

agreement. The swap agreement effectively converts the client's fixed rate loan into a variable rate loan. The Company then enters into a matching swap agreement with a third party dealer in order to offset its exposure on the customer swap. For additional information on these derivatives refer to Note 27 in our "Notes to Consolidated Financial Statements."

### **Accounting Pronouncements**

Refer to Note 1(ai) in our "Notes to Consolidated Financial Statements" for a discussion on the effects of new accounting pronouncements.

### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

Market risk is the risk of economic loss from adverse changes in the fair value of financial instruments due to changes in (a) interest rates, (b) foreign exchange rates, or (c) other factors that relate to market volatility of the rate, index, or price underlying the financial instrument. Our market risk is composed primarily of interest rate risk. Our Asset/Liability Committee ("ALCO") is responsible for reviewing the interest rate sensitivity position, and establishing policies to monitor and limit the exposure to interest rate risk. Substantially all of our interest rate risk exposure relates to the financial instrument activity of our subsidiary Bank. As such, the board of directors of our subsidiary Bank is responsible to review and approve the policies and guidelines established by their Bank's ALCO.

The primary objective of asset/liability management is to provide an optimum and stable net interest margin, after-tax return on assets and return on equity capital, as well as adequate liquidity and capital. Interest rate risk is measured and monitored through gap analysis and simulation analysis, which measures the amount of repricing risk associated with the balance sheet at specific points in time. See "Liquidity and Market Risk Management" presented in Item 7 above for quantitative disclosures in tabular format, as well as additional qualitative disclosures.

### **Item 8. Financial Statements and Supplementary Data**

The financial statements of our Company as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014 are set forth in this Form 10-K beginning at page 67.

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

### **Item 9A. Controls and Procedures.**

- (a) Evaluation of disclosure controls and procedures. As of December 31, 2016, the end of the period covered by this Annual Report on Form 10-K, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer each concluded that as of December 31, 2016, the end of the period covered by this Annual Report on Form 10-K, we maintained effective disclosure controls and procedures and there have been no significant changes in our internal control during our most recently completed fiscal quarter that materially affected, or is likely to materially affect, our internal control over financial reporting.
- (b) Management's report on internal control over financial reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management,