

# **Mercantil Commercebank, N.A. and Subsidiaries**

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

**Consolidated Financial Statements  
December 31, 2010 and 2009**

**Mercantil Commercebank, N.A. and Subsidiaries**  
(A wholly-owned subsidiary of Mercantil Commercebank Florida Bancorp Inc.)  
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**December 31, 2010 and 2009**

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## Report of Independent Certified Public Accountants

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income (loss), of changes in stockholder's equity and of cash flows present fairly, in all material respects, the financial position of Mercantil Commercebank, N.A. and subsidiaries (the "Bank") (a wholly-owned subsidiary of Mercantil Commercebank Florida Bancorp Inc.) at December 31, 2010 and 2009, 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. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 23, 2011

**Mercantil Commercebank, N.A. and Subsidiaries**  
(A wholly-owned subsidiary of Mercantil Commercebank Florida Bancorp Inc.)  
**Consolidated Balance Sheets**  
**December 31, 2010 and 2009**

(in thousands of dollars, except per share data)

	2010	2009
<b>Assets</b>		
Cash and due from banks	\$ 18,690	\$ 21,225
Interest earning deposits with banks	217,161	146,725
Cash and cash equivalents	235,851	167,950
Interest earning deposits with banks, with original maturities in excess of 90 days	200	200
Securities:		
Available for sale	2,260,979	2,294,054
Federal Reserve Bank and Federal Home Loan Bank stock	45,152	33,092
Loans, net	3,697,495	3,247,862
Accrued interest receivable	20,128	17,444
Premises and equipment, net	81,973	86,781
Deferred tax asset, net	41,220	42,244
Customers' acceptance liability	1,570	668
Total due from investment securities brokers	5,283	10,029
Other real estate owned, net	30,495	26,811
Other assets	57,747	63,910
	<u>\$ 6,478,093</u>	<u>\$ 5,991,045</u>
<b>Liabilities and Stockholder's Equity</b>		
Deposits		
Demand		
Non-interest bearing	\$ 860,012	\$ 663,233
Interest bearing	1,491,929	1,376,878
Savings and money market	1,487,888	1,386,296
Time	875,428	973,204
Total deposits	4,715,257	4,399,611
Securities sold under agreements to repurchase	649,330	694,127
Advances from the Federal Home Loan Bank	429,750	201,754
Acceptances outstanding	1,570	668
Accrued interest payable	2,790	3,601
Total due to investment securities brokers	774	20,510
Accounts payable and accrued liabilities	20,183	16,323
	<u>5,819,654</u>	<u>5,336,594</u>
Commitments and contingencies (Notes 1 and 14)		
Stockholder's equity		
Common stock, \$70 par value, 2,000,000 shares authorized, 1,699,449 shares issued and outstanding in 2010 and 2009	118,961	118,961
Additional paid in capital	308,505	308,505
Retained earnings	217,504	216,284
Accumulated other comprehensive income	13,469	10,701
	<u>658,439</u>	<u>654,451</u>
	<u>\$ 6,478,093</u>	<u>\$ 5,991,045</u>

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

**Mercantil Commercebank, N.A. and Subsidiaries**  
(A wholly-owned subsidiary of Mercantil Commercebank Florida Bancorp Inc.)  
**Consolidated Statements of Operations and Comprehensive Income (Loss)**  
**For the Years Ended December 31, 2010 and 2009**

(in thousands of dollars)

	2010	2009
<b>Interest income</b>		
Loans	\$ 109,633	\$ 116,559
Investment securities	68,511	89,626
Interest earning deposits with banks and other	673	1,114
Total interest income	<u>178,817</u>	<u>207,299</u>
<b>Interest expense</b>		
Interest bearing demand deposits	2,370	3,776
Savings and money market deposits	2,473	2,397
Time deposits	8,007	15,793
Securities sold under agreements to repurchase	14,365	17,643
Advances from the Federal Home Loan Bank	7,829	6,171
Other interest expense	310	969
Total interest expense	<u>35,354</u>	<u>46,749</u>
Net interest income	143,463	160,550
Provision for loan losses	<u>72,700</u>	<u>132,100</u>
Net interest income after provision for loan losses	<u>70,763</u>	<u>28,450</u>
<b>Non-interest income</b>		
Securities and derivative instruments gains, net	25,971	35,014
Deposits and services fees	18,079	15,014
Brokerage fees	9,557	6,547
Data processing, rental income and fees for other services to related parties	5,646	4,979
Loans and trade financing servicing fees	4,039	4,006
Rental and other income from other real estate owned	3,289	934
Other non-interest income	4,585	2,384
Total non-interest income	<u>71,166</u>	<u>68,878</u>
<b>Non-interest expense</b>		
Salaries and employee benefits	70,095	70,582
Occupancy and equipment	14,675	16,083
Professional and other services fees	9,942	8,944
Net loss from valuation write-down of other real estate owned, net of gains on sale	9,321	4,961
FDIC assessments and insurance	9,296	10,425
Depreciation and amortization	7,395	8,238
Telecommunication and data processing	6,319	5,979
Operating expenses on other real estate owned	5,237	2,207
Other operating expenses	7,840	8,924
Total non-interest expense	<u>140,120</u>	<u>136,343</u>
Net income (loss) before income tax (expense) benefit	1,809	(39,015)
Income tax (expense) benefit	<u>(589)</u>	<u>13,266</u>
Net income (loss)	<u>1,220</u>	<u>(25,749)</u>
<b>Other comprehensive income, net of tax</b>		
Net unrealized holding losses on securities available for sale arising during the year	(14,003)	(4,738)
Reclassification adjustment for net gains included in net income (loss)	16,771	13,437
Other comprehensive income	<u>2,768</u>	<u>8,699</u>
Comprehensive income (loss)	<u>\$ 3,988</u>	<u>\$ (17,050)</u>

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

**Mercantil Commercebank, N.A. and Subsidiaries**  
(A wholly-owned subsidiary of Mercantil Commercebank Florida Bancorp Inc.)  
**Consolidated Statements of Changes in Stockholder's Equity**  
**For the Years Ended December 31, 2010 and 2009**

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*(in thousands of dollars)*

	Common Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholder's Equity
	Shares Issued and Outstanding	Par Value				
<b>Balance at December 31, 2008</b>	1,526,716	\$ 106,870	\$ 205,596	\$ 245,033	\$ 2,002	\$ 559,501
Dividends	-	-	-	(3,000)	-	(3,000)
Capital contributions	-	-	102,909	-	-	102,909
Stock Issuance	172,733	12,091	-	-	-	12,091
Net loss	-	-	-	(25,749)	-	(25,749)
Other comprehensive income	-	-	-	-	8,699	8,699
<b>Balance at December 31, 2009</b>	1,699,449	118,961	308,505	216,284	10,701	654,451
Net Income	-	-	-	1,220	-	1,220
Other comprehensive income	-	-	-	-	2,768	2,768
<b>Balance at December 31, 2010</b>	1,699,449	\$ 118,961	\$ 308,505	\$ 217,504	\$ 13,469	\$ 658,439

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

**Mercantil Commercebank, N.A. and Subsidiaries**  
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**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2010 and 2009**

(in thousands of dollars)

	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 1,220	\$ (25,749)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	72,700	132,100
Net premium amortization on securities	32,855	15,306
Securities and derivative instruments gains, net	(26,001)	(33,484)
Depreciation and amortization	7,395	8,238
Deferred tax benefit	(1,070)	(14,849)
Net loss from valuation write-down of other real estate owned, net of gains on sale	9,321	4,961
Net changes in operating assets and liabilities:		
Net due to and from investment securities brokers	(14,990)	(36,327)
Accrued interest receivable and other assets	3,220	(3,477)
Accrued interest payable, accounts payable and accrued liabilities	3,050	(12,583)
Net cash provided by operating activities	<u>87,700</u>	<u>34,136</u>
<b>Cash flows from investing activities</b>		
Purchases of investment securities:		
Available for sale	(3,030,299)	(4,442,681)
Federal Reserve Bank and Federal Home Loan Bank stock	(13,185)	(7,603)
Maturities, sales and calls of investment securities:		
Available for sale	3,061,382	4,771,592
Held to Maturity	-	1,878
Federal Reserve Bank and Federal Home Loan Bank stock	1,125	-
Net increase in loans	(570,824)	(357,226)
Net purchases of premises and equipment	(2,329)	(25,171)
Net proceeds from sale of other real estate owned	35,486	-
Net cash used in investing activities	<u>(518,644)</u>	<u>(59,211)</u>
<b>Cash flows from financing activities</b>		
Net increase in demand, savings and money market accounts	413,422	491,905
Net decrease in time deposits	(97,776)	(453,080)
Net decrease in securities sold under agreements to repurchase	(44,797)	(174,503)
Net increase in advances from the Federal Home Loan Bank	227,996	49,987
Capital contributions	-	102,909
Stock Issuance	-	12,091
Dividends paid	-	(3,000)
Net cash provided by financing activities	<u>498,845</u>	<u>26,309</u>
Net increase in cash and cash equivalents	67,901	1,234
<b>Cash and cash equivalents</b>		
Beginning of the year	<u>167,950</u>	<u>166,716</u>
End of the year	<u>\$ 235,851</u>	<u>\$ 167,950</u>
<b>Supplemental disclosures of cash flow information</b>		
<b>Cash paid:</b>		
Interests	\$ 36,165	\$ 48,173
Income taxes	1,146	298
<b>Non-cash investing activity:</b>		
Loans transferred to other real estate owned	\$ 48,492	\$ 12,088

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

# **Mercantil Commercebank, N.A. and Subsidiaries**

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

## **Notes to the Consolidated Financial Statements**

### **December 31, 2010 and 2009**

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#### **1. Organization and Summary of Significant Accounting Policies**

Mercantil Commercebank, N.A. and its subsidiaries (collectively referred to as “the Bank”) have been serving the communities in which they operate for 30 years. The Bank is headquartered in the City of Coral Gables, Florida and has 17 Banking Centers, 15 located in South Florida, one in New York City, New York and one in the City of Houston, Texas. The Bank offers a wide variety of domestic, international, personal and commercial banking services, including investment, trust and estate planning through its main operating subsidiaries Mercantil Commercebank Investment Services, Inc. and Mercantil Commercebank Trust Company, N.A.

The Bank is a wholly-owned subsidiary of Mercantil Commercebank Florida Bancorp Inc. (the Parent Company), a Florida Corporation incorporated in 2008. The Parent Company is beneficially-owned by Mercantil Commercebank Holding Corporation (the Holding Company). The Holding Company is a wholly-owned subsidiary of Mercantil Servicios Financieros, S.A. (“MSF”), a corporation domiciled in the Bolivarian Republic of Venezuela.

Most of the Bank’s investment activity is concentrated on security instruments issued or sponsored by the Government of the United States of America. Most of the Bank’s banking activity is with domestic customers located within the States of Florida, New York and Texas, and with International customers located in Latin America. The Bank’s lending and deposit-taking activities are concentrated in its primary market areas in those geographies. The Bank does not have any significant concentrations to any one industry or customer.

The effects of significant subsequent events, if any, have been adequately recognized or disclosed in these consolidated financial statements. Subsequent events have been evaluated through February 22, 2011, the date when these consolidated financial statements have been approved for issuance.

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 and general practice within the banking industry (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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include the determination of the allowance for loan losses, the fair values of securities, other real estate owned and the reporting unit to which goodwill has been assigned during the annual goodwill impairment test, and the determination of whether the amount of deferred tax assets will more likely not be realized. Management believes that these estimates are adequate. Actual results could differ from these estimates.



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**Income Recognition**

Interest income is generally recognized on the accrual basis using the interest method. Unearned interest is amortized over the term of the related loan using the effective yield method. Loan fees and related origination costs are deferred and amortized over the term of the related loans as an adjustment to interest income using the effective yield method.

**Cash and Cash Equivalents**

The Bank has defined as cash equivalents those highly liquid instruments purchased with an original maturity of three months or less and include cash and cash due from banks, federal funds sold and deposits with banks.

**Securities**

The Bank classifies its investments in securities as trading or available for sale based on management's intention on the date of purchase. Securities purchased are recorded on the consolidated balance sheets as of the trade date. Securities that are bought and held principally for the purpose of resale in the near term are classified as trading securities and are carried at fair value with unrealized gains and losses included in the results of operations. Securities available for sale 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 that the Bank had the positive intent and ability to hold to maturity had been designated as held-to-maturity securities and were carried at cost, adjusted for amortization of premium or accretion of discount, which was recognized as an adjustment to interest income. In 2009, the Bank changed from its original intention for reasons that were not considered isolated, non-recurring or due to an unusual external event. As a result, the entire held to maturity securities portfolio held by the Bank was transferred from the held to maturity category to the available for sale category. This transfer was recorded at the fair value of the securities at the date of transfer into the available for sale category. The net unrealized holding loss that arose at the date of the transfer is recorded in OCI and is being amortized as an adjustment to interest income in a manner consistent with the amortization of any premium or accretion of a discount. For the held to maturity category to become available for use by the Bank, the passage of time is generally considered when evaluating in the future the positive intent and ability to hold to maturity future purchases of securities the Bank intends to classify as held to maturity.

The Bank considers an investment security to be impaired when a decline in fair value below the amortized cost basis is other-than-temporary. When an investment security is considered to be other-than-temporarily impaired, the cost basis of the individual investment security is written down through earnings by an amount that corresponds to the credit component of the other-than-temporary impairment. The amount of an other-than-temporary impairment that corresponds to the non-credit 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.

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The Bank estimates the credit component of an other-than-temporary impairment using a discounted cash flow model. The Bank estimates the expected cash flows of the underlying collateral using third party vendor models that incorporate management's best estimate of current key assumptions, such as default rates, loss severity and prepayment rates (based on historical performance and stress test scenarios). Assumptions used can vary widely from security to security and are influenced by such factors as current coverage ratio, historical prepayment rates, expected prepayment rates, and loans' current interest rate. The Bank then uses a third party vendor to determine how the underlying collateral cash flows will be distributed to each security issued from a structure. Expected principal and interest cash flows on an impaired debt security are discounted using the original discount rate of the security with an adjustment for the credit risk that was already incorporated at a cash flow level. The Bank expects to recover the remaining non-credit related unrealized losses included as a component of OCI.

**Trading Securities Sold, But Not Yet Purchased**

Securities sold, but not yet purchased are associated with proprietary securities transactions and are accounted for at fair value with changes in the fair value included in earnings. The fair value of these trading positions is generally based on listed market prices. If listed market prices are not available or if liquidating the positions would reasonably be expected to impact market prices, fair value is determined based on other relevant factors, including dealer price quotations, price quotations for similar instruments traded in different markets, management's estimates of amounts to be realized on settlement or management's valuation model associated with securities that are not readily marketable.

**Loans**

Loans are stated at the amount of unpaid principal, reduced by unamortized deferred loan fees and origination costs and an allowance for loan losses. Accrual of interest is discontinued on a loan when principal or interest is delinquent for more than ninety days, unless the loan is adequately secured and in the process of collection, or when management believes that the borrower's financial condition is such that collection of interest is unlikely. When a loan is placed on non-accrual status any interest accrued is reversed against interest income. Collection of interest while the loan is on non-accrual status is generally recognized as income on a cash basis unless collection of principal is doubtful, in which case cash collections are applied to unpaid principal. A loan in non-accrual status is returned to accrual status when none of the conditions noted when first placed in non-accrual status are currently present, none of its principal and interest currently due remains unpaid, and management believes there are reasonable prospects of the loan performing in accordance with its terms. 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**

Management periodically evaluates the adequacy of the Allowance for Loan Losses to ensure it is maintained at a level to provide recognized and unrecognized but inherent losses in the portfolio.

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The Bank considers loans to be impaired when it is probable that all amounts of principal and interest under the terms of the loan agreement will not be recovered. The allowance for significant impaired loans is assessed based on the present value of estimated discounted future cash flows, discounted at the current effective loan rate, or the fair value of the collateral in the case where the loan is considered collateral-dependent. An allowance for impaired loans is provided when discounted future cash flows or collateral fair value is lower than book value.

To calculate the allowance required for smaller-balance impaired loans and unimpaired loans, historical loss ratios are determined by analyzing historical losses. Loss estimates are analyzed by loan type and thus for homogenous groups of clients. Historical ratios are updated to incorporate the most recent data reflecting current economic conditions, industry performance trends, geographic or obligor concentrations within each portfolio segment, and any other pertinent information that may affect the estimation of the allowance for loan losses.

The same methodology above is used to assign reserves to off-balance sheet credit risk such as unfunded loan commitments and letters of credit. These reserves are presented in the liabilities section in the financial statements.

Credit losses relating to loans, which may be for all or part of particular loans, are deducted from the allowance. The related loan balance is charged off in the year in which the loan is deemed uncollectible. Recoveries of loans and trade receivables previously charged off are recorded when received, as part of the allowance.

**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.

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**Income Taxes**

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the resulting net deferred tax asset is determined based on the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax basis. A valuation allowance is established against the deferred tax asset to the extent that management believes that it is more likely than not that any tax benefit will not be realized. Income tax expense is recognized on the periodic change in deferred tax assets and liabilities at the current statutory rates.

The results of operations of the Bank and the majority of its wholly-owned subsidiaries are included in the consolidated income tax return of the Holding Company and its subsidiaries as members of the same consolidated tax group. Under the intercompany income tax allocation policy, the Bank and the subsidiaries included in the consolidated tax group are allocated current and deferred taxes as if they were separate taxpayers. As a result, the Bank and the subsidiaries included in the consolidated group, pay their allocation of income taxes to the Holding Company, or receive payments from the Holding Company to the extent that tax benefits are realized.

**Other Real Estate Owned, Net**

Property acquired through foreclosure or deed in lieu of foreclosure is carried at estimated fair value less estimated costs to sell the property at the date of foreclosure. Any excess of the loan balance over the fair value less estimated costs to sell the property is charged to the allowance for loan losses at the time of foreclosure. The carrying value is reviewed periodically, and when necessary, any decline in the value of the real estate less estimated cost to sell is charged to operations through a valuation allowance account. Subsequent increases in fair value are adjusted only up the amount of the valuation allowance, in which previous decreases in fair value would have been recorded. Significant property improvements, which enhance the saleable prospect of the property, are capitalized to the extent that the carrying value of the property does not exceed their estimated realizable values. Maintenance and carrying costs on the property are charged to operations as incurred. In connection with real estate owned, management obtains independent appraisals for properties.

**Goodwill**

Goodwill is not amortized but is reviewed for potential impairment at the reporting unit level on an annual basis, or on an interim basis if events or circumstances indicate a potential impairment. The impairment test is performed in two steps. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. However, if the carrying amount of the reporting unit exceeds its fair value, an additional procedure must be performed as a second step. In that second step, the implied fair value of the reporting unit's goodwill is compared to the carrying amount of goodwill allocated to that reporting unit. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value at the measurement date. At December 31, 2010 and 2009, goodwill was considered not impaired and, therefore, no impairment charges were recorded.

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**Derivative Instruments**

Derivative instruments are recognized on the balance sheet at fair value, with changes in fair value recorded each period in current earnings or other comprehensive income, depending on whether the derivative has been designated as part of a hedge transaction and, if it is, the type of hedge transaction. On the date the derivative contract is entered into, the Bank evaluates the instrument and chooses to designate the derivative as a hedge or not. The Bank has designated certain instruments as hedges of the fluctuations in the fair value of certain fixed rate instruments due to interest rate risk ("fair value" hedges). Management periodically evaluates the effectiveness of these hedges in offsetting the fluctuations in value of the fixed rate instruments arising from interest rate risk. Changes in the fair value of these derivatives are recorded in earnings, as well as changes in the fair value of the hedged instruments, unless the hedges are determined to be ineffective or the derivative contracts are terminated. In these cases, the Bank stops adjusting the carrying amount of the fixed rate instruments being hedged for changes in their fair value, with their fair value as of the date the hedging relationships is deemed ineffective, or the derivative contracts are terminated, remaining as the carrying value of the fixed rate instrument. The difference between this fair value and their previous carrying amount is amortized to earnings in the same manner as other components of the carrying amount of the fixed rate instrument.

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

**Interest Rate Risk**

The Bank's profitability is dependent to a large extent on its net interest income, which is the difference between income on interest-earning assets and its interest expense on interest-bearing liabilities. The Bank, like most financial institutions, is affected by changes in general interest rate levels and by other economic factors beyond its control. Interest rate risk arises from mismatches between the dollar amount of repricing or maturing assets and liabilities (the interest sensitivity gap), and is measured in terms of the ratio of the interest rate sensitivity gap to total assets. More assets repricing or maturing than liabilities over a given time frame is considered asset-sensitive, or a positive gap, and more liabilities repricing or maturing than assets over a given time frame is considered liability-sensitive, or a negative gap. An asset-sensitive position will generally enhance earnings in a rising interest rate environment and will negatively impact earnings in a falling interest rate environment, while a liability-sensitive position will generally enhance earnings in a falling interest rate environment and negatively impact earnings in a rising interest rate environment. Fluctuations in interest rates are not predictable or controllable. The Bank has attempted to structure its asset and liability management strategies to mitigate the impact on net interest income resulting from changes in interest rates.

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**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**

Fair Value Measurements and Disclosures

In January 2010, the Financial Accounting Standards Board ("FASB") issued guidance that requires new disclosures, and clarifies existing disclosure requirements about fair value measurements. The clarifications and the requirement to separately disclose transfers of instruments between Level 1 and Level 2 of the fair value hierarchy are effective for interim reporting periods beginning after December 15, 2009. The Bank has no Level 1 financial instruments. Therefore, application of this new disclosure requirement in 2010 does not require additional disclosures. In addition, a new requirement to provide a detail of purchases, sales, issuances and settlements in the Level 3 rollforward on a gross basis is effective for fiscal years beginning after December 15, 2010. Early adoption of the guidance is permitted. The Bank is evaluating the data required to comply with this new disclosure requirement for implementation in 2011.

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Disclosures About the Credit Quality of Financing Receivables and the Allowance for Loan Losses

In July 2010, the FASB issued guidance that will require enhanced disclosures about the credit characteristics of the Bank's loan portfolio. Under the new guidance, the Bank will be required to disclose its accounting policies, the methods it uses to determine the components of the allowance for credit losses, and qualitative and quantitative information about the credit risk inherent in the loan portfolio, including additional information on certain types of loan modifications. The new disclosure requirements are effective for the Bank beginning in 2011. The adoption of this guidance in 2011 will only affect the Bank's disclosures of loan receivables and not its consolidated financial position or results of its operations.

Measuring Liabilities at Fair Value

In August 2009, the FASB issued guidance that provides clarification on how companies should measure liabilities at fair value and confirmed practices that have evolved when measuring fair value such as the use of quoted prices for a liability when traded as an asset. While reaffirming the existing definition of fair value, the guidance reintroduces the concept of entry value into the determination of fair value. Entry value is the amount an entity would receive to enter into an identical liability. Under this guidance, the fair value of a liability is not adjusted to reflect the impact of contractual restrictions that prevent its transfer. The effective date of this guidance is the first reporting period (including interim periods) after August 26, 2009. The adoption of this guidance by the Bank in 2009 did not impact the Bank's consolidated financial statements.

Accounting for Transfer of Financial Assets

On June 12, 2009, the FASB issued guidance which amended the existing sale accounting criteria requirements for transfers of financial assets. Among other revisions, the amended sale accounting criteria eliminated the concept of a Qualified Special Purpose Entity ("QSPE") and would generally require consolidation of existing QSPEs, typically present at Banks that engage in the business of mortgage loans and credit card receivables transfers ("securitization activities") which are not currently subject to consolidation by the transferor. The Bank does not engage in securitization activities nor does it own or sponsor entities that would be considered QSPEs. As a result, the adoption of this guidance on January 1, 2010 did not impact the Bank's consolidated financial statements or its disclosures.

Recognition and Presentation of Other-Than-Temporary Investments

In April 2009, the FASB amended the other-than-temporary impairment model for debt securities and required expanded disclosures. The amended model requires an entity to recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the non-credit component in OCI when the entity does not intend to sell the security and it is more likely than not that the entity will not be required to sell the security prior to maturity. The amended guidance became effective in 2009, and its adoption by the Bank resulted in the recognition of \$1 million related to credit losses for the year ended December 31, 2009. The expanded disclosures required by the amended guidance are included in Note 3 – Securities.

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Determining Fair Value When the Volume and Level of Activity for Assets or Liabilities Have Significantly Decreased and Identifying Transactions That are not Orderly

In April 2009, the FASB issued guidance for estimating fair value when the volume and level of activity for assets or liabilities have significantly declined. This statement provides additional guidance for estimating the fair value of these assets or liabilities. This statement emphasizes that even if there has been a significant decrease in the volume and level of activity, regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. The guidance is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Adoption of this guidance in 2009 had no impact to the Bank's consolidated financial statements.

**Reclassifications**

Certain reclassifications have been made to the December 31, 2009 consolidated financial statements to conform to current year presentation.

**2. Interest Earning Deposits with Banks**

At December 31, 2010 and 2009, interest earning deposits with banks are comprised of placements with domestic institutions in the amount of approximately \$200 thousand in both years and deposits with the Federal Reserve Bank in the amount of approximately \$217 million and \$147 million, respectively. At December 31, 2010 and 2009, the average interest rate on these deposits was approximately 0.25% and 0.28%, respectively. Interest earning deposits with banks have maturities within one year.

**3. Securities**

In 2009, the Bank discontinued its proprietary trading activities. As a result, the Bank had no trading securities at December 31, 2010 and 2009.

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

*(in thousands of dollars)*

	Amortized Cost	December 31, 2010		Estimated Fair Value
		Gains	Losses	
U.S. Government agency debt securities	\$ 1,378,082	\$ 16,073	\$ (3,483)	\$ 1,390,672
U.S. Government sponsored enterprise debt securities	489,623	11,697	(1,827)	499,493
Foreign Sovereign Debt	46,509	208	(597)	46,120
Corporate debt securities	294,875	1,379	(2,620)	293,634
U.S. Treasury securities	30,768	89	(36)	30,821
Mutual funds	239	-	-	239
	<u>\$ 2,240,096</u>	<u>\$ 29,446</u>	<u>\$ (8,563)</u>	<u>\$ 2,260,979</u>



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(in thousands of dollars)

	<b>December 31, 2009</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized</b>		<b>Estimated Fair Value</b>
		<b>Gains</b>	<b>Losses</b>	
U.S. Government agency debt securities	\$ 1,291,677	\$ 12,826	\$ (6,508)	\$ 1,297,995
U.S. Government sponsored enterprise debt securities	882,615	13,441	(2,411)	893,645
Foreign Sovereign Debt	5,196	35	-	5,231
Corporate debt securities	83,286	526	(1,854)	81,958
U.S. Treasury securities	15,021	-	(35)	14,986
Mutual funds	239	-	-	239
	<u>\$ 2,278,034</u>	<u>\$ 26,828</u>	<u>\$ (10,808)</u>	<u>\$ 2,294,054</u>

During the year ended on December 31, 2009, the Bank transferred all the securities with an amortized cost of \$47 million from its held to maturity portfolio to the available for sale portfolio and incurred an unrealized loss of \$3 million which was recorded in OCI. Following this transfer in 2009, current accounting guidance precludes the Bank from designating securities it purchases for a certain period of time in the future as held to maturity.

The Bank's investment securities available for sale with unrealized losses that are deemed temporary, including debt securities for which a portion of other-than-temporary impairment has been recognized in OCI, aggregated by length of time that individual securities have been in a continuous unrealized loss position, are summarized below:

(in thousands of dollars)

	<b>December 31, 2010</b>					
	<b>Less than 12 months</b>		<b>12 months or more</b>		<b>Total</b>	
	<b>Estimated Fair Value</b>	<b>Unrealized Loss</b>	<b>Estimated Fair Value</b>	<b>Unrealized Loss</b>	<b>Estimated Fair Value</b>	<b>Unrealized Loss</b>
U.S. Government agency debt securities	\$ 481,456	\$ (3,006)	\$ 97,055	\$ (477)	\$ 578,511	\$ (3,483)
U.S. Government sponsored enterprise debt securities	173,872	(1,514)	9,665	(313)	183,537	(1,827)
Foreign Sovereign Debt	26,853	(597)	-	-	26,853	(597)
Corporate debt securities	193,670	(2,229)	9,564	(391)	203,234	(2,620)
US Treasury Securities	20,201	(36)	-	-	20,201	(36)
Total	<u>\$ 896,052</u>	<u>\$ (7,382)</u>	<u>\$ 116,284</u>	<u>\$ (1,181)</u>	<u>\$ 1,012,336</u>	<u>\$ (8,563)</u>

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(in thousands of dollars)

	December 31, 2009					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
U.S. Government agency debt securities	\$ 589,054	\$ (4,092)	\$ 152,350	\$ (2,415)	\$ 741,404	\$ (6,507)
U.S. Government sponsored enterprise debt securities	282,557	(2,219)	15,847	(193)	298,404	(2,412)
Foreign Sovereign Debt	618	-	-	-	618	-
Corporate debt securities	20,684	(1,854)	-	-	20,684	(1,854)
US Treasury Securities	14,987	(35)	-	-	14,987	(35)
<b>Total</b>	<b>\$ 907,900</b>	<b>\$ (8,200)</b>	<b>\$ 168,197</b>	<b>\$ (2,608)</b>	<b>\$ 1,076,097</b>	<b>\$ (10,808)</b>

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.

In 2010, the Bank recognized no other-than-temporary impairment losses on debt securities through earnings. In 2009, the Bank recorded other-than-temporary impairment losses on debt securities as follows:

(in thousands of dollars)

	U.S. Government Sponsored Enterprise Debt Securities	Corporate Debt Securities	Trust Preferred Debentures	Total
Total other-than-temporary impairment losses (unrealized)	\$ (229)	\$ (2,576)	\$ (1,254)	\$ (4,059)
Less: unrealized other-than-temporary impairment losses recognized in OCI (1)	25	2,219	808	3,052
Net impairment losses recognized in earnings (2)	\$ (204)	\$ (357)	\$ (446)	\$ (1,007)

(1) Represents the non-credit component of the other-than-temporary impairment on debt securities

(2) Represents the credit component of the other-than-temporary impairment on debt securities

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The most significant assumptions incorporated in the discounted cash flow models used to measure the credit component of the unrealized losses of securities considered other-than-temporarily impaired were: i) current prepayment, default and severity levels (probability: 50%), ii) two times the current prepayment, default, and severity levels (probability: 37.5%) and iii) stressed prepayment, default and severity levels (probability: 12.5%).

Contractual maturities of securities available for sale are as follows:

*(in thousands of dollars)*

	<b>December 31, 2010</b>	
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
Within 1 year	\$ 15,943	\$ 16,052
After 1 year through 5 years	366,573	365,798
After 5 years through 10 years	118,432	120,044
After 10 years	1,738,909	1,758,846
No contractual maturities	239	239
	<b>\$ 2,240,096</b>	<b>\$ 2,260,979</b>

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 2010 and 2009 were approximately \$2,484 million and \$4,150 million, respectively, with net realized gains of approximately \$26 million in 2010 and \$35 million in 2009.

At December 31, 2010 and 2009, securities available for sale with a fair value of approximately \$1,011 million and \$940 million, respectively, were pledged as collateral to secure federal tax deposits, securities sold under agreements to repurchase, and advances from the federal home loan bank.

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**4. Loans and Allowance for Loan Losses**

The loan portfolio consists of the following types of loans:

<i>(in thousands of dollars)</i>	<b>2010</b>	<b>2009</b>
Commercial	\$ 1,088,766	\$ 596,660
Real estate:		
Mini-permanents	989,128	1,004,292
Construction	201,219	352,522
Land	63,203	77,687
Other secured by real estate	321,068	316,621
Bankers acceptances and short-term advances to other banks	1,052,846	936,853
Installment	42,681	45,215
Overdrafts	351	889
	<u>3,759,262</u>	<u>3,330,739</u>
Less:		
Allowance for loan losses	(59,065)	(76,635)
Unamortized deferred loan fees and costs, net	(2,702)	(6,242)
	<u>\$ 3,697,495</u>	<u>\$ 3,247,862</u>

The Bank has approximately \$310 million and \$414 million of loans where the accrual of interest has been discontinued at December 31, 2010 and 2009, respectively. If non-accrual loans were on full accrual, additional interest income of approximately \$15 million and \$17 million for 2010 and 2009, respectively, would have been recorded.

An analysis of the changes in the allowance for loan and lease losses for the years ended December 31, 2010 and 2009 is as follows:

<i>(in thousands of dollars)</i>	<b>2010</b>	<b>2009</b>
Balance, beginning of the year	\$ 76,635	\$ 72,615
Provision charged to operations	72,700	132,100
Loans charged off	(98,060)	(128,723)
Recoveries	7,790	643
Balance, end of the year	<u>\$ 59,065</u>	<u>\$ 76,635</u>

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The following is a summary of the investments in impaired loans as of and for the years ended December 31, 2010 and 2009:

<i>(in thousands of dollars)</i>	<b>2010</b>	<b>2009</b>
Investment in impaired loans:		
With a related valuation allowance	\$ 203,184	\$ 114,424
Without a related valuation allowance	87,230	339,561
Total	<u>\$ 290,414</u>	<u>\$ 453,985</u>
Valuation allowance	\$ 8,602	\$ 17,781
Average recorded investment in impaired loans	382,347	390,144
Interest income not recognized on impaired loans	14,719	17,189

Troubled debt restructurings completed during 2010 totaled \$28 million.

While maintaining diversified commercial, real estate and installment portfolios, the Bank is dependent mostly on the economic conditions affecting the South Florida market. Also, the Bank's primary source of international lending activity is Latin America. A large component of the Bank's international loans are comprised of 90 to 180 day trade financing lines of credit principally 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.

A summary of international loans by country, net of collateral of cash, cash equivalents or other financial instruments of at December 31, 2010 and 2009 of approximately \$147million, is as follows:

<i>(in thousands of dollars)</i>	<b>2010</b>	<b>%</b>	<b>2009</b>	<b>%</b>
Brazil	\$ 431,835	26	\$ 359,098	27
Chile	335,809	21	358,579	27
Peru	233,917	14	121,058	9
Mexico	175,726	11	117,047	9
Venezuela	126,987	8	146,565	11
Colombia	93,322	6	63,142	5
Guatemala	46,249	3	16,253	1
Dominican Republic	35,333	2	7,188	1
Trinidad and Tobago	35,000	2	35,840	3
Costa Rica	30,000	2	42,200	3
Switzerland	27,751	2	2,321	-
Belgium	17,638	1	-	-
Panama	16,242	1	3,305	-
Multiregional	15,000	1	40,000	3
El Salvador	8,000	-	21,000	2
Honduras	5,220	-	-	-
Netherland Antilles	5,066	-	8,018	1
Other	3,970	-	5,029	-
	<u>\$ 1,643,065</u>	<u>100</u>	<u>\$ 1,346,643</u>	<u>100</u>

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The country exposure to Venezuelan debtors, at December 31, 2010 includes approximately \$84 million in mortgages on properties situated in the United States of America (\$83 million at December 31, 2009).

**5. Premises and Equipment, Net**

Premises and equipment, net includes the following:

(in thousands of dollars)	2010	2009	Estimated Useful Lives (in years)
Land	\$ 6,402	\$ 6,460	-
Buildings and improvements	59,053	58,932	10-30
Equipment leased under an operating lease	19,318	19,318	15
Furniture and equipment	15,913	16,171	3-10
Computer equipment and software	23,714	24,116	3
Leasehold improvements	4,808	4,888	5-10
Work in progress	3,793	2,802	-
	<u>133,001</u>	<u>132,687</u>	
Less: Accumulated depreciation and amortization	<u>(51,028)</u>	<u>(45,906)</u>	
	<u>\$ 81,973</u>	<u>\$ 86,781</u>	

Depreciation and amortization expense was approximately \$7 million and \$8 million for the years ended December 31, 2010 and 2009, respectively. In 2010, the original cost of fully-depreciated premises and equipment of approximately \$2 million were written-off with a charge to their respective accumulated depreciation.

**6. Derivative Instruments**

The Bank uses, from time to time, several derivative instruments as part of its interest rate risk management activities. Those derivative instruments may or not be accounted for as hedges.

During 2010 and 2009, the Bank had outstanding one interest rate swap contract used to reduce the risk of changes in interest rate associated with specific fixed rate loans receivable outstanding. These contracts qualified and were accounted for as fair value hedges. In 2010, the Bank terminated these swap contracts which, at December 31, 2009, had an aggregate outstanding notional amount exposure and a negative fair market value of \$25 million and \$1 million (liability), respectively. As a result, the Bank has: (1) derecognized the interest rate swaps by paying approximately \$1.4 million in cash to the counterparty and (2) stopped adjusting the carrying amount of the loans that were being hedged for changes in their fair value. The adjustment of the carrying amount of the loans for changes in their fair value as of the date of termination of approximately \$1.2 million remains part of the carrying value of the loans and will be amortized to interest income in the same manner as the carrying amount of the loans in accordance with current accounting guidance.

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During 2009, the Bank used credit default swaps “CDS” through credit derivative contracts to limit the credit exposure of certain fixed income products. No CDS were outstanding at December 31, 2010 and 2009.

**7. Time Deposits**

Time deposits in denominations of \$100,000 or more amounted to approximately \$651 million and \$719 million at December 31, 2010 and 2009, respectively. The average interest rate paid on time deposits, which generally mature within one year, was approximately 0.85% in 2010 and 1.39% in 2009.

**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, 2010 and 2009, securities sold under agreements to repurchase amounted to approximately \$649 million and \$694 million, respectively. In 2010, the highest month-end outstanding balance and month average outstanding balance were approximately \$879 million and \$789 million, respectively (\$986 million and \$980 million in 2009, respectively). The average interest rate paid in 2010 was 1.8% in 2010 and 2009.

**9. Advances from the Federal Home Loan Bank**

At December 31, 2010 and 2009, the Bank had outstanding advances from the Federal Home Loan Bank of Atlanta (“FHLB”) as follows:

<b>Year of Maturity</b>	<b>Interest Rate</b>	<b>2010</b>	<b>2009</b>
2010	5.92%	\$ -	\$ 2,004
2011	0.36% to 5.64%	92,500	27,500
2012	0.29% to 3.47%	150,000	35,000
2013	0.71% to 4.52%	135,000	110,000
2014	1.39%	25,000	-
2016	3.43% to 5.91%	11,250	11,250
2018	5.35% to 5.41%	1,000	1,000
2019	3.86% to 3.88%	15,000	15,000
		<u>\$ 429,750</u>	<u>\$ 201,754</u>

At December 31, 2010 and 2009, the Bank held stock of the FHLB for approximately \$32 million and \$20 million, respectively. The terms of the advance agreement require the Bank to maintain certain investment securities as collateral for these advances. At December 31, 2010, the Bank was in compliance with this requirement of the FHLB membership agreement.

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**10. Income Taxes**

The components of the income tax expense (benefit) for the years ended December 31, 2010 and 2009 are as follows:

<i>(in thousands of dollars)</i>	<b>2010</b>	<b>2009</b>
Current provision:		
Federal	\$ 1,252	\$ 1,229
State	407	354
Deferred tax benefit	<u>(1,070)</u>	<u>(14,849)</u>
	<u>\$ 589</u>	<u>\$ (13,266)</u>

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

<i>(in thousands of dollars)</i>	<b>2010</b>	<b>2009</b>
Tax effect of temporary differences		
Provision for loan losses	\$ 17,942	\$ 21,554
Loss recognized on equity-method investment	19,366	18,362
Other Real Estate Owned	7,685	2,545
Interest income on non-accrual loans	7,484	6,468
Deferred compensation expense	1,073	902
Goodwill Amortization	(2,133)	(1,677)
Depreciation and amortization	(4,884)	(3,489)
Unrealized gains on securities available for sale, net	(7,413)	(5,319)
Other	<u>2,100</u>	<u>2,898</u>
	<u>\$ 41,220</u>	<u>\$ 42,244</u>

At December 31, 2010 and 2009, the Bank had federal net deferred tax assets of approximately \$41 million and \$42 million, respectively. 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.

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. Currently the Bank's projections provide support for the realization of the entire deferred tax asset. If future results differ significantly from the Banks' current projections, a valuation allowance against the net deferred tax asset may be required.



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At December 31, 2010, the Bank had no unrecognized tax benefits or associated interest or penalties that needed to be accrued for.

**11. Other Comprehensive Income**

The related tax effect allocated to each component of other comprehensive income for the years ended December 31, 2010 and 2009 is as follows:

<i>(in thousands of dollars)</i>	<u>Before-Tax Amount</u>	<u>Tax Effect</u>	<u>Net-of-Tax Amount</u>
<b>2010</b>			
Net unrealized holding losses on securities available for sale arising during the year	\$ (21,144)	\$ 7,141	\$ (14,003)
Reclassification adjustment for net gains included in net income	26,001	(9,230)	16,771
Other comprehensive income	<u>\$ 4,857</u>	<u>\$ (2,089)</u>	<u>\$ 2,768</u>
<b>2009</b>			
Net unrealized holding losses on securities available for sale arising during the year	\$ (7,916)	\$ 3,178	\$ (4,738)
Reclassification adjustment for net gains included in net income	20,832	(7,395)	13,437
Other comprehensive income	<u>\$ 12,916</u>	<u>\$ (4,217)</u>	<u>\$ 8,699</u>

**12. Related Party Transactions**

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

<i>(in thousands of dollars)</i>	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Due from related parties included in cash and due from banks	\$ -	\$ 426
Short-term advances to foreign bank affiliates	5,500	-
Total due from related parties	<u>\$ 5,500</u>	<u>\$ 426</u>
<b>Liabilities</b>		
Demand deposits, non-interest bearing	14,672	11,516
Money market and securities sold under agreements to repurchase	154,307	106,240
Time deposits and other liabilities	90	82
Total due to related parties	<u>169,069</u>	<u>117,838</u>
<b>Net due to related parties</b>	<u>\$ (163,569)</u>	<u>\$ (117,412)</u>

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In December 2010, the Bank sold to a domestic related party, in separate transactions, certain repossessed properties received by the Bank during 2010. The Bank received cash for approximately \$14 million and recorded no gain or loss since these transactions were completed at their carrying amounts, which approximated fair value.

In 2009, the Bank purchased from a foreign related party an office building located in New York City, New York and paid \$20 million in cash. This building is in use by the Bank as a banking center and was subject to an operating lease agreement between the parties prior to the purchase transaction.

For the years ended December 31, 2010 and 2009, loan participations sold to related parties amounted to approximately \$20 million and \$7 million, respectively. There were no participations purchased from related parties in 2010 and in 2009. These loans were made to unrelated borrowers under terms consistent with the Bank's normal lending practices. The Bank recorded no gain or loss on these transactions.

Deposits from related parties are accepted under essentially the same terms and conditions as transactions with third parties.

Included in the consolidated statements of operations are amounts with related parties as follows:

	<b>2010</b>	<b>2009</b>
<b>Income</b>		
Interest income on short-term advances	\$ 20	\$ 8
Data processing and other services	3,496	2,805
Rental income from an operating lease	2,190	2,190
Service charges	902	697
	<u>\$ 6,608</u>	<u>\$ 5,700</u>
<b>Expenses</b>		
Interest expense	\$ 225	\$ 435
Fees	1,660	1,809
	<u>1,885</u>	<u>2,244</u>
<b>Net income from related parties</b>	<u>\$ 4,723</u>	<u>\$ 3,456</u>

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.

**13. Employee Benefit Plan**

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

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Contributions by the Bank to the Plan are based upon a fixed percentage of participants' salaries as defined by the Plan. In addition, employees with at least three months of service and who have reached the age of 21 may contribute a percentage of their salaries to the Plan as elected by each participant. The Bank matches 100% of each participant's contribution up to a maximum of 5% of their annual salary. All contributions made by the Bank to the participants' accounts vest incrementally in the second through completion of the sixth year of employment.

During 2010 and 2009, the Bank contributed approximately \$1 million and \$2 million, respectively, to the 401(k) benefit plan in matching contributions.

The Bank offers a stock option plan to eligible officers approved by the Board in order to acquire shares of MSF. These shares are allotted over three-year periods and awarded annually. No compensation expense was recorded for this plan in 2010 and 2009.

**14. 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 noncancellable lease agreements expiring through the year 2018. Actual rental payments expensed may include deferred rents but are recognized as rent expense on a straight-line basis. Rent expense under these leases for the years ended December 31, 2010 and 2009 approximated \$7 million and \$8 million, respectively.

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

<b>Year</b>	<b>Approximate Amount</b>
2011	\$ 6,761
2012	6,171
2013	2,094
2014	2,111
2015	1,978
Thereafter	4,498
	<u>\$ 23,613</u>

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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 commitment 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, 2010 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, 2010 are generally short-term and are as follows (dollars in thousands):

	<b>Approximate Contract Amount</b>
Commitments to extend credit	\$ 537,962
Credit card facilities	112,689
Standby letters of credit	43,111
Commercial letters of credit	12,014

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**15. Fair Value Measurement**

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

(in thousands of dollars)

	<b>December 31, 2010</b>			
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Third-Party Models with Observable Market Inputs (Level 2)</b>	<b>Internal Models with Unobservable Market Inputs (Level 3)</b>	<b>Total Carrying Value in the Consolidated Balance Sheet</b>
<b>Assets:</b>				
U.S. Government agency debt securities	\$ -	\$ 1,390,672	\$ -	\$ 1,390,672
U.S. Government sponsored enterprise debt securities	-	499,191	302	499,493
Foreign Sovereign Debt	-	46,120	-	46,120
Corporate debt securities	-	284,070	9,564	293,634
US Treasury securities	-	30,821	-	30,821
Mutual funds	-	239	-	239
	<u>\$ -</u>	<u>\$ 2,251,113</u>	<u>\$ 9,866</u>	<u>\$ 2,260,979</u>

(in thousands of dollars)

	<b>December 31, 2009</b>			
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Third-Party Models with Observable Market Inputs (Level 2)</b>	<b>Internal Models with Unobservable Market Inputs (Level 3)</b>	<b>Total Carrying Value in the Consolidated Balance Sheet</b>
<b>Assets:</b>				
U.S. Government agency debt securities	\$ -	\$ 1,297,995	\$ -	\$ 1,297,995
U.S. Government sponsored enterprise debt securities	-	742,996	150,649	893,645
Foreign Sovereign Debt	-	5,231	-	5,231
Corporate debt securities	-	71,674	10,284	81,958
US Treasury securities	-	14,986	-	14,986
Mutual funds	-	239	-	239
	<u>\$ -</u>	<u>\$ 2,133,121</u>	<u>\$ 160,933</u>	<u>\$ 2,294,054</u>
<b>Liabilities:</b>				
Derivative instruments	\$ -	\$ 1,015	-	\$ 1,015
	<u>\$ -</u>	<u>\$ 1,015</u>	<u>-</u>	<u>\$ 1,015</u>

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**Level 2 Valuation Techniques**

The valuation of securities available for sale 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.

**Level 3 Valuation Techniques**

The valuation of certain securities available for sale is determined in a manner consistent to the monthly pricing process described for Level 2 instruments. However, it also includes certain unobservable inputs. These securities are generally certain private label Collateralized-Mortgage Obligations ("CMOs") and municipal bonds.

The valuation techniques and the inputs used in our consolidated financial statements to measure the fair of our recurring Level 3 financial instruments consider, among other factors, the following:

- Recent market transactions for similar securities
- Resulted yield is adjusted to incorporate specific characteristics for each security (e.g., state, maturity, bank-qualified designation) which represent unobservable market inputs.
- The calculated yield is used to obtain the fair value for each related security
- Additional assumptions are incorporated into the analysis and the yield calculation such as recovery rates and delinquency rates, which represent unobservable market inputs. Also, credit enhancement features of each security are used.

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

The table below includes a rollforward of the balance sheet amounts for the years ended December 31, 2010 and 2009 (including the change in fair value), for financial instruments classified by the Bank within Level 3 of the valuation hierarchy. Our financial instruments are classified as Level 3 when a determination is made that significant unobservable inputs have been used. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated with external sources). Accordingly, the gains and losses shown in this table include changes in fair value due, in part, to observable factors that are part of the valuation methodology:

<i>(in thousands of dollars)</i>	<b>2010</b>	<b>2009</b>
Beginning balance	\$ 160,933	\$ 80,519
Unrealized (losses) / gain Included in Other Comprehensive Income	(712)	1,122
Net acquisitions	294	121,667
Realized loss on sales	-	(148)
Transfer out of Level 3, net	<u>(150,649)</u>	<u>(42,226)</u>
Ending balance	<u>\$ 9,866</u>	<u>\$ 160,933</u>

There were no recurring liabilities measured at fair value in the Bank's financial statements as of December 31, 2010.

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**Assets and Liabilities Measured at Fair Value on a Non-recurring Basis.**

The following table presents the major category of assets measured at fair value on a non-recurring basis:

*(in thousands of dollars)*

Description	December 31, 2010			Total Impairments
	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	
Loans (1)	\$ -	\$ -	\$ 179,210	\$ 8,541
Other real estate owned	-	-	30,495	13,036
Total	\$ -	\$ -	\$ 209,705	\$ 21,577

*(in thousands of dollars)*

Description	December 31, 2009			Total Impairments
	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	
Loans (1)	\$ -	\$ -	\$ 209,129	\$ 16,289
Other real estate owned	-	-	26,811	5,588
Total	\$ -	\$ -	\$ 235,940	\$ 21,877

(1) Represents the value of collateral-dependent impaired loans for which impairment is measured based on changes in the fair value of the collateral.

As of December 31, 2010, no disclosure is provided for liabilities measured on a non-recurring basis because the Bank does not measure any liability at fair value.



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**Collateral Dependent Loans Measured For Impairment**

The Bank measures the impairment of collateral-dependent loans based on the fair value of the collateral as required under U.S.GAAP. The Bank primarily uses independent third party appraisals to assist in measuring impairment on collateral dependent impaired loans. The Bank also primarily uses independent third party appraisal reviewers for loans with an outstanding balance of \$1 million and above. These appraisals generally use the market or income approach valuation techniques and use market observable data to formulate an opinion of the fair value of the loan's collateral. However, the appraiser also uses professional judgment in determining the fair value of the collateral or properties and may also adjust these values for changes in market conditions subsequent to the appraisal date. When current appraisals are not available for certain loans, the Bank uses judgment on market conditions to adjust the most current appraisal. The sales prices may reflect prices of sales contracts not closed and the amount of time required to sell out the real estate project may be derived from current appraisals of similar projects. As a consequence, the fair value of the collateral is considered a Level 3 valuation.

**Other Real Estate Owned**

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

**16. 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 reprising terms shorter than twelve months, demand and savings deposits, short-term time deposits and securities sold under agreements to repurchase.

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- The fair value of securities, including securities sold under agreements to repurchase, 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 15.
- 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:

*(in thousands of dollars)*

	2010		2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Financial Assets</b>				
Loans	\$ 994,241	\$ 960,809	\$ 763,905	\$ 760,147
<b>Financial Liabilities</b>				
Time Deposits	\$ 1,031,372	\$ 1,037,583	\$ 973,421	\$ 979,704
Advances from the Federal Home Loan Bank	\$ 429,750	\$ 439,481	\$ 201,750	\$ 207,171
Securities sold under agreements to repurchase	\$ 202,000	\$ 222,873	\$ 337,000	\$ 357,120

**17. 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.

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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 2010, the Bank could not pay dividends to the Parent Company without the approval of its banking regulators.

Capital adequacy

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank’s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. As of December 31, 2010, management believes that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2010, 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:

	<u>Actual</u>		<u>Required for Capital Adequacy Purposes</u>		<u>To be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
As of December 31, 2010						
Total capital ratio	\$ 640,184	18.1%	\$ 282,547	8.0%	\$ 353,184	10.0%
Tier I capital ratio	\$ 595,838	16.9%	\$ 141,273	4.0%	\$ 211,910	6.0%
Tier I leverage ratio	\$ 595,838	9.0%	\$ 257,102	4.0%	\$ 320,512	5.0%
As of December 31, 2009						
Total capital ratio	\$ 663,285	22.1%	\$ 240,657	8.0%	\$ 300,822	10.0%
Tier I capital ratio	\$ 625,184	20.8%	\$ 120,329	4.0%	\$ 180,493	6.0%
Tier I leverage ratio	\$ 625,184	10.1%	\$ 243,029	4.0%	\$ 302,892	5.0%

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