



BRUCE WIRTZ MACARTHUR
CHAIRMAN OF THE BOARD

It is hard to adequately describe the economic turbulence we have all faced in the last two years. The recession that began at the end of 2007 and ravaged all housing related markets in 2008, went on to exact a devastating toll on all parts of the economy in 2009. The media kept us all informed of mass layoffs, shrinking corporate profits, low retail sales, bank foreclosures, salary freezes, and an unemployment rate that climbed past ten percent. Clearly, the current recession will end up being one of the longest in post-World War II history.

First Miami Bancorp has historically been a conservative lender and in 2008 we were able to generate a profit and avoid large loan losses. However, in 2009 we were not immune to the economic turmoil around us. Yet, in many ways, we fared far better than most of our competitors. We have taken aggressive loan charge-offs, written down troubled assets and built a large allowance for loan losses. All of these prudent actions have served to remove risky assets from our balance sheet and position us well for a turnaround in 2010.

For 2009 we suffered a loss of \$3.8 million for the year, primarily as a result of \$5.6 million in bad debt expense. However, as a result of those charge-offs, we now have a loan portfolio whose delinquency profile is far better than our peers. Our allowance for credit losses increased from .87% of total loans and leases at the end of 2008 to 1.68% at the end of 2009.

We have taken a similarly conservative stance with respect to our investment securities. We have just over \$18 million in private-agency mortgage backed securities which we have written down by \$500 thousand. That amount represents our best estimates of the expected shortfall for those investments. In addition, our financial statements now clearly disclose the \$5 million disparity between the book value and market value of these securities. Formerly, this information was available as a footnote disclosure.

The holding company's investment portfolio had been comprised primarily of equity investments in financial institutions. As a result of the economic crisis, many of those companies cut their dividends drastically in 2009. This resulted in a \$1.8 million reduction in dividend income. We have taken steps to diversify that portfolio.

One particularly good reason to look forward to 2010 has been the recent remarkable growth of our balance sheet. Total assets have grown approximately \$44 million. The funding source for this dramatic growth has been a \$60 million growth in our deposit balances. Fortunately, \$21M of this growth has been in non-interest bearing deposit accounts. In addition, NOW balances grew by \$7M, money market accounts grew by \$12M, and time deposits grew by \$17M. At the same time, the Bank was able to keep the funding it receives from its repurchase agreement products at \$65M, thereby reducing its proportional impact, once rates start to increase, on the Bank's future profitability. This growth was spurred not by offering higher rates but by consistently driving home the message that our Bank is a sound and safe, business friendly, community-based institution.

Even though the balance sheet grew by \$44 million, the Bank's loan portfolio only grew by \$18 million. This is in keeping with our conservative lending philosophy. However, we fully expect further growth in 2010. Gradually putting safe loans on our books will lead to continued increases in our interest margins throughout 2010.

From a non-financial perspective, the Bank made a variety of investments in technology in 2009 that have greatly improved the Bank's strategic position. FNBSM is at the forefront of banking innovation by offering products such as remote deposit capture and mobile banking. These products provide a cost effective and efficient means to service customers that will lead to growth while reducing overhead costs. The Bank also implemented electronic statements (E-statements). Electronic statements provide significant savings compared to paper statements and are consistent with the Bank's overall green effort.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bruce Wirtz MacArthur', written over a horizontal line.

Chairman of the Board

First National Bank of South Miami