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First Miami Bancorp, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS DECEMBER 31,

ASSETS	2009	2008
Cash and cash equivalents:		
Cash	\$ 1,309,725	\$ 1,541,798
Due from banks – non-interest earning deposits	1,959,615	3,790,848
Due from banks – interest earning deposits	27,297,663	500,663
Short-term investment securities	-	13,094,000
TOTAL CASH AND CASH EQUIVALENTS	30,567,003	18,927,309
Securities available-for-sale	145,620,482	130,141,806
Securities held-to-maturity	53,771,797	58,587,311
Loans, net	130,195,569	112,256,466
Premises and equipment, net	3,544,060	2,007,263
Foreclosed assets	1,387,198	2,874,254
Other assets	5,425,155	1,856,702
TOTAL ASSETS	\$ 370,511,264	\$ 326,651,111
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand	\$ 71,173,441	\$ 50,192,205
NOW accounts	48,901,306	41,875,233
Savings	20,874,765	20,739,736
Money market	33,449,755	21,051,573
Time, \$100,000 and over	49,644,546	32,399,570
Other time	20,788,060	20,058,804
TOTAL DEPOSITS	244,831,873	186,317,121
Securities sold under agreements to repurchase	65,448,067	66,869,429
Deferred income tax liability, net	1,193,007	5,071,754
Accrued expenses and other liabilities	824,508	1,381,566
TOTAL LIABILITIES	312,297,455	259,639,870
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
STOCKHOLDERS' EQUITY		
Common stock, \$.01 par value, 100,000 shares authorized and issued, including shares held in treasury, December 31, 2009 and 2008	1,000	1,000
Additional paid in capital	7,999,000	7,999,000
Retained earnings	45,688,075	49,495,325
Treasury stock, 1,820 and 1,727 shares, at cost, at December 31, 2009 and 2008	(91,595)	(86,325)
Accumulated other comprehensive income, net	4,617,329	9,602,241
TOTAL STOCKHOLDERS' EQUITY	58,213,809	67,011,241
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 370,511,264	\$ 326,651,111

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



CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31,

	2009	2008
INTEREST INCOME		
Loans, including fees	\$ 6,999,707	\$ 6,548,502
Investment securities	5,676,232	7,355,869
Federal funds sold and interest earning deposits	<u>43,631</u>	<u>373,396</u>
	<u>12,719,570</u>	<u>14,277,767</u>
INTEREST EXPENSE		
Deposits	2,097,051	2,051,168
Securities sold under agreements to repurchase	<u>1,526,013</u>	<u>1,697,595</u>
	<u>3,623,064</u>	<u>3,748,763</u>
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	9,096,506	10,529,004
PROVISION FOR LOAN LOSSES	<u>5,572,000</u>	<u>1,578,798</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>3,524,506</u>	<u>8,950,206</u>
NON-INTEREST INCOME		
Customer service fees	918,096	964,000
Trust department income	767,192	696,628
Dividends	824,230	2,643,763
Rent and parking income	370,158	348,092
Net (loss) gain on sale of securities available-for-sale	(487,800)	103,915
Other	<u>242,307</u>	<u>170,783</u>
	<u>2,634,183</u>	<u>4,927,181</u>
OTHER-THAN-TEMPORARY IMPAIRMENT LOSSES ON HELD-TO-MATURITY SECURITIES:		
Total other-than-temporary impairment losses	(5,613,046)	-
Less: Portion of other-than-temporary impairment losses recognized in other comprehensive income	<u>5,093,871</u>	<u>-</u>
Net impairment losses recognized in earnings on held-to-maturity securities	<u>(519,175)</u>	<u>-</u>
NON-INTEREST EXPENSES		
Salaries	4,329,004	4,452,480
Employee benefits	1,154,083	1,128,982
Occupancy	2,126,847	2,102,663
Data processing	545,701	550,244
Professional fees	462,628	377,935
Other operating	3,351,329	1,981,171
Net loss on sales of foreclosed assets	<u>52,318</u>	<u>-</u>
	<u>12,021,910</u>	<u>10,593,475</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	(6,382,396)	3,283,912
BENEFIT FROM (PROVISION FOR) INCOME TAXES	<u>2,575,146</u>	<u>(876,919)</u>
NET (LOSS) INCOME	<u>\$ (3,807,250)</u>	<u>\$ 2,406,993</u>



First Miami Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	COMMON STOCK	ADDITIONAL PAID IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED OTHER COMPREHENSIVE INCOME, NET	TOTAL
BALANCES AT JANUARY 1, 2008	\$ 1,000	\$ 7,999,000	\$ 48,071,062	\$ (86,325)	\$ 18,581,948	\$ 74,566,685
COMPREHENSIVE LOSS						
Net income	-	-	2,406,993	-	-	2,406,993
Change in unrealized appreciation in securities available-for-sale during the year, net of deferred income tax effect of approximately \$5,167,000	-	-	-	-	(8,945,120)	(8,945,120)
Reversal of net unrealized gains realized on sales of securities available-for-sale during the year, net of deferred income tax effect of approximately \$21,000	-	-	-	-	(34,587)	(34,587)
TOTAL COMPREHENSIVE LOSS	-	-	2,406,993	-	(8,979,707)	(6,572,714)
Cash dividends declared, \$10.00 per share	-	-	(982,730)	-	-	(982,730)
BALANCES AT DECEMBER 31, 2008	1,000	7,999,000	49,495,325	(86,325)	9,602,241	67,011,241
COMPREHENSIVE LOSS						
Net loss	-	-	(3,807,250)	-	-	(3,807,250)
Available-for-sale securities: Change in unrealized appreciation in securities available-for-sale during the year, net of deferred income tax effect of approximately \$1,316,000	-	-	-	-	(2,112,106)	(2,112,106)
Reversal of net unrealized losses realized on sales of securities available-for-sale during the year, net of deferred income tax effect of approximately \$184,000	-	-	-	-	304,241	304,241
Held-to-maturity securities: Unrealized losses on held-to-maturity securities relating to other than temporary impaired securities, net of deferred income tax effect of approximately \$1,916,824	-	-	-	-	(3,177,047)	(3,177,047)
TOTAL COMPREHENSIVE LOSS	-	-	(3,807,250)	-	(4,984,912)	(8,792,162)
Repurchase of common stock	-	-	-	(5,270)	-	(5,270)
BALANCES AT DECEMBER 31, 2009	<u>\$ 1,000</u>	<u>\$ 7,999,000</u>	<u>\$ 45,688,075</u>	<u>\$ (91,595)</u>	<u>\$ 4,617,329</u>	<u>\$ 58,213,809</u>

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



CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest and fees received	\$ 12,960,269	\$ 14,867,663
Service fees received	918,096	964,000
Trust income received	767,192	696,628
Dividend income received	824,230	2,643,763
Other income received	612,465	518,875
Interest paid	(3,570,486)	(3,796,981)
Cash paid for salaries and employee benefits	(5,425,371)	(5,523,503)
Cash paid for occupancy and operations	(7,050,103)	(4,562,032)
Income taxes paid, net	<u>(403,322)</u>	<u>(1,225,860)</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(367,030)</u>	<u>4,582,553</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales, calls and maturities of available-for-sale securities	101,864,700	80,722,672
Purchases of available-for-sale securities	(121,165,001)	(62,711,492)
Proceeds from paydowns of held-to-maturity securities	11,105,022	3,035,879
Purchases of held-to-maturity securities	(11,991,317)	(31,695,525)
Proceeds from sale of common stock	5,352,843	-
Purchases of common stock	(5,020,557)	-
Increase in real estate properties held for sale	-	(2,874,254)
Proceeds from sales of foreclosed assets	1,434,738	-
Net increase in loans	(23,511,103)	(11,474,883)
Purchases of premises and equipment	<u>(2,146,331)</u>	<u>(202,855)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(44,077,006)</u>	<u>(25,200,458)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in time deposits	17,974,232	8,157,597
Net increase in demand, savings and money market accounts	40,540,520	524,577
Net decrease in securities sold under agreements to repurchase	(1,421,362)	(4,311,319)
Dividends paid	<u>(1,009,660)</u>	<u>(977,743)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>56,083,730</u>	<u>3,393,112</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,639,964	(17,224,793)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>18,927,309</u>	<u>36,152,102</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 30,567,003</u>	<u>\$ 18,927,309</u>



CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31,

	2009	2008
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net (loss) income	\$ (3,807,250)	\$ 2,406,993
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	609,534	584,371
Provision for loan losses	5,572,000	1,578,798
Deferred income tax	801,005	(94,036)
Net loss (gain) on sale of securities available-for-sale	487,800	(103,915)
Other than temporary impairment losses on held-to-maturity securities	519,175	
Net loss on sales of foreclosed assets	52,318	-
Change in operating assets and liabilities:		
(Increase) decrease in other assets	(3,568,453)	906,818
Decrease in deferred income tax liability, net	(1,485,761)	(568,317)
Increase (decrease) in accrued expenses and other liabilities	452,602	(128,159)
TOTAL ADJUSTMENTS	3,440,220	2,175,560
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	\$ (367,030)	\$ 4,582,553

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



Notes to Consolidated Financial Statements
December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FASB Accounting Standards Codification

On July 1, 2009, the Financial Accounting Standards Board ("FASB") issued "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles," which establishes the FASB Accounting Standards Codification (the "ASC") as the source of authoritative principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"). This standard is effective for financial statements issued for interim and annual periods ending after September 15, 2009.

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of First Miami Bancorp, Inc. and its wholly-owned subsidiary, First National Bank of South Miami (the "Bank") and its subsidiary, First National South Miami Safe Deposit Company, South Miami Ventures I, Inc., South Miami Ventures III, Inc. and FNBSM The Falls Tenant, LLC (collectively, the "Company"). South Miami Ventures I, Inc. and South Miami Ventures III, Inc. are Florida Limited Liability Companies formed during June 2008 and July 2008, respectively, for the purpose of holding real estate properties. FNBSM The Falls Tenant, LLC is a Florida Limited Liability Company formed during April 2009. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and real estate properties held for sale.

Business

The Company provides a variety of financial services to individuals and small businesses through its offices in South Miami and Kendall, Florida. The Company's primary deposit products are checking, savings and term certificate accounts, and its primary lending products are commercial and consumer loans.

Concentrations of Credit Risk

Most of the Company's activities are with customers located within the South Florida area. Note 2 describes the types of securities in which the Company invests. Note 3 describes the types of lending in which the Company engages.

At various times during the year, the Bank has maintained deposits with other financial institutions in excess of amounts received. The exposure to the Bank from these transactions is solely dependent upon daily balances and the financial strength of the respective institution.

Cash and Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, the Bank considers investments with a maturity of three months or less from its original purchase date to be cash and cash equivalents. Cash and cash equivalents include cash, balances due from banks which include interest and non-interest earning deposits, federal funds sold and short-term investment securities.

At December 31, 2009 and 2008, there was no balance for federal funds sold. However, the average balance during 2009 and 2008 was \$0 and \$6,522,000, respectively.



Notes to Consolidated Financial Statements December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents (Continued)

The Company has an interest earning deposit account in another financial institution with maturity of less than three months. At December 31, 2009 and 2008, the interest rate on such deposit account was 0.30% and 0.85%, respectively.

The Company has short-term investment securities in Federated Investors' Government Obligations Fund and Federated Investors' Municipal Obligations Fund. Funds are invested through Federated Investors, Inc., a provider of investment management products and related financial services. Federated Investors, Inc. provides investment advisory services to 147 Federated-sponsored equity, fixed income and money market mutual funds. The Company's Federated Investors Obligations Fund consists primarily of money market funds with average maturity of less than 90 days. These funds have a daily redemption feature with no redemption charges. At December 31, 2009 and 2008, the balance of these short-term investment securities totaled \$0 and \$13,094,000, respectively. At December 31, 2008, the interest rate on Federated Investors' Government Obligations Fund and Federated Investors' Municipal Obligations Fund was 1.06% and 1.45%, respectively.

Securities

Debt securities that the Company has the positive intent and ability to hold until maturity are classified as "held-to-maturity" and recorded at amortized cost. Securities that are held principally for the purpose of selling in the near future are classified as trading securities and are recorded at fair value with both realized and unrealized gains and losses included in the consolidated statements of operations.

Securities not classified as held-to-maturity or trading are classified as available-for-sale and recorded at fair value, with unrealized gains or losses, net of the related deferred tax effect, reported as a separate component of other comprehensive income. Realized gains and losses from the sales of securities are recorded on the trade date and are determined using the specific identification method. Management determines the appropriate classification of securities as each individual security is acquired. In addition, the appropriateness of such classification is reassessed at each balance sheet date.

Premiums and discounts are amortized or accreted over the life of the related held to maturity or available for sale security as an adjustment to yield using the effective interest method. Interest income is recognized when earned.

A decline in the market value of any available for sale or held to maturity security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The portion of the other-than-temporary impairment that relates to credit loss is charged to earnings and a new cost basis for the security is established. The portion of the other-than-temporary impairment that relates to the non-credit loss is charged to other comprehensive income. To determine whether an impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year end, and forecasted performance of the investee.

Loans

The Company grants commercial, installment, real estate and home equity lines of credit loans to customers in South Florida. The ability of the Company's debtors to honor their contracts is impacted by the general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are generally reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is recognized as earned, based upon the principal amount outstanding on an accrual basis. Loan origination fees, net of certain direct



Notes to Consolidated Financial Statements
December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans (Continued)

origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time a loan is ninety days delinquent unless the credit is well-secured and in the process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued, but not collected, for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance, when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for loan losses.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case by case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Also, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments of the information available to them at the time of their examination.



Notes to Consolidated Financial Statements
December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. Instruments, such as standby letters of credit, that are considered financial guarantees are recorded at fair value.

Foreclosed Assets

Assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operating foreclosed assets related to such assets and changes in the valuation allowance are included in net expenses from foreclosed assets. At December 31, 2009 and 2008, foreclosed assets amounted to \$1,387,198 and \$2,874,254, respectively, and are included in the accompanying consolidated balance sheets.

For the years ended December 31, 2009 and 2008, net expenses relating to foreclosed assets were \$239,100 and \$39,645, respectively, and are included within the caption of other operating expenses in the consolidated statements of operations. Foreclosed assets at December 31, 2009, consists of one real estate property held for sale located in South Florida. Foreclosed assets at December 31, 2008, mainly consisted of three real estate properties held for sale located in South Florida. For the year ended December 31, 2009, net loss on the sale of real estate properties amounted to \$52,318 and is included in the consolidated statements of operations.

Premises and Equipment, net

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the remaining term of the applicable leases or their useful lives, whichever is shorter. Estimated useful lives of these assets are as follows:

Building	39 years
Leasehold improvements	Shorter of life or term of lease
Furniture, fixtures and equipment	3 to 20 years

Maintenance and repairs are charged to expense as incurred; the costs of major improvements to the premises are capitalized. Upon retirement or other disposition of furniture or equipment, the cost and related depreciation are removed from the accounts and gains or losses are reflected in operations.

Impairment of Long-Lived Assets

The Company's long-lived assets, such as premises and equipment, net are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. The Company did not recognize any impairment charge during the years ended December 31, 2009 and 2008.





Notes to Consolidated Financial Statements
December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Uncertain tax positions

Management identifies and evaluates potential uncertain tax positions to determine whether the probability exists that a tax position taken in a tax return would be sustained upon examination by a taxing authority. Reserves for uncertain tax positions are recorded if management determines it is probable either a position would not be sustained upon examination or if a payment would have to be made to a taxing authority and the amount was reasonably estimable.

Treasury Stock

At December 31, 2009 and 2008, the Bank had 100,000 common stock shares authorized and issued (including shares held in treasury of 1,820 and 1,727, respectively) with a par value of \$0.01 per share. The Company has a stock repurchase program that authorizes the Company to repurchase its stock at a specified price of \$50 per share. Treasury stock is shown as a reduction of stockholders' equity. During 2009, the Company purchased 105 shares of stock at \$50 per share. During 2008, the Company did not purchase or sell any treasury stock.

Employee Benefit Plans

In 1999, the Company converted the profit sharing plan to a 401(k) Plan whereby substantially all employees participate in the Plan. All existing Plan participants were immediately vested in the new Plan. After one year of service, employees may contribute up to 50 percent of their compensation to the Plan on a tax deferred basis subject to certain limits based on federal tax laws. Additionally, the Company has made matching contributions to the Plan. Matching contributions are immediately vested to the employee. For the years ended December 31, 2009 and 2008, the matching contributions attributable to the Plan amounted to approximately \$121,000 and \$98,000, respectively.

Comprehensive Loss

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income when earned or incurred. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, as well as certain investments that are held-to-maturity and are other-than-temporary impaired, are reported as a separate component of the equity section of the balance sheet. Such changes in assets and liabilities from transactions or events not involving the owners, along with net income, are components of comprehensive loss. Comprehensive loss for the periods presented is displayed in the accompanying consolidated statements of changes in stockholders' equity.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 12. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular instruments. Changes in assumptions or in market conditions could significantly affect the estimates.



Notes to Consolidated Financial Statements
December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest Rate Risk

The Company's performance is dependent to a large extent on its net interest income, which is the difference between income on interest-earning assets and its interest expense on interest-bearing liabilities. The Company, 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 rate sensitivity gap). A condition whereby more liabilities reprice or mature than assets over a given time frame is considered a liability-sensitive position, 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 Company has attempted to structure its asset and liability management strategies to mitigate the impact on net interest income resulting from changes in market interest rates.

Adoption of Accounting Pronouncements

Impairment Guidance

In January 2009, the FASB issued an accounting standard which amends existing impairment guidance on the recognition of interest income and impairment on purchased beneficial interests and beneficial interests that continue to be held by a transferor in securitized financial assets. The FASB believes this standard will achieve a more consistent determination of whether an other-than-temporary impairment has occurred. The standard also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in existing guidance on accounting for certain investments in debt and equity securities, and other related guidance. The standard is effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. Retrospective application to a prior interim or annual reporting period is not permitted. The adoption of this standard did not have an impact on the Company's consolidated financial statements.

Fair Value Measurements

In April 2009, the FASB issued an accounting standard regarding determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly, which provides guidelines for making fair value measurements more consistent with the principles presented in existing accounting guidance regarding fair value. The guidance in this standard is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Early adoption is only permitted for entities which also elect to early adopt certain other accounting standards. The adoption of this standard did not have an impact on the Company's consolidated financial statements.

In September 2009, the FASB issued an accounting standard which amends existing guidance on fair value measurements and disclosures. The standard allows an entity to measure the fair value of an investment that has no readily determinable fair market value, on the basis of the net asset value per share as provided by the investee. The accounting standard is effective for annual and interim periods beginning after December 15, 2009, with early adoption permitted, and is not expected to have an effect on the Company's consolidated financial statements.



Notes to Consolidated Financial Statements
December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of Accounting Pronouncements (Continued)

Fair Value Measurements – Liabilities

In August 2009, the FASB issued an accounting standard which updates guidance on fair value measurements and disclosure. The updated guidance clarifies that the fair value of a liability can be measured in relation to the quoted price of the liability when the liability trades as an asset in an active market, without adjusting the price for restrictions that prevent the transfer of the liability. This standard is effective for annual and interim periods beginning after August 31, 2009. The Company does not expect the standard to have an effect on the valuation techniques used by the Company for measuring liabilities at fair value.

Other-Than-Temporary Impairments

In April 2009, the FASB issued an accounting standard regarding recognition and presentation of other-than-temporary impairments, which amends the current guidance on other-than-temporary impairment of debt securities and also improves the presentation and disclosure of other-than-temporary impairments of both debt and equity securities. The standard is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Early adoption is only permitted for entities which also elect to early adopt another accounting standard regarding determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. The impact of the adoption of this standard is included in NOTE 2 to the financial statements.

Accounting for Transfers of Financial Assets

In June 2009, the FASB issued an accounting standard amending existing guidance on the accounting for the transfer of assets. The accounting standard seeks to improve the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial statements about a transfer of financial assets; the related effects of a transfer on an entity's financial position, financial performance, and cash flows; and a transferor's continued involvement, if any, in the transferred financial assets. The accounting standard is applicable for transfers occurring on or after the interim and annual periods beginning after November 15, 2009 with early application prohibited. The Company does not expect the accounting standard to have an impact on the consolidated financial statements.

Subsequent Events

In May 2009, the FASB issued an accounting standard which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. The standard was adopted for the year ending December 31, 2009. The Company has evaluated subsequent events through January 21, 2010, which is the date the financial statements were available to be issued.

Uncertainty in Income Taxes

In September 2009, the FASB issued an accounting standard, which provides implementation guidance on accounting for uncertainty in income taxes and for nonpublic companies. This standard is effective for interim and annual periods ending after September 15, 2009 unless an entity has deferred implementation of existing guidance on uncertainty in income taxes. When implementation is deferred, the standard is effective upon implementation of the guidance on uncertainty in income taxes, which for the Company is the year ending December 31, 2009. The adoption of this standard did not have an impact on the Company's consolidated financial statements.



Notes to Consolidated Financial Statements
December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncement

Improving Disclosures about Fair Value Measurements

In January 2010, the FASB issued an accounting standard that clarifies and increases the disclosure requirements relating to fair value measurements. The accounting standard is effective for annual and interim periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for annual and interim periods ending after December 31, 2010. The accounting standard is not expected to have an effect on the Bank's financial statements.



Notes to Consolidated Financial Statements
December 31, 2009 and 2008

2. INVESTMENT SECURITIES

The amortized cost and fair value of securities, with gross unrealized holding gains and losses are as follows:

	<u>December 31, 2009</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Holding Gains</u>	<u>Gross Unrealized Holding Losses</u>	<u>Fair Value</u>
<u>Securities available-for-sale:</u>				
Debt securities:				
U.S. government agencies	\$110,295,859	\$ 319,757	\$ (277,601)	\$110,338,015
Marketable equity securities:				
Common stock	22,575,356	14,310,373	(1,843,262)	35,042,467
Bank stock	<u>240,000</u>	<u>-</u>	<u>-</u>	<u>240,000</u>
	<u>\$133,111,215</u>	<u>\$14,630,130</u>	<u>\$ (2,120,863)</u>	<u>\$145,620,482</u>
<u>Securities held-to-maturity:</u>				
Debt securities:				
Mortgage backed securities	<u>\$58,865,668</u>	<u>\$ 1,033,060</u>	<u>\$ (6,260,579)</u>	<u>\$ 53,638,149</u>
	<u>December 31, 2008</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Holding Gains</u>	<u>Gross Unrealized Holding Losses</u>	<u>Fair Value</u>
<u>Securities available-for-sale:</u>				
Debt securities:				
U.S. government agencies	\$90,881,343	\$ 719,370	\$ (270,837)	\$ 91,329,876
Marketable equity securities:				
Common stock	23,426,164	17,284,907	(2,139,141)	38,571,930
Bank stock	<u>240,000</u>	<u>-</u>	<u>-</u>	<u>240,000</u>
	<u>\$114,547,507</u>	<u>\$18,004,277</u>	<u>\$ (2,409,978)</u>	<u>\$130,141,806</u>
<u>Securities held-to-maturity:</u>				
Debt securities:				
Mortgage backed securities	<u>\$58,587,311</u>	<u>\$ 421,148</u>	<u>\$ (8,901,976)</u>	<u>\$ 50,106,483</u>

As of December 31, 2009, the Bank's held-to-maturity mortgage backed securities totaled \$53,771,797, which includes \$43,584,257 recorded at amortized cost and \$10,187,540 recorded at fair value, as a result of the Company writing down the securities due to other-than-temporary impairment.

Investment securities with a carrying value of approximately \$75,915,000 and \$78,340,000 at December 31, 2009 and 2008, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes required or permitted by law.



Notes to Consolidated Financial Statements
December 31, 2009 and 2008

2. INVESTMENT SECURITIES (CONTINUED)

The amortized cost and fair value of debt securities, by contractual maturity, at December 31, 2009 are as follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ -	\$ -	\$ 1,645,360	\$ 1,646,995
Due after one year through five years	89,345,103	89,299,233	11,412,520	11,893,798
Due after five year through ten years	5,262,066	5,323,046	13,479,321	13,915,719
Due after ten years	15,688,690	15,715,736	32,328,467	26,181,637
	\$110,295,859	\$110,338,015	\$58,865,668	\$53,638,149

As of December 31, 2009 and 2008, 79% and 80%, respectively, of the equity securities measured at fair value held by the Company consist of ownership in common stock of U.S. Bancorp. As of December 31, 2009, 87% of the equity securities held by the Company consist of common stock in financial institutions, with the remaining equity securities held in other types of industries. As of December 31, 2008, 100% of the equity securities held by the Company consisted of common stock in financial institutions. As of December 31, 2009 and 2008, the Company held no trading securities.

For the years ended December 31, 2009 and 2008, proceeds from the sales of securities available-for-sale and common stock amounted to \$107,217,543 and \$20,408,719, respectively. At December 31, 2009, gross realized losses amounted to \$1,199,220 and gross realized gains amounted to \$711,420. At December 31, 2008, gross realized gains amounted to \$103,915.

Information pertaining to securities with gross unrealized losses at December 31, 2009, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows:

Unrealized	Less than Twelve Months		Twelve Months or More		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	
	Value	Losses	Value	Losses	Value	Losses
U.S. government agencies	\$ 38,217,383	\$ 183,961	\$ 5,125,759	\$ 93,640	\$ 43,343,142	\$ 277,601
Common stock	7,815,308	231,681	5,312,360	1,611,581	13,127,668	1,843,262
Mortgage backed securities	12,451,536	108,363	11,848,529	6,152,216	24,300,065	6,260,579
	\$ 58,484,227	\$ 524,005	\$22,286,648	\$ 7,857,437	\$ 80,770,875	\$ 8,381,442

The Company is proactive in determining what possible negative effects could impact their investment portfolio. The Company performs assessments to determine whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired on an other-than-temporary basis. Management considers many factors in their analysis including the (1) severity and duration of the impairment, (2) the specific credit rating of the security, (3) the intent and ability to hold these securities for a period of time until the value of the security recovers, (4) whether the current market is considered an inactive market where most sales are considered distressed sales or disorderly transactions, and most importantly (5) management estimates the portion of loss attributable to credit using a discounted cash flow model. The Company estimates the expected cash flows of the underlying collateral using internal credit risk, interest rate and prepayment risk models that incorporate management's best estimate of current



Notes to Consolidated Financial Statements
December 31, 2009 and 2008

2. INVESTMENT SECURITIES (CONTINUED)

key assumptions, such as default rates, loss severity and prepayment rates. Based on the expected cash flows derived from the model, the Company expects to recover the remaining unrealized losses on the mortgage backed securities.

At December 31, 2009, U.S. government agency securities had unrealized losses of approximately \$278,000. The unrealized losses relate principally to the impact of changes in interest rates on a fixed market rate portfolio, credit spread widening and reduced liquidity in applicable markets. Management attributes the decline in the fair value to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold these investments until market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

At December 31, 2009, equity securities had unrealized losses of approximately \$1,843,000. The unrealized losses relate to various securities in the financial service sector. Although the issuers have shown significant declines in earnings as a result of a weakened economy and although recent failures of several financial institutions have affected the financial sector in the aggregate, no credit issues have been identified that cause management to believe the declines in market value are other than temporary.

At December 31, 2008, mortgage backed securities had unrealized losses of approximately \$8,900,000. The residential mortgage market performance has been affected by unfavorable changes in economic conditions. Such conditions include sharp declines in housing market prices and appraisal values. Delinquencies and foreclosures with respect to residential mortgage loans have increased during the past year, and may continue to increase, particularly in the subprime sector. A continued decline of housing values may result in additional increases in delinquencies and losses on residential mortgage loans. The economy has also been affected by increases in unemployment rates and stock market volatility. During the fourth quarter of 2008, the Company performed stress loss tests based on a specified time horizon, prepayment rate and default rate per year, on several held-to-maturity securities experiencing unrealized losses. The primary focus of such tests is to determine the highest loss severity that would result in the elimination of the credit support in each tranche.

Credit tranching is the most common form of credit protection. The results revealed no anticipated losses based on the Company's "Senior" tranche position.

At December 31, 2009, unrealized losses on mortgage backed-securities totaled approximately \$6,261,000. During the fourth quarter of 2009, the Company performed discounted cash flow analyses for mortgage backed securities that were in a significant unrealized loss position. As a result, the Company recorded an other-than-temporary impairment loss relating to credit totaling \$519,175. Additionally, the Company recorded an other-than-temporary impairment loss relating to the non-credit portion totaling \$5,093,871, which was recorded to other comprehensive income, with an offset to mortgage backed securities, in the accompanying consolidated statements of changes in stockholders' equity. The Bank estimates the portion of loss attributable to credit using a discounted cash flow model. Management estimates the cash flows of the underlying collateral using internal credit risk and prepayment risk models that incorporate management's best estimate of current key assumptions, such as default rates, loss severity and prepayment rates. Assumptions used can vary widely from loan to loan, and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics and collateral type. The Bank then uses a third party vendor to obtain information about the structure in order to determine how the underlying collateral cash flows will be distributed to each security issued from the structure. Expected principal and interest cash flows on the impaired debt security are discounted at a rate equal to the current yield of the security.

If management determines that the credit enhancements are not sufficient, then management must determine the amount of the projected future losses of principal and record an other-than-temporary impairment for the amount of these projected future losses.



**Notes to Consolidated Financial Statements
December 31, 2009 and 2008**

2. INVESTMENT SECURITIES (CONTINUED)

As of December 31, 2009, the Bank recorded other-than-temporary impairment losses on held-to-maturity securities as follows:

	<u>Mortgage Backed Securities</u>
Total other-than-temporary impairment losses (unrealized and realized)	\$ 5,613,046
Unrealized other-than-temporary losses recognized in OCI	<u>(5,093,871)</u>
Net impairment losses recognized in earnings	<u>\$ 519,175</u>

3. LOANS, NET

The composition of loans, net, at December 31, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Commercial	\$ 27,430,286	\$ 22,196,279
Installment	899,385	2,633,618
Commercial and residential real estate	93,626,460	78,496,931
Home equity lines of credit	<u>10,458,767</u>	<u>9,909,351</u>
	132,414,898	113,236,179
Allowance for loan losses	<u>(2,219,329)</u>	<u>(979,713)</u>
Loans, net	<u>\$ 130,195,569</u>	<u>\$ 112,256,466</u>

An analysis of the allowance for loan losses is as follows:

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	\$ 979,713	\$ 814,624
Provision for loan losses	5,572,000	1,578,798
Loans charged-off	(4,359,769)	(1,445,078)
Recoveries of loans previously charged-off	<u>27,385</u>	<u>31,369</u>
Balance at end of year	<u>\$ 2,219,329</u>	<u>\$ 979,713</u>

At December 31, 2009 and 2008, recorded investment in loans that are considered to be impaired totaled approximately \$4,500,000 and \$287,000, respectively, of which approximately \$4,500,000 and \$287,000, respectively, were on non-accrual basis. At December 31, 2009, the related allowance for loan losses on non-accrual loans amounted to \$119,173. There was no related allowance for loan losses on non-accrual loans at December 31, 2008. The average recorded investment in impaired loans during the years ended December 31, 2009 and 2008 was approximately \$620,000 and \$3,515,000, respectively.

Loans on which the accrual of interest had been discontinued amounted to approximately \$4,500,000 and \$287,000 at December 31, 2009 and 2008, respectively. During the years ended December 31, 2009 and 2008, interest income, which would have been recognized on nonaccrual loans had they been performing in accordance with their contractual terms, approximated \$191,000 and \$314,000, respectively.



Notes to Consolidated Financial Statements
December 31, 2009 and 2008

4. PREMISES AND EQUIPMENT, NET

A summary of the cost and accumulated depreciation of premises and equipment follows:

	<u>2009</u>	<u>2008</u>
Leasehold improvements	\$ 4,638,784	\$ 4,541,960
Furniture, fixtures and equipment	4,308,746	4,165,713
Building	<u>1,905,136</u>	<u>-</u>
	10,852,666	8,707,673
Accumulated depreciation and amortization	<u>(7,308,606)</u>	<u>(6,700,410)</u>
	<u>\$ 3,544,060</u>	<u>\$ 2,007,263</u>

During 2009, the Bank purchased a building totaling \$1,905,136, which the Bank plans to use as a branch office during 2010.

Depreciation and amortization of bank premises and equipment amounted to \$609,534 and \$584,371 in 2009 and 2008, respectively.

5. TIME DEPOSITS

At December 31, 2009, the scheduled maturities of time deposits were approximately as follows:

2010	\$ 10,969,000
2011	52,369,000
2012	6,565,000
2013	315,000
2014	<u>215,000</u>
	<u>\$ 70,433,000</u>

6. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company is required to provide additional collateral based on the fair value of the underlying securities (See Note 2).

The Bank enters into sales of securities under agreements to repurchase (overnight), which are reflected as securities sold under agreements to repurchase in the accompanying consolidated balance sheets.



**Notes to Consolidated Financial Statements
December 31, 2009 and 2008**

6. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE (CONTINUED)

The following table presents a summary of the Company's securities sold under agreements to repurchase as of December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Securities sold under agreements to repurchase	<u>\$ 65,448,067</u>	<u>\$ 66,869,429</u>
Carrying value of securities pledged for repurchase agreements, (fair value, approximately \$69,843,000 and \$74,698,000 for 2009 and 2008, respectively)	<u>\$ 69,415,000</u>	<u>\$ 74,190,000</u>
Maximum amount outstanding at any month-end during the year	<u>\$ 68,164,212</u>	<u>\$ 76,609,646</u>
Average amount outstanding during the year	<u>\$ 65,379,257</u>	<u>\$ 70,552,967</u>
Weighted-average interest rate for the year	<u>2.08%</u>	<u>2.18%</u>

7. INCOME TAXES

The benefit (provision) for income taxes is as follows:

	<u>2009</u>	<u>2008</u>
Current		
Federal	\$ 1,774,141	\$ (846,923)
State	<u>-</u>	<u>(124,032)</u>
	1,774,141	(970,955)
Deferred		
Federal	424,644	60,415
State	<u>376,361</u>	<u>33,621</u>
	801,005	94,036
	<u>\$ 2,575,146</u>	<u>\$ (876,919)</u>



Notes to Consolidated Financial Statements
December 31, 2009 and 2008

7. INCOME TAXES (CONTINUED)

The reasons for the differences between the statutory federal income tax rate and the effective tax rate are summarized as follows:

	<u>2009</u>	<u>2008</u>
Tax at federal statutory rate	34.00%	34.00%
Increase (decrease) in tax:		
State income tax-net, personal holding company tax and other	3.89	5.53
Dividends received deduction and other expenses not deductible for tax purposes	<u>2.44</u>	<u>(13.26)</u>
	<u>40.33%</u>	<u>26.27%</u>

The components of the net deferred tax liability are as follows:

	<u>2009</u>	<u>2008</u>
Net unrealized loss on securities held-to-maturity	\$ 1,916,824	\$ -
Depreciation	484,035	425,356
Allowance for loan losses and interest on non-accrual loans	382,206	167,846
State net operating loss	286,968	-
Other-than-temporary impairment	176,758	-
Deferred loan fees	168,874	103,728
Foreclosed assets	59,939	99,451
Charitable contribution carryforward	<u>38,627</u>	<u>-</u>
	3,514,231	796,381
Liabilities:		
Net unrealized gain on securities available-for-sale	<u>(4,707,238)</u>	<u>(5,868,135)</u>
Deferred income tax liability, net	<u>\$ (1,193,007)</u>	<u>\$ (5,071,754)</u>

As of December 31, 2009, the Company has approximately \$5.2 million of State net operating loss carryforwards which expire in 2028. The utilization of these net operating loss carryforwards is limited to the Company's future taxable earnings. Under the Worker, Homeownership, and Business Assistance Act of 2009, a business may elect to increase the carryback period for a Federal net operating loss from a maximum of two years to a maximum of five years. The Company elected to carryback the federal net operating losses totaling \$5.2 million to the 2004 tax year. As a result, as of December 31, 2009, the Company recorded a federal income tax receivable of approximately \$1.8 million, which is included in other assets in the accompanying consolidated balance sheets.

In assessing the realizability of deferred tax assets, management considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the schedule reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.



Notes to Consolidated Financial Statements December 31, 2009 and 2008

8. OFF-BALANCE-SHEET ACTIVITIES

Credit Related Financial Instruments

The Company is a party to credit related 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 standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2009 and 2008, the following financial instruments whose contract amount represents credit risk were outstanding:

	<u>Contract Amount</u>	
	<u>2009</u>	<u>2008</u>
Commitments to extend credit	\$ 41,080,201	\$ 27,366,956
Unfunded commitments under lines of credit	13,715,545	10,565,215
Commercial and standby letters of credit	870,104	1,026,784

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers.

Commercial and standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements.

Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary. At December 31, 2009 and 2008, the Company's reserve for credit losses relating to these financial instruments amounted to \$108,000. Such reserve has been included in the caption accrued expenses and other liabilities in the consolidated balance sheets.

9. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company rents its office space and parking lot facilities from an affiliated company for \$275,000 per year. In addition, the Company is obligated to pay for property taxes, insurance and maintenance. The Company leases the property on a month-to-month basis.



Notes to Consolidated Financial Statements
December 31, 2009 and 2008

9. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Operating Leases (Continued)

During 2005, the Company entered into a lease agreement for office space for the Kendall branch. The agreement requires various minimum annual rentals expiring through 2013, with the option to extend for two periods of five years. The lease commenced in April 2006. On each anniversary of such lease, the basic rent shall be adjusted in proportion to the Consumer Price Index of the United States Department of Labor, Bureau of Labor Statistic.

Estimated future minimum lease payments, exclusive of taxes and other charges are as follows:

Years ending December 31,	
2010	\$ 212,000
2011	212,000
2012	212,000
2013	<u>70,000</u>
	<u>\$ 706,000</u>

The total rental expense on all operating leases, exclusive of property taxes and other reimbursements, was approximately \$635,000 and \$655,000 in 2009 and 2008, respectively.

Data Processing Agreements

On July 1, 2005, the Company entered into a data processing agreement with a third party servicer. The initial term of the agreement is five years. During September 2008, the Company renewed the agreement extending the terms for an additional five years. The agreement provides for a minimum monthly fee of approximately \$18,000 and approximately \$8,000 for additional services, subject to annual adjustments based on transaction volume and other factors, including the Consumer Price Index. For the years ended December 31, 2009 and 2008, processing fees under this agreement amounted to approximately \$437,000 and \$395,000, respectively. The commitment under the agreement is as follows:

Years ending December 31,	
2010	\$ 368,000
2011	368,000
2012	368,000
2013	368,000
2014	368,000
Thereafter	<u>184,000</u>
	<u>\$ 2,024,000</u>

In addition, the Company utilizes other data processing services. For the years ended December 31, 2009 and 2008, data processing fees for such services amounted to approximately \$108,000 and \$155,000, respectively.



Notes to Consolidated Financial Statements December 31, 2009 and 2008

9. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Concentration of Credit Risk

Credit risk represents the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. Concentrations of credit risk (whether on or off-balance sheet) arising from financial instruments exist in relation to certain groups of customers. A group concentration arises when a number of counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Company does not have a significant exposure to any individual customer or counterparty.

Most of the Bank's business activity is with customers located within its primary market area, which generally includes South Miami and the surrounding area in Miami-Dade County, Florida. This market area does not depend heavily on any particular industry.

As of December 31, 2009, the Company had one demand deposit with a related party totaling approximately \$19,126,000, which is 8% of total deposits. As of December 31, 2008, the Company did not have any deposit concentrations.

Litigation

Various legal claims arise from time to time in the normal course of business, which in the opinion of management, will have no effect on the Company's consolidated financial statements.

10. RELATED PARTY TRANSACTIONS

At December 31, 2009 and 2008, officers and directors were indebted to the Bank in the aggregate amount of approximately \$4,700,000 and \$2,914,000, respectively. These loans were made in the ordinary course of business.

The Bank has placed the majority of its commercial and group insurance coverage with an insurance agency significantly owned by the majority stockholders of the Company. During 2009 and 2008, the Bank paid premiums of approximately \$314,000 and \$273,000, respectively, to this insurance agency.

As of December 31, 2009, the Company had one demand deposit with a related party totaling approximately \$19,126,000. As of December 31, 2008, the Company did not have any deposits with related parties.

An affiliated company, owned significantly by the majority stockholders of the Company, leases a building and a parking lot to the Bank. During 2009 and 2008, the Bank paid rent totaling approximately \$294,000 to the affiliated company.

11. REGULATORY REQUIREMENTS AND RESTRICTIONS

There are legal limitations on the ability of banks to declare dividends. Florida law restricts the amount available for cash dividends by banks to the current year income and that of the previous two fiscal years (less any distributions to stockholders made during such period).

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum regulatory capital requirements can initiate certain mandatory, and possible additional discretionary actions by regulators, that if undertaken, could have a direct material effect on the Company and the Bank's consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines involving quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are



**Notes to Consolidated Financial Statements
December 31, 2009 and 2008**

11. REGULATORY REQUIREMENTS AND RESTRICTIONS (CONTINUED)

also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios set forth in the following table of: total risk-based capital and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital to average total assets (as defined). Management believes, as of December 31, 2009, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2008, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank will have to maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Company's and the Bank's actual capital amounts and ratios as of December 31, 2009 and 2008 are presented in the table (dollars in thousands).

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		MINIMUM TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
December 31, 2009:						
Total Risk-Based Capital to Risk-Weighted Assets:						
Bank	\$ 29,656	14.1%	\$ 16,726	≥8.0%	\$ 20,908	≥10.0%
Tier 1 Capital to Risk-Weighted Assets:						
Bank	\$ 27,412	13.1%	\$ 8,363	≥4.0%	\$ 12,545	≥6.0%
Tier 1 Capital to Average Total Assets:						
Bank	\$ 27,412	7.9%	\$ 13,806	≥4.0%	\$ 17,257	≥5.0%
December 31, 2008:						
Total Risk-Based Capital to Risk-Weighted Assets:						
Bank	\$ 35,191	20.2%	\$ 13,910	≥8.0%	\$ 17,387	≥10.0%
Tier 1 Capital to Risk-Weighted Assets:						
Bank	\$ 34,145	19.6%	\$ 6,955	≥4.0%	\$ 10,432	≥6.0%
Tier 1 Capital to Average Total Assets:						
Bank	\$ 34,145	11.7%	\$ 11,687	≥4.0%	\$ 14,609	≥5.0%



Notes to Consolidated Financial Statements
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12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The accounting standard relating to disclosures about fair value of financial instruments excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and cash equivalents – The carrying amounts of cash and short-term instruments approximate fair values.

Investment securities – Fair values for securities, excluding Federal Reserve Bank stock, are based on quoted market prices. The carrying value of Federal Reserve Bank stock approximates fair value based on the redemption provisions of the Federal Reserve Bank.

Loans, net – For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans (e.g., commercial real estate and investment property mortgage loans, commercial, industrial and installment loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposits – The fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Securities sold under agreements to repurchase – The carrying amounts of borrowings under repurchase agreements, maturing within ninety days, approximate their fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Off-balance sheet instruments – Fair values for off-balance-sheet, credit-related financial instruments, are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.



**Notes to Consolidated Financial Statements
December 31, 2009 and 2008**

12. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The estimated fair values and related approximate carrying amounts, of the Company's financial instruments at December 31, 2009 and 2008 are as follows:

	2009	
	Carrying Amount	Fair Value
Financial Assets:		
Cash and cash equivalents	\$ 30,567,000	\$ 30,567,000
Investment securities	199,392,000	199,258,000
Loans, net	130,196,000	131,399,000
Financial Liabilities:		
Demand, now accounts, savings and money market accounts	174,399,000	174,399,000
Time deposits	70,433,000	70,832,000
Securities sold under agreements to repurchase	65,448,000	65,446,000
	2008	
	Carrying Amount	Fair Value
Financial Assets:		
Cash and cash equivalents	\$ 18,927,000	\$ 18,927,000
Investment securities	188,729,000	180,248,000
Loans, net	112,256,000	113,149,000
Financial Liabilities:		
Demand, now accounts, savings and money market accounts	133,859,000	133,859,000
Time deposits	52,458,000	52,991,000
Securities sold under agreements to repurchase	66,869,000	66,879,000

13. FAIR VALUE MEASUREMENTS

The Company adopted the FASB accounting standard on fair value measurements on January 1, 2008. The accounting standard establishes a framework for measuring fair value, expands disclosures about fair value measurements and provides new income recognition criteria for certain derivative contracts. GAAP requires that a fair value measurement reflect assumptions market participants would use in pricing an asset or liability.

GAAP defines "fair value" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market, or if none exists, the most advantageous market, for the specific asset or liability at the measurement date (referred to as an exit price). The accounting standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy under the accounting standard are:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.



Notes to Consolidated Financial Statements December 31, 2009 and 2008

13. FAIR VALUE MEASUREMENTS (CONTINUED)

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The accounting standard requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Determination of Fair Value

In determining fair value, the Company used market prices of the same or similar instruments whenever such prices are available, even in situations where trading volume may be low when compared with prior periods as has been the case during the current market disruption. A fair value measurement assumes that an asset or liability is exchanged in an orderly transaction between market participants, and accordingly, fair value is not determined based upon a forced liquidation or distressed sale. Where necessary, the Company estimates fair value using other market observable data such as prices for synthetic or derivative instruments, market indices, industry ratings or underlying collateral or models employing techniques such as discounted cash flow analyses. The discount rate used will vary among different types of financial instruments, and particularly in the case of liquid markets, is appropriately adjusted to reflect the illiquidity of the markets. The assumptions used in the models, which typically include assumptions for interest rates, credit losses and prepayments, are corroborated by and independently verified against market observable data where possible. Market observable real estate data is used in valuing instruments where the underlying collateral is real estate or where the fair value of an instrument being valued highly correlates to real estate prices. Where appropriate, the Company may use a combination of these valuation approaches.

The following sections describe the valuation methodologies used by the Company to measure classes of financial instruments at fair value and specify the level in the fair value hierarchy where various financial instruments are generally classified. Valuation models, significant inputs to those models and any significant assumptions are included where appropriate.

Securities

When available, the Company uses quoted market prices in active markets to determine the fair value of securities. Such instruments are classified within Level 1 of the fair value hierarchy. The Company's common stock and bank stock are classified in Level 1.

When instruments are traded in secondary markets and quoted market prices do not exist for such securities, or positions within a market sector has slowed significantly, the Company generally relies on internal valuation techniques or on prices obtained from independent vendors. The majority of fair values derived using internal valuation techniques are verified against multiple pricing sources, including prices obtained from independent vendors. Vendors compile prices from various sources and often apply matrix pricing for similar securities when no price is observable. The Company reviews pricing methodologies provided by the vendors in order to determine if observable market information is being used, versus unobservable inputs. When evaluating the appropriateness of an internal trader price compared to vendor prices, considerations include the range and quality of vendor prices. Vendor prices are used to ensure the reasonableness of the trader price; however, valuing financial instruments involves judgments acquired from knowledge of a particular market and is not perfunctory. If a trader asserts that a vendor price is not reflective of market value, justification for using the trader price, including recent sales activity where possible, must be provided to and approved by the appropriate levels of management. Similarly, while securities available for sale traded in secondary markets are typically valued using a vendor price, these prices are reviewed and, if deemed inappropriate by a trader who has the most knowledge of a particular market, can be adjusted. Securities measured with these internal valuation techniques are generally classified within Level 2 of the hierarchy and often involve using quoted market prices for similar securities, pricing models or discounted cash flow analyses using inputs observable in the market where available. The Company's U.S. government agency securities and mortgage backed securities are classified in Level 2.



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13. FAIR VALUE MEASUREMENTS (CONTINUED)

Determination of Fair Value (Continued)

Impaired Loans

The Company uses third party appraisals to assist in measuring impairment on collateral dependent impaired loans. These appraisals generally use the market or income approach valuation technique and use market observable data to formulate an opinion of the fair value of the loan's collateral. However, the appraiser uses professional judgment in determining the fair value of the collateral properties and the Company may also adjust the values for changes in market conditions subsequent to the appraisal date. When current appraisals are not available for certain loans, the Company uses their judgment on market conditions to adjust the most current appraisal. The sales prices may reflect prices of sales contracts not closed and the amount of time required to sell out the real estate project may be derived from current appraisals of similar projects. At December 31, 2009, the Company had impaired loans totaling \$4,499,726.

Items Measured at Fair Value On a Recurring Basis

The following table presents the Company's assets that are measured at fair value on a recurring basis at December 31, 2009, for each fair value hierarchy levels.

Description	12/31/09	Fair Value Measurement at Reporting Date Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)
U.S. government agencies	\$ 110,338,015	\$ -	\$ 110,338,015	\$ -
Common stock	35,042,467	35,042,467	-	-
Bank stock	240,000	240,000	-	-
Mortgage backed securities	10,187,540	-	10,187,540	-
Total	\$ 155,808,022	\$ 35,282,467	\$ 120,525,555	\$ -

There were no recurring assets measured at fair value on a recurring basis at December 31, 2009.

Items Measured at Fair Value on a Nonrecurring Basis

Loans Measured for Impairment

Impaired loans are generally valued based on the fair value of the underlying collateral. The Bank primarily uses third party appraisals of the collateral to assist in measuring the impairment. These appraisals generally use the market or income approach valuation technique and use market observable data to formulate an opinion of the fair value of the loan's collateral. However, the appraiser uses professional judgment in determining the fair value of the collateral and the Company may also adjust these values for changes in market conditions subsequent to the appraisal date. When current appraisals are not available for income producing properties, the Company uses the income approach valuation technique to calculate a market value. The Company's impaired loans are included in level 3 of the fair value hierarchy.



**Notes to Consolidated Financial Statements
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13. FAIR VALUE MEASUREMENTS (CONTINUED)

Items Measured at Fair Value on a Nonrecurring Basis (Continued)

Foreclosed Assets

Foreclosed assets are valued at the lesser of the third party appraisals less management's estimate of the costs to sell or the carrying cost of the foreclosed asset. Appraisals generally use the market approach valuation technique and use market observable data to formulate an opinion of the fair value of the properties. However, the appraiser uses professional judgment in determining the fair value of the property and the Company may also adjust the value for changes in market conditions subsequent to the valuation date when current appraisals are not available. As a consequence of the carrying cost or the third party appraisal and adjustments therein, the fair values of the properties are considered a level 3 valuation.

The following table represents the Bank's financial instruments measured at fair value on a nonrecurring basis at December 31, 2009 for each of the fair value hierarchy levels:

Description	12/31/09	Fair Value Measurement at Reporting Date Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)
Impaired loans	\$ 4,505,358	\$ -	\$ -	\$ 4,505,358
Foreclosed assets	\$ 1,387,198	\$ -	\$ -	\$ 1,387,198