Mercantil Bank, N.A. and Subsidiaries

(Formerly known as Mercantil Commercebank, N.A.)

(A wholly owned subsidiary of Mercantil Florida Bancorp Inc., formerly known as Mercantil Commercebank Florida Bancorp Inc.)

Consolidated Financial Statements

December 31, 2016 and 2015

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

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

We have audited the accompanying consolidated financial statements of Mercantil Bank, N.A. and its subsidiaries (the “Bank”), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income and comprehensive income, of 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, 2016 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 for the consolidated Financial Statements and Internal Control over Financial Reporting

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; this includes the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in 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 in accordance with auditing standards generally accepted in the United States of America. 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 financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists. The procedures selected depend on our judgment, including assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and

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evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 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 accounting principles generally accepted in the United States of America, 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 assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mercantil Bank, N.A. and its subsidiaries as of December 31, 2016 and 2015, 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, 2016, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

PricewaterhouseCoopers LLP

February 17, 2017
Miami, Florida

Mercantil Bank, N.A. and Subsidiaries
(A wholly owned subsidiary of Mercantil Florida Bancorp Inc.)
Consolidated Balance Sheets
December 31, 2016 and 2015

(in thousands of dollars, except per share data)	**2016**	**2015**
Assets		
Cash and due from banks	$ 32,956	$ 44,176
Interest earning deposits with banks	102,033	94,106
Cash and cash equivalents	134,989	138,282
Securities		
Available for sale	2,123,247	2,055,621
Federal Reserve Bank and Federal Home Loan Bank stock	59,490	50,394
Loans held for sale	-	9,732
Loans, gross	5,764,761	5,623,222
Less: Allowance for loan losses	81,751	77,043
Loans, net	5,683,010	5,546,179
Bank owned life insurance	164,860	100,438
Premises and equipment, net	148,712	150,196
Deferred tax asset, net	30,730	28,431
Goodwill	19,193	19,193
Accrued interest receivable and other assets	59,431	54,107
	$ 8,423,662	$ 8,152,573
Liabilities and Stockholder's Equity		
Deposits		
Demand		
Noninterest bearing	$ 1,106,834	$ 1,189,820
Interest bearing	1,777,889	2,004,276
Savings and money market	1,897,136	1,978,021
Time	1,837,259	1,391,048
Total deposits	6,619,118	6,563,165
Advances from the Federal Home Loan Bank and other borrowings	931,000	722,250
Securities sold under agreements to repurchase	50,000	73,488
Accounts payable, accrued liabilities and other liabilities	51,931	45,836
	7,652,049	7,404,739
Commitments and contingencies (Notes 1 and 15)		
Stockholder's equity		
Common stock, $70 par value, 2,000,000 shares authorized, 1,699,449 shares issued and outstanding in 2016 and 2015	118,961	118,961
Additional paid in capital	308,333	308,333
Retained earnings	355,014	329,990
Accumulated other comprehensive loss	(10,695)	(9,450)
	771,613	747,834
	$ 8,423,662	$ 8,152,573

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

Mercantil Bank, N.A. and Subsidiaries
(A wholly owned subsidiary of Mercantil Florida Bancorp Inc.)
Consolidated Statements of Operations and Comprehensive Income
Years Ended December 31, 2016 and 2015

(in thousands of dollars)	2016	2015
Interest income		
Loans	$ 188,526	$ 160,892
Investment securities	49,495	46,898
Interest earning deposits with banks and other	806	408
Total interest income	238,827	208,198
Interest expense		
Interest bearing demand deposits	688	1,251
Savings and money market deposits	8,306	7,426
Time deposits	16,576	8,016
Advances from the Federal Home Loan Bank	10,971	8,787
Securities sold under agreements to repurchase	3,259	3,630
Total interest expense	39,800	29,110
Net interest income	199,027	179,088
Provision for loan losses	20,272	11,220
Net interest income after provision for loan losses	178,755	167,868
Noninterest income		
Deposits and service fees	20,928	21,147
Brokerage, advisory and fiduciary activities	20,282	19,047
Change in cash surrender value of bank owned life insurance	4,422	438
Cards and trade finance servicing fees	4,251	5,175
Data processing, rental income and fees for other services to related parties	4,682	4,619
Securities gains, net	1,019	1,062
Other noninterest income	6,701	3,295
Total noninterest income	62,285	54,783
Noninterest expense		
Salaries and employee benefits	129,331	121,880
Occupancy and equipment	18,368	16,450
Professional and other services fees	10,771	15,694
FDIC assessments and insurance	7,131	7,579
Telecommunication and data processing	8,372	7,475
Depreciation and amortization	9,130	8,372
Other operating expenses	13,490	13,072
Total noninterest expense	196,593	190,522
Net income before income tax expense	44,447	32,129
Income tax expense	(13,423)	(11,506)
Net income	31,024	20,623
Other comprehensive loss, net of tax		
Net unrealized holding losses on securities available for sale arising during the year	(3,839)	(11,456)
Net unrealized holding gains (losses) on cash flow hedges arising during the year	3,598	(114)
Reclassification adjustment for net gains included in net income	(1,004)	(1,258)
Other comprehensive loss	(1,245)	(12,828)
Comprehensive income	$ 29,779	$ 7,795

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

Mercantil Bank, N.A. and Subsidiaries
(A wholly owned subsidiary of Mercantil Florida Bancorp Inc.)
Consolidated Statements of Changes in Stockholder's Equity
Years Ended December 31, 2016 and 2015

(in thousands of dollars, except per share data)	Common Stock Shares Issued and Outstanding	Common Stock Par Value	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholder's Equity
Balances at December 31, 2014	1,699,449	$ 118,961	$ 308,333	$ 315,367	$ 3,378	$ 746,039
Net income	-	-	-	20,623	-	20,623
Dividends paid	-	-	-	(6,000)	-	(6,000)
Other comprehensive loss	-	-	-		(12,828)	(12,828)
Balances at December 31, 2015	1,699,449	118,961	308,333	329,990	(9,450)	747,834
Net income	-	-	-	31,024	-	31,024
Dividends paid	-	-	-	(6,000)	-	(6,000)
Other comprehensive loss	-	-	-	-	(1,245)	(1,245)
Balances at December 31, 2016	1,699,449	$ 118,961	$ 308,333	$ 355,014	$ (10,695)	$ 771,613

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

Mercantil Bank, N.A. and Subsidiaries
(A wholly owned subsidiary of Mercantil Florida Bancorp Inc.)
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

(in thousands of dollars)	**2016**	**2015**
Cash flows from operating activities		
Net income	$ 31,024	$ 20,623
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	20,272	11,220
Net premium amortization on securities	27,264	36,702
Depreciation and amortization	9,130	8,372
Increase in cash surrender value of bank owned life insurance	(4,422)	(438)
Deferred taxes, securities gains and others	(4,705)	(2,315)
Net changes in operating assets and liabilities		
Loans held-for-sale	(4,730)	(2,788)
Accrued interest receivable and other assets	(4,543)	(3,103)
Accounts payable, accrued liabilities and other liabilities	11,877	1,124
Net cash provided by operating activities	81,167	69,397
Cash flows from investing activities		
Purchases of investment securities		
Available for sale	(1,084,029)	(633,527)
Federal Reserve Bank and Federal Home Loan Bank stock	(53,350)	(59,143)
Maturities, sales and calls of investment securities		
Available for sale	986,041	707,557
Federal Reserve Bank and Federal Home Loan Bank stock	44,253	58,749
Net increase in loans	(259,931)	(420,742)
Proceeds from loan sales	111,876	84,107
Purchase of bank owned life insurance	(60,000)	(100,000)
Net purchases of premises and equipment	(8,535)	(15,028)
Net proceeds from sales of premises and equipment and others	3,284	5,137
Net cash used in investing activities	(320,391)	(372,890)
Cash flows from financing activities		
Net decrease in demand, savings and money market accounts	(390,256)	(277,967)
Net increase in time deposits	446,211	522,798
Net decrease in securities sold under agreements to repurchase	(23,488)	(25,887)
Proceeds from Advances from the Federal Home Loan Bank and other banks	2,239,000	1,781,800
Repayments of Advances from the Federal Home Loan Bank and other banks	(2,029,536)	(1,741,800)
Dividends paid	(6,000)	(6,000)
Net cash provided by financing activities	235,931	252,944
Net decrease in cash and cash equivalents	(3,293)	(50,549)
Cash and cash equivalents		
Beginning of year	138,282	188,831
End of year	$ 134,989	$ 138,282
Supplemental disclosures of cash flow information		
Cash paid -		
Interest	$ 39,052	$ 28,243
Income taxes	9,264	10,137
Noncash investing activity -		
Loans transferred to other real estate owned	$ 670	$ 2,475
Loans held-for-sale exchanged for securities	4,659	2,762

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

1. Organization and Summary of Significant Accounting Policies

Mercantil Bank, N.A. (formerly known as Mercantil Commercebank, N.A.) and its subsidiaries (collectively referred to as “the Bank”) have been serving the communities in which they operate for over 35 years. Effective January 1, 2017, the Bank changed its legal name to Mercantil Bank, N.A. The Bank is headquartered in the City of Coral Gables, Florida and has 21 Banking Centers, 14 located in South Florida, seven in the City of Houston, Texas and a loan production office in New York City, New York. 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 Investment Services, Inc. (formerly known as Mercantil Commercebank Investment Services, Inc.) and Mercantil Trust Company, N.A. (formerly known as Mercantil Commercebank Trust Company, N.A.).

The Bank is a wholly owned subsidiary of Mercantil Florida Bancorp Inc. (the Parent Company), a Florida Corporation incorporated in 2008. The Parent Company is beneficially owned by Mercantil Bank 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, Texas and New York, 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 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 17, 2017, 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 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.

Brokerage and advisory activities include brokerage commissions and advisory fees. Brokerage commissions earned are related to the dollar amount of trading volume of customers' transactions. Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur. Advisory fees are derived from investment advisory fees and account administrative services. Investment advisory fees are recorded as earned on a pro rata basis over the term of the contracts, based on a percentage of the average value of assets managed during the period. These fees are assessed and collected quarterly. Account administrative fees are charged to customers for the maintenance of their accounts and are earned and collected on a quarterly basis. Fiduciary activities fee income is recognized as earned on a pro rate basis over the term of contracts.

Cards servicing fees include credit card issuance and interchange fees. Credit card issuance fees are generally recognized in the period over which the cardholders are entitled to use the cards. Interchange fees are recognized when earned. Trade finance servicing fees are generally recognized over the service period on a straight line basis.

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.

The Bank must comply with Federal Reserve Bank regulations requiring the maintenance of a minimum reserve balance against its net transaction accounts. At December 31, 2016 and 2015, these reserve balances amounted to approximately $4.2 million and $6.7 million, respectively.

Securities
The Bank classifies its investments in securities 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 the 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 other-than-temporary impairments 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 Held for Sale
Loans are transferred into the held for sale classification at the lower of carrying amount or fair value when they are specifically identified for sale and a formal plan exists to sell them.

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 loan 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 amounted to a net cost of $5.3 million and $4.1 million at December 31, 2016 and 2015, 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 interest 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 principal 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 loan 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 balance sheets.

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

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

Loans to depository institutions are facilities granted to fund certain allowed transactions classified according to their risk level, and primarily include trade financing facilities through letters of credits, bankers' acceptances, pre and post-export financing, among others. Loans in this portfolio segment are generally granted for terms not exceeding three years and on an unsecured basis under the limits of an existing credit program, primarily to financial institutions domiciled in Latin American countries. These loans are approved on an unsecured basis only when the result of the credit risk analyses indicate that the minimum financial and 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 loan 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.

Bank Owned Life Insurance
Bank owned life insurance policies are recorded at the cash surrender value of the insurance contracts, which represent the amount that may be realized under the contracts, at the consolidated balance sheet dates. Changes to the cash surrender value are recorded as other noninterest income in the consolidated statements of operations.

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.

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, 2016 and 2015, 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. At December 31, 2016 and 2015, broker dealer receivables amounted to $5.6 million and $4.3 million, respectively. There were no broker dealer payables as of December 31, 2016 and 2015.

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 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

Statement of Cash Flows Classification of Certain Receipts and Payments

In August 2016 , the Financial Accounting Standards Board (FASB) issued specific guidance for the classification of a number of cash receipts and payments, including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, proceeds from the settlement of insurance claims and proceeds from the settlement of bank-owned life insurance policies. The new guidance is effective for years beginning after December 15, 2018. Early adoption is permitted. The Bank is in the process of understanding whether this new guidance will have an impact on its consolidated statement of cash flows when adopted.

Accounting for Credit Losses on Financial Instruments
In June 2016, the FASB issued new guidance for the accounting for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The standard is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted for fiscal years beginning after December 15, 2018. The Bank is in the process of determining whether these changes will have a material impact on its consolidated financial position or results of operations or disclosures.

Accounting for Leases
In February 2016, the FASB issued guidance for the recognition and measurement of all leases. The new guidance requires lessees to recognize a right-of-use asset and a lease liability for most leases within the scope of the guidance. There were no significant changes to the guidance for lessors. The standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition at the beginning of the earliest comparative period presented, and provides for certain practical expedients. The Bank is in the process of determining whether this new guidance will have a material impact on its consolidated financial position, results of operations and disclosures, when adopted.

Recognition and Measurement of Financial Instruments
In January 2016, the FASB issued changes to the guidance on the recognition and measurement of financial instruments. The changes include, among others, the removal of the available-for-sale category for equity securities and updates to certain disclosures requirements. This standard is effective for annual reporting periods beginning after December 15, 2018, with limited early adoption permitted. The Bank is in the process of determining whether these changes will have a material impact on its consolidated financial position or results of operations or disclosures.

Revenue from Contracts with Customers
In May 2014, the FASB issued 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 was initially set to become effective for annual periods beginning after December 15, 2017 for nonpublic entities with earlier application permitted on a limited basis. In August 2015, the FASB amended the guidance. The new effective date is annual reporting periods beginning after December 15, 2018. Earlier application continues to be permitted. The Bank is in the process of determining whether the new guidance will have a material impact on its consolidated financial position or results of operations.

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 became effective in 2016 and had no impact to 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. The standard became effective in 2016 and had no impact to 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 U.S. GAAP. The standard became effective in 2016 and had no impact to 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 became effective in 2016 and had no impact to the Bank's consolidated financial statements.

Reclassifications
Certain reclassifications have been made to the December 31, 2015 consolidated financial statements to conform to current year presentation.

2. Interest Earning Deposits with Banks

At December 31, 2016 and 2015, interest earning deposits with banks are comprised of deposits with the Federal Reserve Bank in the amount of approximately $102 million and $94 million, respectively. At December 31, 2016 and 2015, the average interest rate on these deposits was approximately 0.51% and 0.26%, respectively. These deposits mature within one year.

3. Securities

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

	December 31, 2016			
	Amortized	Gross Unrealized		Estimated
(in thousands of dollars)	Cost	Gains	Losses	Fair Value
U.S. government sponsored enterprise debt securities	$ 1,017,957	$ 4,497	$ (17,991)	$ 1,004,463
U.S. government agency debt securities	553,257	2,519	(6,692)	549,084
Corporate debt securities	370,042	2,468	(1,256)	371,254
Municipal bonds	171,693	167	(4,971)	166,889
Mutual funds	24,260	-	(645)	23,615
Foreign sovereign debt	5,228	9	-	5,237
U.S. treasury securities	2,701	9	(5)	2,705
	$ 2,145,138	$ 9,669	$ (31,560)	$ 2,123,247

	December 31, 2015			
	Amortized	Gross Unrealized		Estimated
(in thousands of dollars)	Cost	Gains	Losses	Fair Value
U.S. government agency debt securities	$ 754,172	$ 5,619	$ (7,304)	$ 752,487
Corporate debt securities	657,941	1,064	(11,815)	647,190
U.S. government sponsored				-
enterprise debt securities	519,009	4,953	(4,554)	519,408
Municipal bonds	92,510	1,343	(20)	93,833
Foreign sovereign debt	19,188	4	(3,459)	15,733
Mutual funds	14,259	-	(54)	14,205
U.S. treasury securities	12,924	13	(172)	12,765
	$ 2,070,003	$ 12,996	$ (27,378)	$ 2,055,621

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, 2016					
	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 sponsored enterprise debt securities	$ 735,759	$ (16,212)	$ 57,914	$ (1,779)	$ 793,673	$ (17,991)
U.S. government agency debt securities	183,299	(1,659)	263,526	(5,033)	446,825	(6,692)
Municipal bonds	140,864	(4,971)	-	-	140,864	(4,971)
Corporate debt securities	116,073	(1,255)	1,111	(1)	117,184	(1,256)
Mutual funds	23,375	(645)	-	-	23,375	(645)
U.S. treasury securities	2,195	(5)	-	-	2,195	(5)
	$ 1,201,565	$ (24,747)	$ 322,551	$ (6,813)	$ 1,524,116	$ (31,560)

	December 31, 2015					
	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
Corporate debt securities	$ 400,044	$ (10,027)	$ 104,355	$ (1,788)	$ 504,399	$ (11,815)
U.S. government agency debt securities	308,810	(3,300)	204,482	(4,004)	513,292	(7,304)
U.S. government sponsored enterprise debt securities	236,592	(2,693)	58,178	(1,861)	294,770	(4,554)
Foreign sovereign debt	5,025	(249)	9,685	(3,210)	14,710	(3,459)
Mutual Funds	13,966	(54)	-	-	13,966	(54)
U.S. treasury securities	9,750	(172)	-	-	9,750	(172)
Municipal bonds	10,155	(20)	-	-	10,155	(20)
	$ 984,342	$ (16,515)	$ 376,700	$ (10,863)	$ 1,361,042	$ (27,378)

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, 2016	
(in thousands of dollars)	Amortized Cost	Estimated Fair Value
Within 1 year	$ 26,505	$ 26,533
After 1 year through 5 years	333,262	334,442
After 5 years through 10 years	323,448	320,093
After 10 years	1,437,663	1,418,564
No contractual maturities	24,260	23,615
	$ 2,145,138	$ 2,123,247

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 2016 and 2015 were approximately $584 million and $295 million, respectively, with net realized gains of approximately $1 million in 2016 and 2015.

At December 31, 2016 and 2015, securities available for sale with a fair value of approximately $371 million and $593 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)	**2016**	**2015**
Real estate loans		
Commercial		
Nonowner occupied	$ 1,445,243	$ 1,105,884
Owner-occupied	463,040	483,040
Multi-family residential	669,659	457,934
	2,577,942	2,046,858
Single-family residential	476,840	429,308
Land development and construction loans	429,085	332,493
	3,483,867	2,808,659
Commercial loans	1,742,192	1,982,644
Loans to depository institutions and acceptances	416,293	704,850
Consumer loans and overdrafts	122,409	127,069
	$ 5,764,761	$ 5,623,222

The amounts in the table above include loans under syndication facilities for approximately $996 million and $1,064 million at December 31, 2016 and 2015, 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, Texas and New York regional markets. 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 loans fully collateralized with cash of approximately $61 million and $46 million at December 31, 2016 and 2015, respectively.

	December 31, 2016				
(in thousands of dollars)	**Brazil**	**Venezuela**	**Colombia**	**Others (1)**	**Total**
Real estate loans					
Single-family residential	$ 233	$ 147,041	$ 1,947	$ 5,620	$ 154,841
Commercial loans	79,738	468	19,704	138,375	238,285
Loans to depository institutions and acceptances	151,493	-	84,667	170,803	406,963
Consumer loans and overdrafts	2,757	36,639	1,070	7,385	47,851
	$ 234,221	$ 184,148	$ 107,388	$ 322,183	$ 847,940

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

(in thousands of dollars)	December 31, 2015 Brazil	Venezuela	Mexico	Colombia	Peru	Panama	Costa Rica	Others (2)	Total
Real estate loans									
Single-family residential	$ 240	$ 138,373	$ 431	$ 1,544	$ -	$ -	$ -	$ 3,528	$ 144,116
Commercial loans	173,544	3,045	141,034	44,975	41,604	52,040	-	13,411	469,653
Loans to depository institutions and acceptances	209,669	-	-	88,599	73,466	47,593	85,000	184,218	688,545
Consumer loans and overdrafts	4,244	44,456	125	1,171	41	259	35	7,573	57,904
	$ 387,697	$ 185,874	$ 141,590	$ 136,289	$ 115,111	$ 99,892	$ 85,035	$ 208,730	$ 1,360,218

(2) 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 U.S. 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, 2016 and 2015 are summarized in the following tables.

	December 31, 2016		Past Due					
(in thousands of dollars)	Total Loans, Net of Unearned Income	Current	30-59 Days	60-89 Days	Greater Than 90 Days	Total Past Due	Total Loans in Nonaccrual Status	Total Loans 90 Days or More Past Due and Accruing
Real estate loans								
Commercial								
Nonowner occupied	$ 1,445,243	$ 1,444,591	$ 346	$ -	$ 305	$ 651	$ 1,169	$ -
Owner-occupied	463,040	449,582	2,819	1,713	8,926	13,458	17,090	-
Multi-family residential	669,659	660,394	-	-	9,265	9,265	9,265	-
	2,577,942	2,554,567	3,165	1,713	18,496	23,374	27,524	-
Single-family residential	476,840	464,051	4,675	1,433	6,681	12,789	8,893	116
Land development and construction loans	429,085	426,366	-	-	2,719	2,719	2,719	-
	3,483,867	3,444,984	7,840	3,146	27,896	38,882	39,136	116
Commercial loans	1,742,192	1,718,789	4,141	-	19,262	23,403	31,236	-
Loans to depository institutions and acceptances	416,293	416,293	-	-	-	-	-	-
Consumer loans and overdrafts	122,409	120,489	1,098	443	380	1,921	74	370
	$ 5,764,761	$ 5,700,555	$ 13,079	$ 3,589	$ 47,538	$ 64,206	$ 70,446	$ 486

(in thousands of dollars)	December 31, 2015							
			Past Due					
	Total Loans, Net of Unearned Income	Current	30-59 Days	60-89 Days	Greater Than 90 Days	Total Past Due	Total Loans in Nonaccrual Status	Total Loans 90 Days or More Past Due and Accruing
Real estate loans								
Commercial								
Nonowner occupied	$ 1,105,884	$ 1,102,047	$ 2,717	$ -	$ 1,120	$ 3,837	$ 1,813	$ -
Owner-occupied	483,040	474,067	269	3,047	5,657	8,973	19,508	-
Multi-family residential	457,934	457,920	14	-	-	14	-	-
	2,046,858	2,034,034	3,000	3,047	6,777	12,824	21,321	-
Single-family residential	429,308	421,152	2,808	1,788	3,560	8,156	7,911	-
Land development and construction loans	332,493	328,330	-	-	4,163	4,163	4,161	-
	2,808,659	2,783,516	5,808	4,835	14,500	25,143	33,393	-
Commercial loans	1,982,644	1,980,919	1,248	238	239	1,725	43,075	-
Loans to depository institutions and acceptances	704,850	704,850	-	-	-	-	-	-
Consumer loans and overdrafts	127,069	125,261	745	215	848	1,808	118	809
	$ 5,623,222	$ 5,594,546	$ 7,801	$ 5,288	$ 15,587	$ 28,676	$ 76,586	$ 809

At December 31, 2016 and 2015, loans with an outstanding principal balance of $1,040.4 million and $480.7 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, 2016 and 2015, and its allocation by impairment methodology and the related investment in loans, net as of December 31, 2016 and 2015, are summarized in the following tables.

(in thousands of dollars)	December 31, 2016				
	Real Estate	Commercial	Depository Institutions	Consumer and Others	Total
Balances at beginning of year	$ 19,253	$ 43,812	$ 9,226	$ 4,752	$ 77,043
Provision for loan losses	7,990	14,895	(3,922)	1,309	20,272
Loans charged-off					
Domestic	(94)	(1,496)	-	(224)	(1,814)
International	-	(17,772)	-	(1,186)	(18,958)
Recoveries	3,906	1,116	-	186	5,208
Balances at end of year	$ 31,055	$ 40,555	$ 5,304	$ 4,837	$ 81,751

(in thousands of dollars)	Real Estate	Commercial	Depository Institutions	Consumer and Others	Total
Allowance for loan losses by impairment methodology					
Individually evaluated	$ -	$ 6,596	$ -	$ -	$ 6,596
Collectively evaluated	31,055	33,959	5,304	4,837	75,155
	$ 31,055	$ 40,555	$ 5,304	$ 4,837	$ 81,751
Investment in loans, net of unearned income					
Individually evaluated	$ 13,888	$ 51,236	$ -	$ 4,205	$ 69,329
Collectively evaluated	2,391,363	2,371,350	416,336	516,383	5,695,432
	$ 2,405,251	$ 2,422,586	$ 416,336	$ 520,588	$ 5,764,761

	December 31, 2015				
(in thousands of dollars)	Real Estate	Commercial	Depository Institutions	Consumer and Others	Total
Balances at beginning of year	$ 17,591	$ 34,349	$ 9,849	$ 3,596	$ 65,385
Provision for loan losses	1,059	9,352	(623)	1,432	11,220
Loans charged-off					
Domestic	(197)	(1,612)	-	(162)	(1,971)
International	-	(73)	-	(300)	(373)
Recoveries	800	1,796	-	186	2,782
Balances at end of year	$ 19,253	$ 43,812	$ 9,226	$ 4,752	$ 77,043

(in thousands of dollars)	Real Estate	Commercial	Depository Institutions	Consumer and Others	Total
Allowance for loan losses by impairment methodology					
Individually evaluated	$ -	$ 9,094	$ -	$ -	$ 9,094
Collectively evaluated	19,253	34,718	9,226	4,752	67,949
	$ 19,253	$ 43,812	$ 9,226	$ 4,752	$ 77,043
Investment in loans, net of unearned income					
Individually evaluated	$ 22,404	$ 61,254	$ -	$ 3,361	$ 87,019
Collectively evaluated	1,797,383	2,514,798	742,622	481,400	5,536,203
	$ 1,819,787	$ 2,576,052	$ 742,622	$ 484,761	$ 5,623,222

The following is a summary of the amount of loan sales by portfolio segment in the years ended December 31, 2016 and 2015:

(in thousands of dollars)	Real Estate	Commercial	Depository Institutions	Consumer and Others	Total
2016	$ 9,151	$ 79,309	$ 23,500	$ -	$ 111,960
2015	$ 7,893	$ 45,714	$ 30,500	$ -	$ 84,107

The following is a summary of impaired loans as of December 31, 2016 and 2015:

	December 31, 2016						
	Recorded Investment						
(in thousands of dollars)	With a Valuation Allowance	Without a Valuation Allowance	Total	Average (1)	Total Unpaid Principal Balance (2)	Valuation Allowance	Interest Income Recognized
Real estate loans							
Commercial							
Nonowner occupied	$ -	$ 885	$ 885	$ 4,105	$ 1,600	$ -	$ 314
Owner-occupied	-	16,529	16,529	15,466	17,916	-	201
Multi-family residential	-	10,758	10,758	6,107	10,771	-	64
	-	28,172	28,172	25,678	30,287	-	579
Single-family residential	-	6,852	6,852	5,391	8,146	-	186
Land development and construction loans	-	2,719	2,719	8,454	2,719	-	450
	-	37,743	37,743	39,523	41,152	-	1,215
Commercial loans	21,536	10,050	31,586	23,165	31,600	6,596	1,984
Loans to depository institutions and acceptances	-	-	-	-	-	-	-
Consumer loans and overdrafts	-	-	-	5	-	-	-
	$ 21,536	$ 47,793	$ 69,329	$ 62,693	$ 72,752	$ 6,596	$ 3,199

	December 31, 2015						
	Recorded Investment						
(in thousands of dollars)	With a Valuation Allowance	Without a Valuation Allowance	Total	Average (1)	Total Unpaid Principal Balance (2)	Valuation Allowance	Interest Income Recognized
Real estate loans							
Commercial							
Nonowner occupied	$ -	$ 16,756	$ 16,756	$ 18,243	$ 22,466	$ -	$ 847
Owner-occupied	-	16,042	16,042	11,693	16,942	-	17
Multi-family residential	-	1,486	1,486	4,018	1,488	-	86
	-	34,284	34,284	33,954	40,896	-	950
Single-family residential	-	5,582	5,582	5,429	6,714	-	166
Land development and construction loans	-	4,161	4,161	4,161	9,933	-	132
	-	44,027	44,027	43,544	57,543	-	1,248
Commercial loans	32,926	10,066	42,992	36,083	47,662	9,094	75
Loans to depository institutions and acceptances	-	-	-	-	-	-	-
Consumer loans and overdrafts	-	-	-	-	-	-	-
	$ 32,926	$ 54,093	$ 87,019	$ 79,627	$ 105,205	$ 9,094	$ 1,323

(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.

As of December 31, 2016, the recorded investment in loans considered troubled debt restructurings ("TDRs") during the year totaled approximately $12.0 million ($6.3 million as of December 31, 2015 for TDRs completed in 2015). In 2016, there were $2.9 million in TDRs completed since 2015, which subsequently defaulted under the modified terms of the loan agreement. At December 31, 2016 and 2015, 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, 2016 and 2015, the Bank considers the allowance for loan losses to be sufficient to absorb losses in the loans portfolio in accordance with U.S. 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) classified loans may be considered nonimpaired because collection of all amounts due is probable.

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, 2016 and 2015 are summarized in the following tables.

	December 31, 2016				
	Credit Risk Rating				
		Classified			
(in thousands of dollars)	Nonclassified	Substandard	Doubtful	Loss	Total
Real estate loans					
Commercial					
Nonowner occupied	$ 1,441,148	$ 4,095	$ -	$ -	$ 1,445,243
Owner-occupied	442,071	20,969	-	-	463,040
Multi-family residential	660,253	9,406	-	-	669,659
	2,543,472	34,470	-	-	2,577,942
Single-family residential	467,831	9,009	-	-	476,840
Land development and construction loans	426,366	2,719	-	-	429,085
	3,437,669	46,198	-	-	3,483,867
Commercial loans	1,710,394	31,798	-	-	1,742,192
Loans to depository institutions and acceptances	416,293	-	-	-	416,293
Consumer loans and overdrafts	117,189	5,220	-	-	122,409
	$ 5,681,545	$ 83,216	$ -	$ -	$ 5,764,761

In 2016, the Office of the Controller of the Currency (OCC) required all banks in the U.S. to classify as "substandard" certain loans to Venezuelan borrowers. The Bank complied with this requirement, and determined that there was no impact to the allowance for losses as of December 31, 2016.

	December 31, 2015				
	Credit Risk Rating				
		Classified			
(in thousands of dollars)	Nonclassified	Substandard	Doubtful	Loss	Total
Real estate loans					
Commercial					
Nonowner occupied	$ 1,101,508	$ 4,376	$ -	$ -	$ 1,105,884
Owner-occupied	455,747	27,293	-	-	483,040
Multi-family residential	457,789	145	-	-	457,934
	2,015,044	31,814	-	-	2,046,858
Single-family residential	421,306	8,002	-	-	429,308
Land development and construction loans	328,332	4,161	-	-	332,493
	2,764,682	43,977	-	-	2,808,659
Commercial loans	1,936,773	45,871	-	-	1,982,644
Loans to depository institutions and acceptances	704,850	-	-	-	704,850
Consumer loans and overdrafts	126,932	137	-	-	127,069
	$ 5,533,237	$ 89,985	$ -	$ -	$ 5,623,222

6. Premises and Equipment, Net

Premises and equipment, net includes the following:

(in thousands of dollars)	2016	2015	Estimated Useful Lives (in Years)
Land	$ 19,325	$ 19,729	-
Buildings and improvements	115,053	114,156	10–30
Equipment leased under an operating lease	19,626	19,626	15
Furniture and equipment	19,903	18,357	3–10
Computer equipment and software	27,968	26,873	3
Leasehold improvements	18,732	13,232	5–10
Work in progress	4,474	8,864	-
	225,081	220,837	
Less: Accumulated depreciation and amortization	(76,369)	(70,641)	
	$ 148,712	$ 150,196	

In 2016, the Bank sold properties with a carrying value of approximately $1.0 million and realized a gain on sale of approximately $1.7 million.

Depreciation and amortization expense was approximately $9.1 million and $8.4 million at December 31, 2016 and 2015, respectively. In 2016 fully-depreciated equipment with an original cost of approximately $1.9 million were written-off with a charge to their respective accumulated depreciation ($574 thousand in 2015).

7. Time Deposits

Time deposits in denominations of $100,000 or more amounted to approximately $922 million and $680 million at December 31, 2016 and 2015, respectively. The average interest rate paid on time deposits, which generally mature within one year, was approximately 1.01% in 2016 and 0.74% in 2015.

Time deposits include brokered time deposits, all in denominations of less than $100,000. As of December 31, 2016 and 2015, these time deposits amounted to approximately $691 million and $536 million, respectively.

8. 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, 2016 and 2015, securities sold under agreements to repurchase amounted to approximately $50 million and $73 million, respectively. In 2016, the highest month-end outstanding balance and monthly average outstanding balance were approximately $73 million and $70 million, respectively ($102 million and $103 million in 2015, respectively). The average interest rate paid in 2016 was 4.5% and 3.5% in 2015.

9. Advances From the Federal Home Loan Bank and Other Borrowings

At December 31, 2016 and 2015, the Bank had outstanding advances from the Federal Home Loan Bank of Atlanta ("FHLB") and other borrowings as follows:

(in thousands of dollars)	**Interest Rate**	**2016**	**2015**
Year of Maturity			
2016	0.25% to 5.91%	$ -	$ 396,250
2017	0.37% to 1.08%	455,000	25,000
2018	1.26% to 2.03%	65,000	65,000
2019	1.00% to 3.86%	130,000	70,000
2020	1.50 % to 2.74%	181,000	121,000
2021	2.16 % to 2.50%	100,000	45,000
		$ 931,000	$ 722,250

At December 31, 2016, advances from the FHLB include $225 million ($75 million in 2015) which have variable interest rates ranging from 0.75% to 1.08% with maturities in 2017 (0.34% to 0.62% and maturities from one to two years, in 2015).

At December 31, 2016 and 2015, the Bank held stock of the FHLB for approximately $46 million and $37 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, 2016 and 2015, the Bank was in compliance with this requirement of the FHLB membership agreement.

Other borrowings as of December 31, 2016 and 2015 include $10 million of advances from other banks, which matured in January 2017 and 2016, respectively.

10. 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.

During 2016 and 2015, the Bank entered into interest rate swaps to manage exposure that arise from differences in the amount of the Bank's known or expected cash receipts and the known or expected cash payments related to the Bank's borrowings from the FHLB, the value of which are determined by interest rates. These interest rate swaps were designated and qualified as cash flow hedges.

At December 31, 2016 and 2015, the Bank's interest rate swaps designated as cash flow hedges involve the payment of fixed-rate amounts in exchange for the Bank receiving variable-rate payments over the life of the agreements without exchange of the underlying notional amount. As of December 31, 2016, the Bank has fifteen interest rate swap contracts (six in 2015) with a total notional amount of $255 million ($75 million in 2015) that were designated as cash flow hedges of floating rate interest payment on the currently outstanding and expected subsequent rollover of advances from the FHLB. As of December 31, 2016, these advances have a carrying amount of $255 million and maturities ranging from one year or less ($75 million with maturities ranging from one to two years as of December 31, 2015). The interest rate swaps mature in four to ten years (five to ten years in 2015).The Bank expects the hedge relationships to be highly effective in offsetting the effects of changes in interest rates in the cash flows associated with the advances from the FHLB. No hedge ineffectiveness gains or losses were recognized in 2016 and 2015.

The fair value of the Bank's derivative instruments was approximately $5.3 million as of December 31, 2016 and is included in other assets ($0.3 million included in other liabilities, in 2015) in the consolidated balance sheets.

11. Income Taxes

The components of the income tax expense for the years ended December 31, 2016 and 2015 are as follows:

(in thousands of dollars)	2016	2015
Current provision		
Federal	$ 14,193	$ 12,087
State	844	782
Deferred tax benefit	(1,614)	(1,363)
	$ 13,423	$ 11,506

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

(in thousands of dollars)	2016	2015
Tax effect of temporary differences		
Provision for loan losses	$ 25,704	$ 23,246
Net unrealized losses in other comprehensive loss	5,886	5,201
Deferred compensation expense	4,437	1,975
Dividend income	1,693	2,845
Interest income on nonaccrual loans	1,558	1,910
Goodwill amortization	(4,866)	(4,411)
Depreciation and amortization	(6,032)	(5,860)
Other	2,350	3,525
	$ 30,730	$ 28,431

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, 2016, the Bank had no unrecognized tax benefits or associated interest or penalties that needed to be accrued for.

12. Other Comprehensive Loss

The related tax effect allocated to each component of other comprehensive loss for the years ended December 31, 2016 and 2015 is as follows:

	2016		
(in thousands of dollars)	**Before-Tax Amount**	**Tax Effect**	**Net-of-Tax Amount**
Net unrealized holding losses on securities available for sale arising during the year	$ (5,952)	$ 2,113	$ (3,839)
Net unrealized holding gains on cash flow hedges arising during the year	5,578	(1,980)	3,598
Reclassification adjustment for net gains included in net income	(1,556)	552	(1,004)
Other comprehensive loss	$ (1,930)	$ 685	$ (1,245)

	2015		
(in thousands of dollars)	**Before-Tax Amount**	**Tax Effect**	**Net-of-Tax Amount**
Net unrealized holding losses on securities available for sale arising during the year	$ (17,762)	$ 6,306	$ (11,456)
Net unrealized holding losses on cash flow hedges arising during the year	(177)	63	(114)
Reclassification adjustment for net gains included in net income	(1,950)	692	(1,258)
Other comprehensive loss	$ (19,889)	$ 7,061	$ (12,828)

13. Related Party Transactions

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

(in thousands of dollars)	**2016**	**2015**
Assets		
Due from related party	$ 446	$ -
Total due from related parties	446	-
Liabilities		
Demand deposits, noninterest bearing	$ 19,769	$ 132,060
Demand deposits, interest bearing	96,109	154,656
Money market	282	576
Time deposits and other liabilities	150	150
Total due to related parties	116,310	287,442
Net due to related parties	$ (115,864)	$ (287,442)

In 2016, the Bank sold to a non-financial institution related party securities available for sale at their fair value of approximately $14.7 million and realized a loss on sale of approximately $0.8 million.

In 2016, the Bank sold to the Parent Company a loan at its fair value of approximately $6.7 million and realized no gain or loss on the sale.

For the years ended December 31, 2016 and 2015, loan participations sold to related parties amounted to approximately $50 million and $87 million, respectively. There were no participations purchased from related parties in 2016 and in 2015. 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 statement of operations are amounts with related parties as follows:

(in thousands of dollars)	**2016**	**2015**
Income		
Data processing and other services	$ 2,601	$ 2,542
Rental income from an operating lease	1,976	1,971
Service charges	83	85
	4,660	4,598
Expenses		
Interest expense	107	220
Loss on sale of securities	796	-
Fees	504	600
	1,407	820
	$ 3,253	$ 3,778

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

14. Employee Benefit Plan

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

The Bank matches 100% of each participant's contribution up to a maximum of 5% of their annual salary. Contributions by the Bank to the Plan are based upon a fixed percentage of participants' salaries as defined by the Plan. The Plan enables Highly Compensated employees to contribute up to the maximum allowed without restrictions and all contributions made by the Bank to the participants' accounts are vested immediately. 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.

During 2016 and 2015 the Bank contributed to the Plan approximately $4 million and $3 million, respectively, 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 compensation expense based on the amount of expense associated with the Company's employees. There are no outstanding stock option grants during 2016 or 2015, therefore no compensation expense was recorded for this plan during 2016 and 2015.

15. Commitments and Contingencies

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

The Bank occupies various branch office facilities under noncancelable lease agreements expiring through the year 2046. 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 and $5 million for each of the years ended December 31, 2016 and 2015, respectively.

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

(in thousands of dollars)	**Approximate Amount**
2017	$ 6,166
2018	4,975
2019	4,712
2020	4,779
2021	4,525
Thereafter	47,045
	$ 72,202

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, 2016 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, 2016 are generally short-term and are as follows:

(in thousands of dollars)	**Approximate Contract Amount**
Commitments to extend credit	$ 916,724
Credit card facilities	216,881
Standby letters of credit	16,311
Commercial letters of credit	181
	$ 1,150,097

16. Fair Value Measurement

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

	December 31, 2016			
(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 sponsored enterprise debt securities	$ -	$ 1,004,463	$ -	$ 1,004,463
U.S. government agency debt securities	-	549,084	-	549,084
Corporate debt securities	-	371,254		371,254
Municipal bonds	-	166,889	-	166,889
Mutual funds	-	23,615	-	23,615
Foreign sovereign debt	-	5,237	-	5,237
U.S. treasury securities	-	2,705	-	2,705
	-	2,123,247	-	2,123,247
Bank owned life insurance	-	164,860	-	164,860
Derivative instruments	-	5,309	-	5,309
	$ -	$ 2,293,416	$ -	$ 2,293,416

	December 31, 2015			
(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	$ -	$ 752,487	$ -	$ 752,487
Corporate debt securities	-	647,190	-	647,190
U.S. government sponsored enterprise debt securities	-	519,408	-	519,408
Municipal bonds	-	93,833	-	93,833
Foreign sovereign debt	-	15,733	-	15,733
Mutual funds	-	14,205	-	14,205
U.S. treasury securities	-	12,765	-	12,765
	-	2,055,621	-	2,055,621
Bank owned life insurance	-	100,438	-	100,438
	$ -	$ 2,156,059	$ -	$ 2,156,059
Liabilities				
Derivative instruments	$ -	$ 269	$ -	$ 269

Level 2 Valuation Techniques

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

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis
As of December 31, 2016, there were no significant assets or 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 as of December 31, 2015:

	December 31, 2015			
(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 2)	Total Impairments
Description				
Loans held for sale	$ 9,732	$ -	$ -	$ -
Other real estate owned	-	-	384	-
	$ 9,732	$ -	$ 384	$ -

As of December 31, 2016 and 2015, the Bank had no liabilities measured at fair value on a nonrecurring basis.

Loans Held for Sale
The Bank measures the impairment of loans held for sale based on the amount by which the carrying value of those loans exceed their fair values. The Bank primarily uses independent third party quotes to measure any subsequent decline in the value of loans held for sale. As a consequence, the fair value of these loans held for sale are considered a Level 1 valuation.

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

17. Fair Value of Financial Instruments

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

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

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

- The fair values of loans held for sale, securities including securities sold under agreements to repurchase, bank owned life insurance, and derivative instruments, are based on quoted market prices, when available. If quoted market prices are unavailable, fair value is estimated using the pricing process described in Note 16.

- 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:

	2016		2015	
(in thousands of dollars)	**Carrying Value**	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Financial assets				
Loans	$ 2,716,107	$ 2,619,238	$ 2,629,126	$ 2,506,303
Financial liabilities				
Time deposits	1,146,316	1,143,053	855,085	854,368
Securities sold under agreements to repurchase	50,000	51,446	70,000	73,974
Advances from the Federal Home Loan Bank	921,000	927,259	712,250	720,511

18. Regulatory Matters

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

Dividend Restrictions

Dividends payable by the Bank as a national bank subsidiary of the Parent Company, are limited by the regulator to the lesser of the amounts calculated under a “recent earnings” test and an “undivided profits” test. Under the recent earnings test, a dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year’s net income combined with the retained net income of the two preceding years, unless the national bank obtains the approval of the Office of the Controller of the Currency (“OCC”). Under the undivided profits test, a dividend may not be paid in excess of a bank’s “undivided profits.” In 2016, 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 certain minimum capital amounts and ratios. As of December 31, 2016, management believes that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent examination from the Bank's regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events since the examination that management believes have changed the Bank's category.

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

	Actual		Required for Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(in thousands of dollars)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2016						
Total capital ratio	$ 848,029	12.4%	$ 545,608	8.0%	$ 682,010	10.0%
Tier I capital ratio	767,048	11.3%	409,206	6.0%	545,608	8.0%
Tier I leverage ratio	767,048	9.2%	326,305	4.0%	407,881	5.0%
Common Equity Tier I	767,048	11.3%	306,905	4.5%	443,307	6.5%
December 31, 2015						
Total capital ratio	$ 817,728	12.3%	$ 533,741	8.0%	$ 667,177	10.0%
Tier I capital ratio	742,096	11.1%	400,306	6.0%	533,741	8.0%
Tier I leverage ratio	742,096	9.4%	317,126	4.0%	396,408	5.0%
Common Equity Tier I	742,096	11.1%	300,230	4.5%	433,665	6.5%