Securities sold under agreements to repurchase	99,375	123,666
Advances from the Federal Home Loan Bank	682,250	373,250
Acceptances outstanding	18,538	-
Accrued interest payable	2,366	2,059
Due to investment securities brokers	58	7,028
Accounts payable and accrued liabilities	36,331	33,234
	7,157,252	6,098,628
Commitments and contingencies (Notes 1 and 16)		
Stockholder's equity		
Common stock, $70 par value, 2,000,000 shares authorized, 1,699,449 shares issued and outstanding in 2014 and 2013	118,961	118,961
Additional paid in capital	308,333	308,333
Retained earnings	315,367	293,684
Accumulated other comprehensive income	3,378	720
	746,039	721,698
	$ 7,903,291	$ 6,820,326

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, 2014 and 2013

(in thousands of dollars)

	2014	2013
Interest income		
Loans	$ 136,251	$ 131,260
Investment securities	44,606	39,199
Interest earning deposits with banks and other	727	660
Total interest income	181,584	171,119
Interest expense		
Interest bearing demand deposits	1,273	1,286
Savings and money market deposits	6,429	5,074
Time deposits	3,927	3,267
Securities sold under agreements to repurchase	4,736	6,778
Advances from the Federal Home Loan Bank	6,538	4,403
Total interest expense	22,903	20,808
Net interest income	158,681	150,311
Provision for loan losses	7,971	289
Net interest income after provision for loan losses	150,710	150,022
Noninterest income		
Deposits and service fees	18,844	18,100
Brokerage fees	17,042	14,950
Loans and trade financing servicing fees	4,996	3,952
Data processing, rental income and fees for other services to related parties	4,976	4,928
Securities gains, net	3,255	2,056
Other noninterest income	5,230	6,005
Total noninterest income	54,343	49,991
Noninterest expense		
Salaries and employee benefits	98,035	89,590
Occupancy and equipment	15,529	15,374
Professional and other services fees	12,013	9,179
FDIC assessments and insurance	5,978	5,654
Telecommunication and data processing	6,930	7,285
Depreciation and amortization	7,247	6,929
Other operating expenses	15,886	12,828
Total noninterest expense	161,618	146,839
Net income before income tax expense	43,435	53,174
Income tax expense	(15,752)	(19,018)
Net income	27,683	34,156
Other comprehensive income, net of tax		
Net unrealized holding gains/(losses) on securities available for sale arising during the year	882	(27,033)
Reclassification adjustment for net gains included in net income	1,776	1,782
Other comprehensive income	2,658	(25,251)
Comprehensive income	$ 30,341	$ 8,905

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, 2014 and 2013

(in thousands of dollars, except per share data)

	Common Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholder's Equity
	Shares Issued and Outstanding	Par Value				
Balances at December 31, 2012	1,699,449	$ 118,961	$ 308,333	$ 265,528	$ 25,971	$ 718,793
Net income	-	-	-	34,156	-	34,156
Dividends paid	-	-	-	(6,000)	-	(6,000)
Other comprehensive income	-	-	-	-	(25,251)	(25,251)
Balances at December 31, 2013	1,699,449	118,961	308,333	293,684	720	721,698
Net income	-	-	-	27,683	-	27,683
Dividends paid	-	-	-	(6,000)	-	(6,000)
Other comprehensive income	-	-	-	-	2,658	2,658
Balances at December 31, 2014	1,699,449	$ 118,961	$ 308,333	$ 315,367	$ 3,378	$ 746,039

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 Ended December 31, 2014 and 2013

(in thousands of dollars)

	2014	2013
Cash flows from operating activities		
Net income	$ 27,683	$ 34,156
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	7,971	289
Net premium amortization on securities	31,390	35,576
Securities gains, net	(3,262)	(2,093)
Depreciation and amortization	7,247	6,929
Deferred tax expense	1,090	15,056
Net loss on valuation and sales of other real estate owned and other	1,938	1,875
Net changes in operating assets and liabilities:		
Securities owned, at fair value	-	9,546
Loans held-for-sale	(7,208)	-
Accrued interest receivable and other assets	(2,928)	5,972
Accrued interest payable, accounts payable and accrued liabilities	2,842	(927)
Net cash provided by operating activities	66,763	106,379
Cash flows from investing activities		
Purchases of investment securities:		
Available for sale	(1,232,972)	(809,858)
Federal Reserve Bank and Federal Home Loan Bank stock	(49,455)	(25,920)
Maturities, sales and calls of investment securities:		
Available for sale	766,254	1,011,958
Federal Reserve Bank and Federal Home Loan Bank stock	37,595	31,470
Net increase in loans	(526,523)	(451,797)
Proceeds from loan sales	35,592	49,200
Acquisition of net assets in a business combination	(75,156)	-
Net purchases of premises and equipment	(6,932)	(2,636)
Net proceeds from sales of premises and equipment	-	5,024
Net proceeds from sale of other real estate owned	8,868	20,037
Net cash used in investing activities	(1,042,729)	(172,522)
Cash flows from financing activities		
Net increase in demand, savings and money market accounts	547,953	167,129
Net increase in time deposits	210,990	26,751
Net decrease in securities sold under agreements to repurchase	(25,221)	(56,765)
Proceeds from Advances from the Federal Home Loan Bank and other banks	1,397,000	646,000
Repayments of Advances from the Federal Home Loan Bank and other banks	(1,088,113)	(730,000)
Dividends paid	(6,000)	(6,000)
Net cash provided by financing activities	1,036,609	47,115
Net increase (decrease) in cash and cash equivalents	60,643	(19,028)
Cash and cash equivalents		
Beginning of year	128,188	147,216
End of year	$ 188,831	$ 128,188
Supplemental disclosures of cash flow information		
Cash paid -		
Interests	$ 22,596	$ 20,529
Income taxes	6,071	8,331
Noncash investing activity -		
Loans transferred to other real estate owned	230	23,609
Loans held-for-sale sold in exchange for securities	7,135	-

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 over 30 years. The Bank is headquartered in the City of Coral Gables, Florida and has 21 Banking Centers, 15 located in South Florida, one in New York City, New York and five 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 19, 2015, the date when these consolidated financial statements were available to be issued.

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 (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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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 appropriate. 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 owned at fair value and available for sale.

Securities owned at fair value include proprietary securities transactions in regular-way trades initiated by the Company's broker dealer subsidiary, which are accounted for in accordance with specialized industry guidance at fair value with unrealized gains and losses included in the results of operations. Profit and loss arising from these securities transactions, for the account and risk of the Company, are recorded on a trade date basis. Customers' securities transactions are reported on a settlement date basis with related commission income and expenses reported on a trade date basis. There were no securities owned, at fair value, at December 31, 2014 and 2013.

All other securities purchased are classified as available for sale and 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 purchased are recorded on the consolidated balance sheets as of the trade date.

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 net cost of $5.4 million and $6.2 million at December 31, 2014 and 2013, respectively.

A loan is placed in nonaccrual 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 nonaccrual status, management reviews all loans to the same borrower to determine their appropriate accrual status. When a loan is placed in nonaccrual 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 nonaccrual 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 nonaccrual status is returned to accrual status when none of the conditions noted when first placed in nonaccrual 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 portfolio 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 nonowner 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 nonfinancial 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 improvement 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 nonaccrual 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 operation or sale of 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 measures of historical losses associated with loans within their respective portfolio segments adjusted by a variety of qualitative factors. These qualitative factors incorporate the most recent data reflecting current economic conditions, industry performance trends or obligor concentrations within each portfolio segment, among other factors. 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 risk rating data. The measures 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 marketability 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, 2014 and 2013, goodwill was considered not impaired and, therefore, no impairment charges were recorded.

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 outstanding transactions. It also includes commissions and floor-brokerage receivables and payables to broker dealers.

Derivative Instruments
Derivative instruments are recognized on the consolidated balance sheet at their respective fair values. The accounting for changes in the fair value of a derivative instrument is dependent upon whether the derivative has been designated and qualifies as part of a hedging relationship. For derivatives that have not been designated and qualified as part of a hedging relationship, the change in their fair value is recognized in current period earnings. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is recognized as a component of other comprehensive income (loss) and reclassified into earnings in the same period during which the hedged transactions affect earnings. The Bank has designated certain derivatives as cash flow hedges. Management periodically evaluates the effectiveness of these hedges in offsetting the fluctuations in cash flows due to changes in benchmark interest rates.

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

Revenue from Contracts with Customers
In May 2014, the Financial Accounting Standards Board (FASB) developed a common revenue standard for recognizing revenue from contracts with customers. This new standard establishes principles for reporting information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for annual periods beginning after December 15, 2017 for nonpublic entities; earlier application is permitted for nonpublic entities on a limited basis. This guidance is not expected to significantly impact the Bank's consolidated financial statements.

Transfers and Servicing
In June 2014, the FASB issued guidance on enhanced footnote disclosures with regard to the types of collateral pledged in certain repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions. Additional disclosure requirements included the class of the collateral pledged, the remaining maturity of the agreements, and any potential risks. This standard is effective in 2016. Early adoption is permitted. This guidance is not expected to significantly impact the Bank's consolidated financial statements.

Consolidation
In August 2014, the FASB issued guidance on addressing the measurement difference in both the initial consolidation and the subsequent measurement of the financial assets and the financial liabilities of a collateralized financing entity. This guidance is applicable to reporting entities required to consolidate collateralized financing entities under the Variable Interest Entities language within US GAAP. The standard is effective in 2016. Early adoption is permitted. We are in the process of understanding how this guidance will impact our disclosures. This guidance is not expected to significantly impact the Bank's consolidated financial statements.

Troubled Debt Restructuring by Creditors
In August 2014, the FASB issued guidance on how to classify or measure foreclosed mortgage loans that are government-guaranteed. The amendments in this guidance affect creditors that hold government-guaranteed mortgage loans, including those guaranteed by the FHA and the VA. The standard is effective in 2015. Early adoption is permitted. This guidance is not expected to significantly impact the Bank's consolidated financial statements.

Going Concern
In August 2014, the FASB issued guidance on management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The standard is effective in 2016. Early adoption is permitted. This guidance is not expected to significantly impact the Bank's consolidated financial statements.

Derivatives and Hedging
In November 2014, the FASB issued guidance clarifying the determination of whether the host contract in a hybrid financial instrument issued in the form of a share is more akin to debt or to equity. This guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted. This guidance is not expected to significantly impact the Bank's consolidated financial statements.

Business Combinations
In November 2014, the FASB issued guidance on addressing whether an acquired entity can reflect the acquirer's accounting and reporting basis (pushdown accounting) in its separate financial statements. The amendments in this guidance provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. This guidance became effective immediately, and had no impact to the Bank's consolidated financial statements.

Extraordinary Items
In January 2015, the FASB issued guidance to simplify income statement classification by removing the concept of extraordinary items from U.S. GAAP. The standard is effective for periods beginning after December 15, 2015. Early adoption is permitted, but only as of the beginning of the fiscal year of adoption. Retrospective application of these amendments to all prior periods presented in the financial statements is also permitted. This guidance had no material impact to the Bank's consolidated financial statements.

Reclassifications
Certain reclassifications have been made to the December 31, 2013 consolidated financial statements to conform to current year presentation.

2. Interest Earning Deposits with Banks

At December 31, 2014 and 2013, interest earning deposits with banks are comprised of deposits with the Federal Reserve Bank in the amount of approximately $145 million and $110 million, respectively. At December 31, 2014 and 2013, 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, 2014			
	Amortized	**Gross Unrealized**		**Estimated**
(in thousands of dollars)	**Cost**	**Gains**	**Losses**	**Fair Value**
U.S. government agency debt securities	$ 899,242	$ 8,991	$ (4,635)	$ 903,598
Corporate debt securities	708,545	1,567	(3,928)	706,184
U.S. government sponsored enterprise debt securities	511,695	7,756	(2,791)	516,660
U.S. treasury securities	27,823	717	-	28,540
Foreign sovereign debt	16,617	35	(2,498)	14,154
Municipal bonds	5,968	96	-	6,064
Others	4,259	15	-	4,274
	$ 2,174,149	$ 19,177	$ (13,852)	$ 2,179,474

	December 31, 2013			
	Amortized	**Gross Unrealized**		**Estimated**
(in thousands of dollars)	**Cost**	**Gains**	**Losses**	**Fair Value**
U.S. government agency debt securities	$ 983,261	$ 10,817	$ (6,035)	$ 988,043
U.S. government sponsored enterprise debt securities	539,888	5,896	(8,881)	536,903
Corporate debt securities	171,364	998	(806)	171,556
Foreign sovereign debt	29,107	82	(970)	28,219
U.S. treasury securities	3,002	16	(1)	3,017
Others	239	-	-	239
	$ 1,726,861	$ 17,809	$ (16,693)	$ 1,727,977

The Bank's investment securities available for sale with unrealized losses that are deemed temporary, aggregated by length of time that individual securities have been in a continuous unrealized loss position, are summarized below:

	December 31, 2014					
	Less Than 12 Months		**12 Months or More**		**Total**	
	Estimated	**Unrealized**	**Estimated**	**Unrealized**	**Estimated**	**Unrealized**
(in thousands of dollars)	**Fair Value**	**Loss**	**Fair Value**	**Loss**	**Fair Value**	**Loss**
U.S. government agency debt securities	$ 289,702	$ (1,858)	$ 183,548	$ (2,777)	$ 473,250	$ (4,635)
Corporate debt securities	505,162	(3,924)	3,313	(4)	508,475	(3,928)
U.S. government sponsored enterprise debt securities	83,741	(334)	101,248	(2,457)	184,989	(2,791)
Foreign sovereign debt	9,750	(2,498)	-	-	9,750	(2,498)
	$ 888,355	$ (8,614)	$ 288,109	$ (5,238)	$ 1,176,464	$ (13,852)

	December 31, 2013					
	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	$ 478,284	$ (5,880)	$ 10,996	$ (155)	$ 489,280	$ (6,035)
U.S. government sponsored enterprise debt securities	236,062	(5,202)	74,210	(3,679)	310,272	(8,881)
Foreign sovereign debt	18,250	(970)	-	-	18,250	(970)
Corporate debt securities	70,973	(806)	-	-	70,973	(806)
U.S. treasury securities	2,498	(1)	-	-	2,498	(1)
	$ 806,067	$ (12,859)	$ 85,206	$ (3,834)	$ 891,273	$ (16,693)

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.

Contractual maturities of securities available for sale are as follows:

	December 31, 2014	
(in thousands of dollars)	Amortized Cost	Estimated Fair Value
Within 1 year	$ 1,481	$ 1,492
After 1 year through 5 years	234,112	234,321
After 5 years through 10 years	326,955	328,151
After 10 years	1,607,342	1,611,236
No contractual maturities	4,259	4,274
	$ 2,174,149	$ 2,179,474

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 2014 and 2013 were approximately $469 million and $635 million, respectively, with net realized gains of approximately $3 million in 2014 and $2 million in 2013, respectively.

At December 31, 2014 and 2013, securities available for sale with a fair value of approximately $796 million and $403 million, respectively, were pledged as collateral to secure 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)	**2014**	**2013**
Real estate loans		
Commercial		
Nonowner occupied	$ 741,196	$ 591,847
Owner-occupied	463,259	450,251
Multi-family residential	239,170	163,950
	1,443,625	1,206,048
Single-family residential	367,003	295,329
Land development and construction loans	210,312	114,520
	2,020,940	1,615,897
Commercial loans	2,412,708	2,264,148
Loans to depository institutions and acceptances	746,316	860,970
Consumer loans and overdrafts	118,366	69,595
	$ 5,298,330	$ 4,810,610

The amounts in the table above include loans under syndication facilities for approximately $901 million and $724 million at December 31, 2014 and 2013, respectively. These loans are primarily designed for providing working capital to certain qualified domestic and international commercial entities meeting strict credit quality criteria and concentration limits, and approved in accordance with credit policies.

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 $54 million and $26 million at December 31, 2014 and 2013, respectively.

	December 31, 2014								
(in thousands of dollars)	Brazil	Mexico	Peru	Venezuela	Colombia	Chile	Panama	Others (1)	Total
Real estate loans									
Single-family residential	$ 180	$ 607	$ -	$ 125,400	$ 791	$ 195		$ 3,419	$ 130,592
Commercial loans	247,650	196,243	146,893	21,575	59,074	59,730	47,600	147,714	926,479
Loans to depository institutions and acceptances	204,033	30,000	62,410	5,000	77,552	60,966	60,934	238,419	739,314
Consumer loans and overdrafts	3,863	820	28	50,419	1,526	2,281	164	1,355	60,456
	$ 455,726	$ 227,670	$ 209,331	$ 202,394	$ 138,943	$ 123,172	$ 108,698	$ 390,907	$ 1,856,841

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

	December 31, 2013										
(in thousands of dollars)	Brazil	Mexico	Peru	Venezuela	Chile	Colombia	Costa Rica	Netherland	Panama	Others (1)	Total
Real estate loans											
Single-family residential	$ 193	$ 585	$ -	$ 111,738	$ -	$ 494	$ -	$ -	$ -	$ 3,039	$ 116,049
Commercial loans	141,192	199,606	119,288	26,364	65,154	36,360	25,000	71,000	31,752	48,819	764,535
Loans to depository institutions and acceptances	242,389	30,000	75,978	7,500	82,000	81,669	87,000	-	51,483	202,951	860,970
Consumer loans and overdrafts	2,143	63	9	34,138	150	193	8	-	132	2,338	39,174
	$ 385,917	$ 230,254	$ 195,275	$ 179,740	$ 147,304	$ 118,716	$ 112,008	$ 71,000	$ 83,367	$ 257,147	$ 1,780,728

(1) Includes loans to borrowers in 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 readily access funds in foreign currencies, including the US dollar, for the repayment of foreign obligations and the acquisition of goods and services abroad. The table above discloses the international loans by country of risk of the obligor, net of cash collateral and includes mortgage loans for Single-Family Residential properties located in the United States.

The age analysis of the loan portfolio by class, including nonaccrual loans, as of December 31, 2014 and 2013 are summarized in the following tables.

December 31, 2014

(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 Nonaccrual Status	Total Loans 90 Days or more Past Due and Accruing
Real estate loans								
Commercial								
Nonowner occupied	$ 741,196	$ 740,599	$ 381	$ 216	$ -	$ 597	$ 930	$ -
Owner-occupied	463,259	457,299	100	1,489	4,371	5,960	13,682	164
Multi-family residential	239,170	239,170	-	-	-	-	-	-
	1,443,625	1,437,068	481	1,705	4,371	6,557	14,612	164
Single-family residential	367,003	355,348	6,761	1,250	3,644	11,655	7,062	-
Land development and construction loans	210,312	206,149	-	-	4,163	4,163	4,161	-
	2,020,940	1,998,565	7,242	2,955	12,178	22,375	25,835	164
Commercial loans	2,412,708	2,411,281	1,045	41	341	1,427	15,026	-
Loans to depository institutions and acceptances	746,316	746,316	-	-	-	-	-	-
Consumer loans and overdrafts	118,366	116,707	1,390	50	219	1,659	23	221
	$ 5,298,330	$ 5,272,869	$ 9,677	$ 3,046	$ 12,738	$ 25,461	$ 40,884	$ 385

December 31, 2013

(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 Nonaccrual Status	Total Loans 90 Days or more Past Due and Accruing
Real estate loans								
Commercial								
Nonowner occupied	$ 591,847	$ 586,691	$ 1,449	$ -	$ 3,707	$ 5,156	$ 5,273	$ -
Owner-occupied	450,251	444,921	342	86	4,902	5,330	10,366	-
Multi-family residential	163,950	162,279	-	773	898	1,671	494	404
	1,206,048	1,193,891	1,791	859	9,507	12,157	16,133	404
Single-family residential	295,329	286,839	2,069	1,390	5,031	8,490	8,976	-
Land development and construction loans	114,520	109,057	1,204	96	4,163	5,463	4,924	-
	1,615,897	1,589,787	5,064	2,345	18,701	26,110	30,033	404
Commercial loans	2,264,148	2,260,747	1,412	1,578	411	3,401	5,073	-
Loans to depository institutions and acceptances	860,970	860,970	-	-	-	-	-	-
Consumer loans and overdrafts	69,595	68,944	407	53	191	651	16	191
	$ 4,810,610	$ 4,780,448	$ 6,883	$ 3,976	$ 19,303	$ 30,162	$ 35,122	$ 595

At December 31, 2014 and 2013, loans with an outstanding principal balance of $438.2 million and $391.1 million, respectively, were pledged as collateral to secure advances from the Federal Home Loan Bank.

5. Allowance for Loan Losses

An analysis by loan segment of the changes in the allowance for loan losses for the years ended December 31, 2014 and 2013, and its allocation by impairment methodology and the related investment in loans, net as of December 31, 2014 and 2013, are summarized in the following tables.

December 31, 2014

(in thousands of dollars)	Real Estate	Commercial	Depository Institutions	Consumer and Others	Total
Balances at beginning of year	$ 14,779	$ 31,754	$ 10,034	$ 3,901	$ 60,468
Provision for loan losses	2,469	5,726	(185)	(39)	7,971
Loans charged-off					
Domestic	(936)	(5,941)	-	(382)	(7,259)
International	-	-	-	(281)	(281)
Recoveries	1,279	2,810	-	397	4,486
Balances at end of year	$ 17,591	$ 34,349	$ 9,849	$ 3,596	$ 65,385

(in thousands of dollars)	Real Estate	Commercial	Depository Institutions	Consumer and Others	Total
Allowance for loan losses by impairment methodology -					
Individually evaluated	$ -	$ 2,834	$ -	$ -	$ 2,834
Collectively evaluated	17,591	31,515	9,849	3,596	62,551
	$ 17,591	$ 34,349	$ 9,849	$ 3,596	$ 65,385
Investment in loans, net of unearned income-					
Individually evaluated	$ 26,289	$ 30,606	$ -	$ 2,201	$ 59,096
Collectively evaluated	1,091,352	2,895,704	818,661	433,517	5,239,234
	$ 1,117,641	$ 2,926,310	$ 818,661	$ 435,718	$ 5,298,330

December 31, 2013

(in thousands of dollars)	Real Estate	Commercial	Depository Institutions	Consumer and Others	Total
Balances at beginning of year	$ 19,178	$ 33,939	$ 8,298	$ 5,874	$ 67,289
Provision for loan losses	(3,901)	4,118	1,736	(1,664)	289
Loans charged-off					
Domestic	(4,295)	(6,832)	-	(725)	(11,852)
International	-	-	-	(275)	(275)
Recoveries	3,797	529	-	691	5,017
Balances at end of year	$ 14,779	$ 31,754	$ 10,034	$ 3,901	$ 60,468

(in thousands of dollars)	Real Estate	Commercial	Depository Institutions	Consumer and Others	Total
Allowance for loan losses by impairment methodology -					
Individually evaluated	$ -	$ 20	$ -	$ -	$ 20
Collectively evaluated	14,779	31,734	10,034	3,901	60,448
	$ 14,779	$ 31,754	$ 10,034	$ 3,901	$ 60,468
Investment in loans, net of unearned income-					
Individually evaluated	$ 35,259	$ 16,727	$ -	$ 3,656	$ 55,642
Collectively evaluated	798,416	2,749,920	871,149	335,483	4,754,968
	$ 833,675	$ 2,766,647	$ 871,149	$ 339,139	$ 4,810,610

The following is a summary of the amount of loan sales by portfolio segment in the years ended December 31, 2014 and 2013:

(in thousands of dollars)	Real Estate	Commercial	Depository Institutions	Consumer and Others	Total
2014	$ 18,109	$ 24,619	$ -	$ -	$ 42,728
2013	$ 7,446	$ 30,300	$ -	$ 11,454	$ 49,200

There are no loans held for sale as of December 31, 2014 and 2013.

The following is a summary of impaired loans as of December 31, 2014 and 2013:

December 31, 2014

(in thousands of dollars)	Recorded Investment With a Valuation Allowance	Recorded Investment Without a Valuation Allowance	Recorded Investment Total	Recorded Investment Average (1)	Total Unpaid Principal Balance (2)	Valuation Allowance	Interest Income Recognized
Real estate loans							
Commercial							
Nonowner occupied	$ -	$ 20,179	$ 20,179	$ 24,029	$ 25,809	$ -	$ -
Owner-occupied	-	12,834	12,834	11,664	14,172	-	-
Multi-family residential	-	2,040	2,040	1,458	2,040	-	-
	-	35,053	35,053	37,151	42,021	-	-
Single-family residential	-	4,527	4,527	5,265	5,627	-	-
Land development and construction loans	-	4,163	4,163	4,327	9,933	-	-
	-	43,743	43,743	46,743	57,581	-	-
Commercial loans	9,932	5,688	15,620	14,488	19,836	2,834	-
Loans to depository institutions and acceptances	-	-	-	-	-	-	-
Consumer loans and overdrafts	-	-	-	-	-	-	-
	$ 9,932	$ 49,431	$ 59,363	$ 61,231	$ 77,417	$ 2,834	$ -

December 31, 2013

(in thousands of dollars)	Recorded Investment With a Valuation Allowance	Recorded Investment Without a Valuation Allowance	Recorded Investment Total	Recorded Investment Average (1)	Total Unpaid Principal Balance (2)	Valuation Allowance	Interest Income Recognized
Real estate loans							
Commercial							
Nonowner occupied	$ -	$ 30,105	$ 30,105	$ 37,288	$ 37,180	$ -	$ -
Owner-occupied	490	9,153	9,643	9,429	11,049	20	-
Multi-family residential	-	684	684	1,004	684	-	-
	490	39,942	40,432	47,721	48,913	20	-
Single-family residential	-	6,056	6,056	6,859	7,773	-	-
Land development and construction loans	-	4,828	4,828	15,010	10,986	-	-
	490	50,826	51,316	69,590	67,672	20	-
Commercial loans	-	4,769	4,769	5,287	8,985	-	-
Loans to depository institutions and acceptances	-	-	-	-	-	-	-
Consumer loans and overdrafts	-	-	-	-	-	-	-
	$ 490	$ 55,595	$ 56,085	$ 74,877	$ 76,657	$ 20	$ -

(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 recorded investment as of December 31, 2014 in loans considered troubled debt restructurings (“TDRs”) during the year totaled approximately $13.0 million ($1.0 million as of December 31, 2013 for TDRs completed in 2013). In 2014 and 2013, there were no TDRs completed since 2013 and 2012, respectively, which subsequently defaulted under the modified terms of the loan agreement. At December 31, 2014 and 2013 substantially all TDRs were Commercial and 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, 2014 and 2013, 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 nonimpaired 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) nonperforming 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**
Nonclassified	4 to 10
Classified	1 to 3
Substandard	3
Doubtful	2
Loss	1

Nonclassified

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 Bank 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, 2014 and 2013 are summarized in the following tables.

December 31, 2014

	Credit Risk Rating				
		Classified			
(in thousands of dollars)	**Nonclassified**	**Substandard**	**Doubtful**	**Loss**	**Total**
Real estate loans					
Commercial					
Nonowner occupied	$ 737,618	$ 3,578	$ -	$ -	$ 741,196
Owner-occupied	442,371	20,888	-	-	463,259
Multi-family residential	237,835	1,335	-	-	239,170
	1,417,824	25,801	-	-	1,443,625
Single-family residential	357,271	9,732	-	-	367,003
Land development and construction loans	204,831	5,481	-	-	210,312
	1,979,926	41,014	-	-	2,020,940
Commercial loans	2,397,485	4,369	10,854	-	2,412,708
Loans to depository institutions and acceptances	746,316	-	-	-	746,316
Consumer loans and overdrafts	118,343	23	-	-	118,366
	$ 5,242,070	$ 45,406	$ 10,854	$ -	$ 5,298,330

December 31, 2013

	Credit Risk Rating				
		Classified			
(in thousands of dollars)	**Nonclassified**	**Substandard**	**Doubtful**	**Loss**	**Total**
Real estate loans					
Commercial					
Nonowner occupied	$ 581,398	$ 10,449	$ -	$ -	$ 591,847
Owner-occupied	429,260	20,971	20	-	450,251
Multi-family residential	160,822	3,128	-	-	163,950
	1,171,480	34,548	20	-	1,206,048
Single-family residential	285,489	9,840	-	-	295,329
Land development and construction loans	108,396	6,124	-	-	114,520
	1,565,365	50,512	20	-	1,615,897
Commercial loans	2,257,201	6,947	-	-	2,264,148
Loans to depository institutions and acceptances	860,970	-	-	-	860,970
Consumer loans and overdrafts	69,581	14	-	-	69,595
	$ 4,753,117	$ 57,473	$ 20	$ -	$ 4,810,610

6. Premises and Equipment, Net

Premises and equipment, net includes the following:

(in thousands of dollars)	**2014**	**2013**	**Estimated Useful Lives (in Years)**
Land	$ 18,304	$ 5,202	-
Buildings and improvements	114,091	51,311	10–30
Equipment leased under an operating lease	19,626	19,318	15
Furniture and equipment	17,041	16,755	3–10
Computer equipment and software	25,187	25,255	3
Leasehold improvements	9,371	5,248	5–10
Work in progress	2,400	2,318	-
	206,020	125,407	
Less: Accumulated depreciation and amortization	(63,056)	(57,925)	
	$ 142,964	$ 67,482	

Depreciation and amortization expense was approximately $7 million for the years ended December 31, 2014 and 2013. In 2014 equipment with an original cost of approximately $2.0 million were written-off with a charge to their respective accumulated depreciation ($4.7 million in 2013).

7. Acquisition

On October 31, 2014, the Bank acquired real estate property and other assets and liabilities associated with that property in a transaction that qualified as the acquisition of a business in accordance with US GAAP. The total consideration of $75.2 million was paid in cash. The fair value of premises and equipment of $74.1 million and other intangible assets of $1.1 million approximated total consideration paid. Prior to this date, the Bank leased portions of the real estate property acquired. The main objective of this transaction, in addition to the estimated financial benefit, is to own the real estate property in order to ensure the Bank's long-term presence in the location and maximize brand recognition potential. Transaction-related costs of $1.2 million, primarily real estate brokerage fees and other costs, are included in noninterest expense in the Consolidated Statement of Operations.

8. Time Deposits

Time deposits in denominations of $100,000 or more amounted to approximately $714 million and $496 million at December 31, 2014 and 2013, respectively. The average interest rate paid on time deposits, which generally mature within one year, was approximately 0.57% in 2014 and 0.51% in 2013.

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, 2014 and 2013, securities sold under agreements to repurchase amounted to approximately $99 million and $124 million, respectively. In 2014, the highest month-end outstanding balance and monthly average outstanding balance were approximately $128 million and $124 million, respectively ($189 million and $187 million in 2013, respectively). The average interest rate paid in 2014 was 3.8% and 3.6% in 2013.

10. Advances From the Federal Home Loan Bank

At December 31, 2014 and 2013, the Bank had outstanding advances from the Federal Home Loan Bank of Atlanta ("FHLB") as follows:

Year of Maturity	Interest Rate	2014	2013
2014	0.17% to 1.39%	$ -	$ 130,000
2015	0.20% to 0.64%	395,000	10,000
2016	3.43% to 5.84%	11,250	11,250
2018	1.27% to 5.35%	65,000	106,000
2019	1.97% to 3.86%	70,000	50,000
2020	2.35 % to 2.74%	96,000	66,000
2021	2.31 % to 2.50%	45,000	-
		$ 682,250	$ 373,250

At December 31, 2014 and 2013, the Bank held stock of the FHLB for approximately $37 million and $25 million, respectively. The terms of the advance agreement require the Bank to maintain certain investment securities and loans as collateral for these advances. At December 31, 2014 and 2013, the Bank was in compliance with this requirement of the FHLB membership agreement.

11. Derivative Instruments

The Bank enters, from time to time, into derivative financial instruments as part of its interest rate management activities. Those instruments may or not be designated and qualify as part of a hedging relationship in accordance with US GAAP.

At December 31, 2014, the Bank has one interest rate swap contract with a total notional amount of $10 million that was designated, in accordance with US GAAP, as a cash flow hedge of floating rate interest payment on the currently outstanding and expected subsequent rollover of advances from the Federal Home Loan Bank of Atlanta in the amount of $10 million over 10 years. The interest rate swap involves the payment of fixed-rate amounts in exchange for variable-rate payments over the life of the agreements without exchange of the underlying notional amount. The Bank expects the hedge relationship to be highly effective in offsetting the effects of changes in interest rates in the cash flows associated with the advances from the Federal Home Loan Bank. No hedge ineffectiveness gains or losses were recognized in 2014. There were no derivative instruments outstanding as of December 31, 2013.

The fair value of the Bank's derivative instruments as of December 31, 2014 and their related effect on the Consolidated Statement of Operations and Comprehensive Income for the year ended December 31, 2014 were negligible.

12. Income Taxes

The components of the income tax expense for the years ended December 31, 2014 and 2013 are as follows:

(in thousands of dollars)	2014	2013
Current provision		
Federal	$ 13,883	$ 3,338
State	779	624
Deferred tax expense	1,090	15,056
	$ 15,752	$ 19,018

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

(in thousands of dollars)	2014	2013
Tax effect of temporary differences		
Provision for loan losses	$ 19,494	$ 16,899
Dividend income	3,878	6,757
Other real estate owned	1,731	2,614
Deferred compensation expense	1,551	1,245
Interest income on nonaccrual loans	1,512	1,481
Goodwill amortization	(3,955)	(3,499)
Depreciation and amortization	(5,011)	(4,680)
Net unrealized gains on securities available for sale	(1,859)	(397)
Other	2,667	2,140
	$ 20,008	$ 22,560

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. 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. 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, 2014, the Bank had no unrecognized tax benefits or associated interest or penalties that needed to be accrued for.

13. Other Comprehensive Income

The related tax effect allocated to each component of other comprehensive income for the years ended December 31, 2014 and 2013 is as follows:

	2014		
(in thousands of dollars)	Before-Tax Amount	Tax Effect	Net-of-Tax Amount
Net unrealized holding gain on securities available for sale arising during the year	$ 1,367	$ (485)	$ 882
Reclassification adjustment for net gains included in net income	2,754	(978)	1,776
Other comprehensive income	$ 4,121	$ (1,463)	$ 2,658

(in thousands of dollars)	**2013** Before-Tax Amount	Tax Effect	Net-of-Tax Amount
Net unrealized holding losses on securities available for sale arising during the year	$ (41,911)	$ 14,878	$ (27,033)
Reclassification adjustment for net gains included in net income	2,763	(981)	1,782
Other comprehensive loss	$ (39,148)	$ 13,897	$ (25,251)

14. Related Party Transactions

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

(in thousands of dollars)	**2014**	**2013**
Liabilities		
Demand deposits, noninterest bearing	$ 125,672	$ 17,367
Demand deposits, interest bearing	127,266	180,907
Money market	467	452
Time deposits and other liabilities	3,520	3,517
Total due to related parties	$ 256,925	$ 202,243

For the years ended December 31, 2014 and 2013, loan participations sold to related parties amounted to approximately $149 million and $211 million, respectively. There were no participations purchased from related parties in 2014 and in 2013. 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:

	2014	2013
Income		
Interest income on short-term advances	$ -	$ 26
Data processing and other services	2,768	2,634
Rental income from an operating lease	1,971	2,005
Service charges	217	289
	4,956	4,954
Expenses		
Interest expense	292	335
Fees	300	300
	592	635
Net income from related parties	$ 4,364	$ 4,319

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.

15. 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. Beginning January 1st, 2015, the Plan converts to a Safe Harbor Plan, which among other things enables Highly Compensated employees to contribute up to the maximum allowed without further restrictions.

During 2014 and 2013 the Bank contributed approximately $3 million and $2 million, respectively to the 401(k) benefit plan in matching contributions.

The Bank participates in a stock option plan for certain key officers, to acquire shares of MSF. MSF determines the fair value of options granted and amortizes that expense over the vesting period with a credit to Additional Paid-in-Capital. The Company records its proportionate share of compensations expense based on the amount of expense associated with the Company's employees. There are no outstanding stock option grants during 2014 or 2013, therefore no compensation expense was recorded for this plan during 2014 and 2013.

16. 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 2045. Actual rental payments expensed may include deferred rents but are recognized as rent expense on a straight-line basis. Rent expense under these leases was approximately $6 million for each of the years ended December 31, 2014 and 2013.

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

Years	Approximate Amount
2015	$ 5,418
2016	5,512
2017	4,628
2018	3,093
2019	2,784
Thereafter	39,888
	$ 61,323

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 commitments 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, 2014 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, 2014 are generally short-term and are as follows:

(in thousands of dollars)		**Approximate Contract Amount**
Commitments to extend credit	$	990,893
Credit card facilities		174,393
Standby letters of credit		21,502
Commercial letters of credit		28,719

17. Fair Value Measurement

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

	December 31, 2014			
(in thousands of dollars)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Third-Party Models With Observable Market Inputs (Level 2)**	**Internal Models With Unobservable Market Inputs (Level 3)**	**Total Carrying Value in the Consolidated Balance Sheet**
Assets				
Securities available for sale -				
U.S. government agency debt securities	$ -	$ 903,598	$ -	$ 903,598
Corporate debt securities	-	706,184	-	706,184
U.S. government sponsored enterprise debt securities	-	516,660	-	516,660
U.S. treasury securities	-	28,540	-	28,540
Foreign sovereign debt	-	14,154	-	14,154
Municipal bonds	-	6,064	-	6,064
Others	-	4,274	-	4,274
	-	2,179,474	-	2,179,474

	December 31, 2013			
(in thousands of dollars)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Third-Party Models With Observable Market Inputs (Level 2)**	**Internal Models With Unobservable Market Inputs (Level 3)**	**Total Carrying Value in the Consolidated Balance Sheet**
Assets				
Securities available for sale -				
U.S. government agency debt securities	$ -	$ 988,043	$ -	$ 988,043
U.S. government sponsored enterprise debt securities	-	536,903	-	536,903
Corporate debt securities	-	171,556	-	171,556
Foreign sovereign debt	-	28,219	-	28,219
U.S. treasury securities	-	3,017	-	3,017
Others	-	239	-	239
	$ -	$ 1,727,977	$ -	$ 1,727,977

Level 2 Valuation Techniques
The valuation of securities 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.

On a quarterly basis, the Bank evaluates the reasonableness of the monthly pricing process described for the valuation of the securities. 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.

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, 2014			
(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)]	$ -	$ -	$ -	$ -
Other real estate owned	-	-	3,024	2,026
	$ -	$ -	$ 3,024	$ 2,026

	December 31, 2013			
(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)]	$ -	$ -	$ 20	$ 20
Other real estate owned	-	-	12,650	1,720
	$ -	$ -	$ 12,670	$ 1,740

(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, 2014 and 2013, the Bank had no liabilities measured at fair value on a nonrecurring basis.

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 and other 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.

18. 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 values of securities, including securities sold under agreements to repurchase, 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 17.

- 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:

	2014		2013	
(in thousands of dollars)	**Carrying Value**	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Financial assets				
Loans	$ 2,593,236	$ 2,492,494	$ 1,792,416	$ 1,727,099
Financial liabilities				
Time deposits	652,124	651,984	657,707	659,291
Advances from the Federal Home Loan Bank	682,250	692,118	373,250	378,477
Securities sold under agreements to repurchase	70,000	77,114	100,000	111,426

19. 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 2014, the Bank was in compliance with these requirements.

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, 2014, management believes that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2014, 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:

(in thousands of dollars)	**Actual**		**Required for Capital Adequacy Purposes**		**To be Well Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2014						
Total capital ratio	$ 789,142	13.3 %	$ 476,589	8.0 %	$ 595,736	10.0 %
Tier I capital ratio	726,118	12.2 %	238,294	4.0 %	357,442	6.0 %
Tier I leverage ratio	726,118	9.3 %	313,207	4.0 %	391,509	5.0 %
December 31, 2013						
Total capital ratio	$ 763,582	16.2 %	$ 376,062	8.0 %	$ 470,078	10.0 %
Tier I capital ratio	705,048	15.0 %	188,031	4.0 %	282,047	6.0 %
Tier I leverage ratio	705,048	10.3 %	273,184	4.0 %	341,480	5.0 %