

Mercantil Commercebank, N.A. and Subsidiaries

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

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

Mercantil Commercebank, N.A. and Subsidiaries
(A wholly-owned subsidiary of Mercantil Commercebank Florida Bancorp Inc.)
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December 31, 2009 and 2008

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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, 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, 2009 and 2008, 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, 2010

Mercantil Commercebank, N.A. and Subsidiaries
(A wholly-owned subsidiary of Mercantil Commercebank Florida Bancorp Inc.)
Consolidated Balance Sheets
December 31, 2009 and 2008

(in thousands of dollars, except per share data)

	2009	2008
Assets		
Cash and due from banks	\$ 21,225	\$ 19,815
Interest earning deposits with banks	146,725	146,901
Cash and cash equivalents	167,950	166,716
Interest earning deposits with banks, with original maturities in excess of 90 days	200	200
Securities:		
Trading	-	1,144
Available for sale	2,294,054	2,542,292
Held to maturity	-	50,312
Federal Reserve Bank and Federal Home Loan Bank stock	33,092	25,489
Loans and leases, net	3,247,862	3,034,824
Accrued interest receivable	17,444	24,999
Bank premises and equipment, net	86,781	69,566
Deferred tax asset, net	42,244	31,612
Customers' acceptance liability	668	1,765
Total due from investment securities brokers	10,029	2,046
Other real estate owned	26,811	19,684
Other assets	63,910	53,161
	\$ 5,991,045	\$ 6,023,810
Liabilities and Stockholder's Equity		
Deposits		
Demand		
Non-interest bearing	\$ 663,233	\$ 657,057
Interest bearing	1,376,878	1,038,646
Savings and money market	1,386,296	1,238,799
Time	973,204	1,426,284
Total deposits	4,399,611	4,360,786
Securities sold under agreements to repurchase	694,127	868,630
Advances from the Federal Home Loan Bank	201,754	151,767
Acceptances outstanding	668	1,765
Accrued interest payable	3,601	5,025
Total due to investment securities brokers	20,510	48,854
Accounts payable and accrued liabilities	16,323	27,482
	5,336,594	5,464,309
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 2009, 1,526,716 in 2008	118,961	106,870
Additional paid in capital	308,505	205,596
Retained earnings	216,284	245,033
Accumulated other comprehensive income	10,701	2,002
	654,451	559,501
	\$ 5,991,045	\$ 6,023,810

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
Years Ended December 31, 2009 and 2008

(in thousands of dollars, except per share data)

	2009	2008
Interest income		
Loans and leases	\$ 116,559	\$ 170,626
Trading securities	-	10,186
Investment securities	89,626	91,286
Interest earning deposits with banks	854	1,915
Federal funds sold	-	2,825
Other interest income	260	244
Total interest income	<u>207,299</u>	<u>277,082</u>
Interest expense		
Interest bearing demand deposits	3,776	8,476
Savings and money market deposits	2,397	8,985
Time deposits	15,793	39,864
Securities sold under agreements to repurchase	17,643	27,856
Trading liabilities	-	183
Advances from the Federal Home Loan Bank	6,171	2,313
Other interest expense	969	688
Total interest expense	<u>46,749</u>	<u>88,365</u>
Net interest income	160,550	188,717
Provision for loan and lease losses	<u>132,100</u>	<u>77,000</u>
Net interest income after provision for loan and lease losses	<u>28,450</u>	<u>111,717</u>
Non-interest income		
Deposit fees and service fees	15,014	14,075
Brokerage fees	6,547	6,780
Loan and trade financing servicing fees	1,721	2,442
Securities and derivative instruments gains, net	35,014	1,631
Other non-interest income	10,582	9,536
Total non-interest income	<u>68,878</u>	<u>34,464</u>
Non-interest expense		
Salaries and employee benefits	70,582	86,847
Occupancy and equipment	16,083	13,599
Insurance	10,425	4,484
Depreciation and amortization	8,238	7,985
Telecommunication and data processing	5,979	5,830
Professional fees	4,208	4,165
Other operating	20,828	20,940
Total non-interest expense	<u>136,343</u>	<u>143,850</u>
(Loss) income before benefit from income taxes	(39,015)	2,331
Benefit from income taxes	<u>13,266</u>	<u>183</u>
Net (loss) income	<u>(25,749)</u>	<u>2,514</u>
Other comprehensive income (loss), net of tax		
Net unrealized holding losses on securities available for sale arising during the year	(4,738)	(8,423)
Reclassification adjustment for net gains included in net income	<u>13,437</u>	<u>2,398</u>
Other comprehensive income (loss)	8,699	(6,025)
Comprehensive loss	<u>\$ (17,050)</u>	<u>\$ (3,511)</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)
Consolidated Statements of Changes in Stockholder's Equity
Years Ended December 31, 2009 and 2008

(in thousands of dollars)

	<u>Common Stock</u>		Additional	Retained	Accumulated	Total
	Shares	Par				
	Issued and	Value	Capital	Earnings	Comprehensive	Equity
	Outstanding				Income	
Balance at December 31, 2007	1,447,203	\$ 101,304	\$ 111,642	\$ 250,207	\$ 8,027	\$ 471,180
Dividends	-	-	-	(7,688)	-	(7,688)
Capital contributions	-	-	69,520	-	-	69,520
Stock Issuance	79,513	5,566	24,434	-	-	30,000
Net income	-	-	-	2,514	-	2,514
Other comprehensive loss	-	-	-	-	(6,025)	(6,025)
Balance at December 31, 2008	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
Balance at December 31, 2009	1,699,449	\$ 118,961	\$ 308,505	\$ 216,284	\$ 10,701	\$ 654,451

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 Cash Flows
Years Ended December 31, 2009 and 2008

(in thousands of dollars)

	2009	2008
Cash flows from operating activities		
Net (loss) income	\$ (25,749)	\$ 2,514
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Provision for loan and lease losses	132,100	77,000
Depreciation and amortization	8,238	7,985
Deferred tax benefit	(16,115)	(14,602)
Net premium amortization on securities	15,306	456
Securities, derivative instruments and trading liabilities gains, net	(33,484)	(4,441)
Changes in assets and liabilities:		
Reduction in net due to investment securities brokers	(36,327)	126,582
Accrued interest receivable and other assets	(9,338)	(24,700)
Net difference in trading assets and trading liabilities	-	17,706
Net (decrease) increase in accrued interest payable, accounts payable and accrued liabilities	(12,583)	852
Net cash provided by operating activities	<u>22,048</u>	<u>189,352</u>
Cash flows from investing activities		
Net increase in interest earning deposits with banks with maturities in excess of 90 days	-	(100)
Net increase in loans and leases	(345,138)	(113,045)
Purchases of investment securities:		
Available for sale	(4,442,681)	(14,962,800)
Federal Reserve Bank and Federal Home Loan Bank stock	(7,603)	(16,765)
Maturities, sales and calls of investment securities:		
Available for sale	4,771,592	14,303,108
Held to Maturity	1,878	1,691
Federal Reserve Bank and Federal Home Loan Bank stock	-	8,304
Net purchases of bank premises and equipment	(25,171)	(30,186)
Net cash used in investing activities	<u>(47,123)</u>	<u>(809,793)</u>
Cash flows from financing activities		
Net increase in demand, savings and money market accounts	491,905	393,181
Net decrease in time deposits	(453,080)	(13,070)
Net (decrease) increase in securities sold under agreements to repurchase	(174,503)	35,789
Net increase in advances from the Federal Home Loan Bank	49,987	118,486
Capital contributions	102,909	93,954
Stock Issuance	12,091	5,566
Dividends paid	(3,000)	(7,688)
Net cash provided by financing activities	<u>26,309</u>	<u>626,218</u>
Net increase in cash and cash equivalents	1,234	5,777
Cash and cash equivalents		
Beginning of the year	166,716	160,939
End of the year	<u>\$ 167,950</u>	<u>\$ 166,716</u>
Supplemental disclosure of cash flow information		
Interest paid	\$ 48,173	\$ 90,854
Income taxes paid	298	16,452

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

Mercantil Commercebank, N.A. and Subsidiaries

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Notes to the Consolidated financial Statements

December 31, 2009 and 2008

1. Organization and Summary of Significant Accounting Policies

Mercantil Commercebank, N.A. and subsidiaries, Mercantil Commercebank Investment Services, Inc., Mercantil Commercebank Trust Company N.A. and CB REIT Holding Corporation (collectively the "Bank"), is a wholly-owned subsidiary of Mercantil Commercebank Florida Bancorp Inc., and operates as a commercial bank with branches in Miami-Dade and Broward Counties, Florida, New York City, New York and in Houston, Texas. The Bank also operates a loan production office in Weston, Florida.

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.

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 accounting principles generally accepted in the United States of America 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. Estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan and lease losses. Management believes that these estimates are adequate. Actual results could differ from these estimates.

Income Recognition

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

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, available for sale or held to maturity based on management's intention on the date of purchase and 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. Securities that the Bank has the positive intent and ability to hold to maturity are designated as held-to-maturity securities and are carried at cost, adjusted for amortization of premium or accretion of discount, which is recognized as an adjustment to interest income. Gains or losses from the sale or redemption of investments are determined using the specific identification method. Investments in Federal Home Loan Bank and Federal Reserve Bank stock are recorded at cost which approximates fair value.

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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 impaired, the cost basis of the individual investment security is written down as a new cost basis with the amount of write down included in earnings for the period.

The Bank adopted new accounting guidance related to the recognition of other-than-temporary impairment charges on debt securities as of April 1, 2009. As prescribed by the new guidance, for the year ended December 31, 2009, the Bank recognized the credit component of an other-than-temporary impairment of its debt securities in earnings and the non-credit component in OCI for those 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 security prior to recovery.

The Bank estimates the portion of loss attributable to credit 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 loan's 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 following the methodology prescribed by GAAP: 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".

Transfer of Securities between Categories of Investment are accounted for at Fair Value

For debt securities transferred from the available for sale into the held to maturity category, the unrealized holding gain or loss at the date of the transfer is reported under the item "OCI" and amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount.

If the Bank or any of its subsidiaries were to sell or transfer to another category, other than an insignificant amount of held to maturity securities, and transfer is due to a change in the original intention which does not qualify as an isolated, nonrecurring or unusual external event, the entire held to maturity securities held by the Bank on a consolidated basis would be reclassified as available for sale securities. This reclassification would be made on a consolidated basis, regardless if the other subsidiaries of the Bank would have made any changes or not to their original intention to classify their securities in the held to maturity category. For debt securities transferred into the available for sale category from the held to maturity category, the unrealized holding gain or loss at the date of the transfer shall be reported in 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

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not readily marketable. The Bank closed its trading operations in 2009, no trading securities sold but not yet purchased were outstanding at December 31, 2009.

Loans and Leases

Loans and leases are stated at the amount of unpaid principal, reduced by unamortized deferred loan fees and costs on originated loans and an allowance for loan and lease 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.

Allowance for Loan and Lease Losses

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

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 commitment 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 loans are deemed uncollectible. Recoveries of loans and trade receivables previously charged off are recorded when received, as part of the allowance.

Bank Premises and Equipment, Net

Bank 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.

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Other Real Estate Owned

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 salability 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.

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). Changes in the fair value of these derivatives are recorded in earnings, as well as changes in the fair value of the hedged instruments. Management considers that the derivatives are highly effective in offsetting the fluctuations in value of the fixed rate instruments arising from interest rate risk.

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.

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.

Income Taxes

Deferred tax assets and liabilities are recognized for 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 Bank, and its wholly owned subsidiaries, are members of a consolidated tax group, and are allocated current and deferred taxes as if they were separate taxpayers. The Bank's results of operations are included in the consolidated income tax return of the Holding Company and its subsidiaries. Under the intercompany income tax allocation policy, the Bank pays its allocation of

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income taxes to the Holding Company, or receives payment from the Holding Company to the extent that tax benefits are realized.

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.

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 phases. 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. That additional procedure compares the implied fair value of the reporting unit with the carrying amount of that goodwill. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its residual fair value. At December 31, 2009 and 2008, no impairment charges were recorded.

Stock Option Plan

The Bank participates in a stock option plan for certain key officers, to acquire shares of its ultimate beneficial Parent Company Mercantil Servicios Financieros, C.A. (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, according to Statement of Financial Accounting Standard 123 (R), *Share-Based Payment*. The market value is determined at the option grant date using the Black-Scholes-Merton method.

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.

Fair Value Measurement

Financial instruments are classified based on a three-level valuation hierarchy required by 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:

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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 in over the counter.

Level 2 – observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in market 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 trade 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 agency 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.

New Issued Accounting Pronouncements

FASB Accounting Standards Codification

In July 2009, the FASB implemented the FASB Accounting Standards Codification (the "Codification") as the single source of authoritative U.S. generally accepted accounting principles. The Codification simplifies the classification of accounting standards into one online database under a common referencing system, organized into eight areas, ranging from industry-specific to general financial statement matters. Use of the Codification is effective for interim and annual periods ending after September 15, 2009. The Bank began to use the Codification on the effective date, and it had no impact on the Bank's Consolidated Financial Statements. However, throughout these Financial Statements and notes, all references to prior FASB, AICPA and EITF accounting pronouncements have been removed.

Measuring Liabilities at Fair Value

In August 2009, the FASB issued a new guidance that provides additional guidance 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 the new 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 Bank adopted this guidance on September 1, 2009 and the adoption did not have a material impact on the Bank's financial statements.

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Accounting for Transfer of Financial Assets

On June 12, 2009, the FASB issued a new guidance which amends the accounting for transfer of financial assets. This amendment will be effective January 1, 2010. This new guidance revises the old guidance "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", which establishes sale accounting criteria for transfers of financial assets. Typically, this amendment will affect a Bank that transfers mortgage loans, credit card receivables, and other financial instruments to special purpose entities (SPEs) that meet the definition of a qualifying special purpose entity (QSPE) which are not currently subject to consolidation by the transferor. Among other things, the new guidance eliminates the concept of a QSPE. As a result, existing QSPEs generally will be subject to consolidation. The Bank does not have QSPEs; therefore, adoption of this guidance on January 1, 2010 will not have an impact on the Bank's financial condition and results of operations or its disclosures and results of operations or its disclosures.

Recognition and Presentation of Other-Than-Temporary Investments

In April 2009, the FASB issued a new guidance which amends the other-than-temporary model for debt securities. This new guidance requires an entity to recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the noncredit 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 recovery. The new guidance also requires expanded disclosures. The guidance is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted. The Bank adopted this FSP at the effective date and recorded \$1.0 million in earnings related to credit losses for the year ended December 31, 2009. The new guidance does not change the recognition of other-than-temporary impairment for equity securities. The expanded disclosures are included in Note 3 – Securities.

Determining Fair Value when the Volume and Level of Activity for the Asset or Liability have significantly decreased and identifying transaction that are not orderly

In April 2009, the FASB issued guidance for estimating fair value when the volume and level of activity for the assets or liability have significantly declined. This statement provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This statement emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and 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. Therefore, the Bank adopted this guidance at the effective date and the adoption did not have a material impact on the Bank's financial statements.

Reclassifications

Certain reclassifications have been made to the December 31, 2008 consolidated financial statements to conform to current year presentation.

2. Interest Earning Deposits with Banks

At December 31, 2009, interest earning deposits with banks are comprised of placements with domestic institutions in the amount of approximately \$0.2 million (\$0.2 million at December 31, 2008) and deposits with the Federal Reserve Bank in the amount of approximately \$146.7 million. At December 31, 2009 and 2008, the average interest rate was approximately 0.28% and 0.35%, respectively. Interest earning deposits with banks have maturities within one year.

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3. Securities

At December 31, 2009, the Bank had no trading securities (\$1.1 million at December 31, 2008). At December 31, 2009, the Bank recorded a net realized gain of approximately \$7 thousand related to the sale of trading securities (a net realized loss of approximately \$2.4 million at December 31, 2008).

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

(in thousands of dollars)

	Amortized Cost	December 31, 2009 Gross Unrealized		Estimated Fair Value
		Gains	Losses	
Securities available for sale:				
U.S. Government agencies debt securities	\$ 1,296,709	\$ 12,826	\$ (6,926)	\$ 1,302,609
U.S. Government sponsored entity debt securities	882,615	13,441	(2,411)	893,645
Corporate debt securities	83,450	561	(1,436)	82,575
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>

(in thousands of dollars)

	Amortized Cost	December 31, 2008 Gross Unrealized		Estimated Fair Value
		Gains	Losses	
Securities available for sale:				
U.S. Government agencies debt securities	\$ 1,171,502	\$ 14,350	\$ (8,135)	\$ 1,177,717
Mutual funds	751,948	-	-	751,948
U.S. Government sponsored entity debt securities	433,254	3,507	(3,784)	432,977
Corporate debt securities	120,856	601	(3,898)	117,559
U.S. Treasury securities	54,872	494	-	55,366
Municipal bonds	6,756	139	(170)	6,725
	<u>\$ 2,539,188</u>	<u>\$ 19,091</u>	<u>\$ (15,987)</u>	<u>\$ 2,542,292</u>
Securities held to maturity:				
Municipal bonds	\$ 30,604	\$ 841	\$ (227)	\$ 31,218
Trust preferred debentures	10,398	170	(2,581)	7,987
U.S. Government sponsored entity debt securities	9,310	186	(68)	9,428
	<u>\$ 50,312</u>	<u>\$ 1,197</u>	<u>\$ (2,876)</u>	<u>\$ 48,633</u>

During the semester ended on December 31, 2009, the Bank transferred all the securities with an amortized cost of \$47.4 million from its Held to maturity portfolio to the Available for sale portfolio and incurred an unrealized loss of \$3.3 million which was recorded in the OCI. Management is not eligible and does not plan to designate securities as Held to maturity for the foreseeable future and

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believes that maintaining its securities in the Available for sale category provides greater flexibility in the management of the overall investment portfolio.

During the year ended December 31, 2009, the Bank recorded other-than-temporary impairment losses on debt securities as follows:

(in thousands of dollars)

	December 31, 2009			
	U.S. Government sponsored entity debt securities (interest only)	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)	<u>\$ (204)</u>	<u>\$ (357)</u>	<u>\$ (446)</u>	<u>\$ (1,007)</u>

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

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

As indicated in Note 1, the Bank used discounted cash flow model to estimate losses attributable to credit. The most significant assumptions used in the modeling of the credit component of the securities with other-than-temporary impairments were related to: 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 and held to maturity are as follows at December 31:

(in thousands of dollars)

	December 31, 2009	
	Available for Sale	
	Amortized Cost	Estimated Fair Value
Within 1 year	\$ 5,060	\$ 5,151
After 1 year through 5 years	99,947	100,481
After 5 years through 10 years	164,446	165,347
After 10 years	2,008,342	2,022,836
No contractual maturities	239	239
	<u>\$ 2,278,034</u>	<u>\$ 2,294,054</u>

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 2009 and 2008 were approximately \$4,149.7 million and \$8,376.0 million, respectively, with net realized gain of approximately \$34.7 million in 2009 and a net realized gain of \$4.4 million in 2008.

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At December 31, 2009, securities available for sale with a fair value of approximately \$1,057 million were pledged as collateral to secure federal tax deposits and securities sold under agreements to repurchase. At December 31, 2008, securities available for sale with a fair value of approximately \$1,141 million were pledged as collateral to secure federal tax deposits and securities sold under agreements to repurchase.

The Bank's investment securities 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)

	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
Securities available for sale:						
U.S. Government agencies debt securities	\$ 593,668	\$ (4,510)	\$ 152,350	\$ (2,415)	\$ 746,018	\$ (6,925)
U.S. Government sponsored entity debt securities	282,557	(2,219)	15,847	(193)	\$ 298,404	(2,412)
Corporate debt securities	16,688	(1,436)	-	-	16,688	(1,436)
US Treasury Securities	14,987	(35)	-	-	14,987	(35)
Total	<u>\$ 907,900</u>	<u>\$ (8,200)</u>	<u>\$ 168,197</u>	<u>\$ (2,608)</u>	<u>\$ 1,076,097</u>	<u>\$ (10,808)</u>

(in thousands of dollars)

	December 31, 2008					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Securities available for sale:						
U.S. Government agencies debt securities	\$ 401,353	\$ (6,371)	\$ 51,041	\$ (1,764)	\$ 452,394	\$ (8,135)
U.S. Government sponsored entity debt securities	179,514	(2,612)	29,959	(1,172)	\$ 209,473	(3,784)
Corporate debt securities	70,987	(2,275)	26,982	(1,623)	97,969	(3,898)
Municipal Bonds	2,225	(170)	-	-	2,225	(170)
Total	<u>\$ 654,079</u>	<u>\$ (11,428)</u>	<u>\$ 107,982</u>	<u>\$ (4,559)</u>	<u>\$ 762,061</u>	<u>\$ (15,987)</u>

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.

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4. Loans and Leases and Allowance for Loan and Lease Losses

The loan and lease portfolio consists of the following types of loans:

<i>(in thousands of dollars)</i>	2009	2008
Commercial	\$ 596,660	\$ 855,217
Real estate:		
Mini-permanents	1,004,292	1,040,767
Construction	352,522	434,147
Land	77,687	86,210
Other secured by real estate	316,621	338,293
Bankers acceptances and short-term advances to other banks	936,853	324,743
Installment	45,215	33,615
Overdrafts	889	931
	<u>3,330,739</u>	<u>3,113,923</u>
Less:		
Allowance for loan and lease losses	(76,635)	(72,615)
Unamortized deferred loan fees and costs, net	<u>(6,242)</u>	<u>(6,484)</u>
	<u>\$ 3,247,862</u>	<u>\$ 3,034,824</u>

The Bank has approximately \$414.3 million and \$224.4 million of loans where the accrual of interest has been discontinued at December 31, 2009 and 2008, respectively. If non-accrual loans were on full accrual, additional interest income of approximately \$17.2 million and \$9.4 million for 2009 and 2008, respectively, would have been recorded.

An analysis of the changes in the allowance for loan and lease losses for the years ended December 31, 2009 and 2008 is as follows:

<i>(in thousands of dollars)</i>	2009	2008
Balance, beginning of the year	\$ 72,615	\$ 36,039
Provision charged to operations	132,100	77,000
Loans charged off	(128,723)	(41,133)
Recoveries	643	709
Balance, end of the year	<u>\$ 76,635</u>	<u>\$ 72,615</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, 2009 and 2008:

<i>(in thousands of dollars)</i>	2009	2008
Investment in impaired loans	\$ 453,985	\$ 259,082
Valuation allowance	17,781	19,607
Average recorded investment in impaired loans	390,144	161,311
Interest income not recognized on impaired loans	17,189	9,429

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 its ultimate parent 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 approximately \$146.6 million and \$99.7 million at December 31, 2009 and 2008, respectively, is as follows:

<i>(in thousands of dollars)</i>	2009	%	2008	%
Brazil	\$ 363,633	27	\$ 168,590	22
Chile	358,579	27	18,000	2
Venezuela	146,565	11	91,357	12
Peru	121,058	9	124,322	16
Mexico	117,047	9	145,910	18
Colombia	63,142	5	61,491	8
Costa Rica	42,200	3	24,044	3
Multiregional	40,000	3	35,000	5
Trinidad and Tobago	35,840	3	22,875	3
El Salvador	21,000	2	22,700	3
Guatemala	16,253	1	27,635	4
Netherland Antilles	8,018	1	10,000	1
Dominican Republic	7,188	1	11,976	2
Panama	3,306	-	11,150	1
Other	2,392	-	1,208	-
	<u>\$ 1,346,221</u>	<u>100</u>	<u>\$ 776,258</u>	<u>100</u>

The country exposure to Venezuelan debtors, at December 31, 2009 includes approximately \$82.6 million in mortgages on properties situated in the United States of America (\$79.1 million at December 31, 2008).

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5. Bank Premises and Equipment, Net

Bank premises and equipment include the following:

(in thousands of dollars)	2009	2008	Estimated useful lives (in years)
Land	\$ 6,460	\$ 3,494	-
Buildings and improvements	58,932	41,457	10-30
Equipment leased under an operating lease	19,318	19,318	15
Furniture and equipment	16,171	14,358	3-10
Computer equipment and software	24,116	22,711	3
Leasehold improvements	4,888	4,197	5-10
Work in progress	<u>2,802</u>	<u>2,329</u>	-
	132,687	107,864	
Less: Accumulated depreciation and amortization	<u>(45,906)</u>	<u>(38,298)</u>	
	<u>\$ 86,781</u>	<u>\$ 69,566</u>	

Depreciation and amortization expense was \$8.2 million and \$8.0 million for the years ended December 31, 2009 and 2008, respectively. In May 2009, the Bank acquired an office building from an affiliated company at a cost of \$20 million.

6. Derivative Instruments

The Bank utilizes several derivative instruments in its economic interest rate risk management strategies summarized below. Although economic hedges, some of these contracts were not accounted for as hedges and accordingly changes in fair value of the contracts are included in the results of operations.

During 2009, the Bank also used credit default swaps "CDS" through credit derivative contracts to protect its credit exposure of certain fixed income products. No CDS were outstanding at December 31, 2009.

The Bank recognized in earnings \$0.3 million of unrealized losses related to the changes in the fair value of these contracts during the year ended December 31, 2009.

Additionally, the Bank had outstanding five interest rate swap contracts used to reduce the risk of changes in interest rate associated with specific fixed rate loans receivable at December 31, 2009. These contracts were accounted for as fair value hedge. As of December 31, 2009, the aggregate outstanding notional amount exposure and fair market value of these contracts were \$25 million and \$1.0 million (liability) respectively, (\$25 million and \$1.7 million (liability)), respectively, at December 31, 2008.

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7. Time Deposits

Time deposits in denominations of \$100,000 or more amounted to approximately \$719 million and \$1,116 million at December 31, 2009 and 2008, respectively. The average interest rate paid on time deposits, which generally mature within one year, was approximately 1.39% in 2009 and 2.73% in 2008.

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 deposit customers. At December 31, 2009 and 2008, securities sold under agreements to repurchase amounted to approximately \$694.1 million and \$868.6 million, respectively. In 2009, the highest month-end outstanding balance and month average outstanding balance were approximately \$985.7 million and \$979.6, respectively (\$1,140.9 million and \$1,053.1 million in 2008, respectively). The average interest rate paid was 1.8% in 2009 (2.6% in 2008).

9. Advances from the Federal Home Loan Bank

At December 31, 2009 and 2008, the Bank had outstanding advances from the Federal Home Loan Bank of Atlanta as follows:

Year of Maturity	Interest Rate	2009	2008
2010	5.92%	\$ 2,004	\$ 2,017
2011	4.72% to 5.58%	27,500	27,500
2012	2.01% to 3.45%	35,000	10,000
2013	2.63 to 4.52%	110,000	110,000
2016	3.43% to 5.84%	11,250	1,250
2018	5.35%	1,000	1,000
2019	3.86%	15,000	-
		<u>\$ 201,754</u>	<u>\$ 151,767</u>

Federal Home Loan Bank stock held by the Bank amounted to \$19.9 million at December 31, 2009 (\$16.7 million in 2008). The terms of the advance agreement requires the Bank to maintain certain investment securities as collateral for these advances. At December 31, 2009, the Bank was in compliance with this requirement of the Federal Home Loan Bank membership agreement.

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10. Income Taxes

The components of the benefit from income taxes for the years ended December 31, 2009 and 2008 are as follows:

<i>(in thousands of dollars)</i>	2009	2008
Current provision		
Federal	\$ 1,229	\$ 14,373
State	354	46
Deferred benefit provision	<u>(14,849)</u>	<u>(14,602)</u>
	<u>\$ (13,266)</u>	<u>\$ (183)</u>

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

<i>(in thousands of dollars)</i>	2009	2008
Tax effect of temporary differences		
Allowance for loan and lease losses	\$ 21,554	\$ 25,774
Dividend Income	18,362	-
Non-accrual interest income	6,468	3,329
Deferred compensation	902	1,016
Unamortized deferred loan fees and costs, net	413	826
Core deposit premium amortization	211	170
Depreciation and amortization	(3,489)	(490)
Unrealized gains on securities available for sale, net	(5,319)	(1,102)
Other	<u>3,142</u>	<u>2,089</u>
	<u>\$ 42,244</u>	<u>\$ 31,612</u>

At December 31, 2009, the Bank had a federal and state deferred tax asset of approximately \$41.6 million and \$3.1 million, respectively, before a state valuation allowance of \$2.5 million. Management believes that the federal deferred tax asset of \$41.6 million will more likely than not be realized, therefore, no valuation allowance has been established. However, management recorded a valuation allowance of \$2.5 million against its state deferred tax asset.

The Bank evaluates deferred tax assets 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 process involves significant management judgment about assumptions that are subject to change from period to period. Currently, it has been determined that the Bank's projections provides support for the realization of net deferred tax assets of approximately \$42.2 million. If future results differ from the Banks' current forecasts, a valuation allowance against the remaining net deferred tax assets may need to be established.

In accordance with the guidance, an Interpretation of Statement of Financial Accounting Standards, the Bank had no unrecognized tax benefits or related interest or related penalties accrued at December 31, 2009.

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11. Comprehensive Income (Loss)

The related tax effect allocated to each component of other comprehensive income (loss) for the years ended December 31, 2009 and 2008 is as follows:

<i>(in thousands of dollars)</i>	Before-Tax Amount	Tax Effect	Net-of-Tax Amount
2009			
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	<u>20,833</u>	<u>(7,396)</u>	<u>13,437</u>
Other comprehensive income	<u>\$ 12,917</u>	<u>\$ (4,218)</u>	<u>\$ 8,699</u>
2008			
Net unrealized holding losses on securities available for sale arising during the year	\$ (13,059)	\$ 4,636	\$ (8,423)
Reclassification adjustment for net gains included in net income	<u>3,718</u>	<u>(1,320)</u>	<u>2,398</u>
Other comprehensive loss	<u>\$ (9,341)</u>	<u>\$ 3,316</u>	<u>\$ (6,025)</u>

12. Related Party Transactions

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

<i>(in thousands of dollars)</i>	2009	2008
Assets		
Due from related parties included in cash and due from banks	<u>\$ 426</u>	<u>\$ 137</u>
	<u>426</u>	<u>137</u>
Liabilities		
Demand deposits, non-interest bearing	\$ 11,516	\$ 11,483
Money market and securities sold under agreements to repurchase	106,240	161,820
Time deposits and Other Liabilities	<u>82</u>	<u>296</u>
Due to related parties	<u>117,838</u>	<u>173,599</u>
Net liability position	<u>\$ (117,412)</u>	<u>\$ (173,462)</u>

For the years ended December 31, 2009 and 2008, loan participations sold to related parties amounted to approximately \$7.2 million and \$307.4 million, respectively. There were no

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participations purchased from related parties in 2009 and in 2008. These loans were made to unrelated borrowers under terms consistent with the Bank's normal lending practices.

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:

	2009		2008
Income			
Data processing and other services	\$ 2,751	\$	2,872
Rental income from an operating lease	2,190		1,860
Service charges	693		741
Expenses			
Interest expense	\$ 435	\$	5,799
Fees	1,809		1,682

The Bank has a sublease agreement with a related party. This agreement is renewable on an annual basis.

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

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 six 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 2009 and 2008, the Bank contributed approximately \$2.0 million and \$2.3 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, its ultimate Parent Company. These shares are allotted over three-year periods and awarded annually. No compensation expense was recorded for this plan during 2009, (\$0.2 million in 2008).

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14. Commitments and Contingencies

The Bank is involved in 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 approximated \$8.0 million and \$5.9 million for the years ended December 31, 2009 and 2008, respectively.

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

Year	Approximate Amount
2010	\$ 6,452
2011	6,334
2012	5,744
2013	1,608
2014	1,610
Thereafter	4,420
	<u>\$ 26,168</u>

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

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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, 2009 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, 2009 are generally short-term and are as follows (dollars in thousands):

	<u>Approximate Contract Amount</u>
Commitments to extend credit	\$ 352,357
Credit card facilities	\$ 111,002
Standby letters of credit	\$ 50,080
Commercial letters of credit	\$ 20,797

15. Fair Value Measurement

Assets and liabilities measured at fair value on a recurring basis (as described in Note 1) are summarized below:

(in thousands of dollars)

	<u>December 31, 2009</u>			
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Third-party models with observable market inputs (Level 2)</u>	<u>Internal models with unobservable market inputs (Level 3)</u>	<u>Total carrying value in the consolidated balance sheet</u>
Assets:				
Trading securities	\$ -	\$ -	\$ -	\$ -
Securities available for sale	-	2,143,405	150,649	2,294,054
Total assets at fair value	<u>\$ -</u>	<u>\$ 2,143,405</u>	<u>\$ 150,649</u>	<u>\$ 2,294,054</u>
Liabilities:				
Derivative liabilities	\$ -	\$ 1,015	\$ -	\$ 1,015
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 1,015</u>	<u>\$ -</u>	<u>\$ 1,015</u>

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(in thousands of dollars)

December 31, 2008

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Third-Party Models with Observable Market Inputs (Level 2)	Internal Models with Unobservable Market Inputs (Level 3)	Total Carrying Value in the Consolidated Balance Sheet
Assets				
Trading securities	\$ -	\$ 1,144	\$ -	\$ 1,144
Securities available for sale	-	2,461,773	80,519	2,542,292
Derivative assets	-	343	-	343
Total assets at fair value	\$ -	\$ 2,463,260	\$ 80,519	\$ 2,543,779
Liabilities				
Derivative liabilities	\$ -	\$ 1,741	\$ -	\$ 1,741
Total liabilities at fair value	\$ -	\$ 1,741	\$ -	\$ 1,741

Level 2 Valuation Techniques

The valuation of the securities available for sale ("AFS securities"), trading securities and derivatives is performed through monthly pricing process using independent pricing providers data, which are leading global providers of financial market data. These pricing provider 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 financial statements to measure the fair value of our recurring financial instruments include, among other things, 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.

The methods described above may produce a fair value calculation that may differ from the net realizable value or may not 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 trading securities and securities AFS portfolios could result in a different estimate of fair value at the reporting date.

Level 3 Valuation Techniques

The valuation of certain securities available for sale is obtained using valuation models from the same pricing provider mentioned in the Level 2 Valuation Techniques that include observable inputs but also include certain unobservable inputs. These securities are generally certain private label Collateralized-Mortgage Obligations ("CMOs") and municipal bonds.

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The valuation techniques and the inputs used in our financial statements to measure the fair value include the following:

- Similar securities that have been traded as recently as possible are selected from market transactions
- 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.

The Bank evaluates the above described pricing methodologies by sample testing different types of securities of our investment portfolio on a quarterly basis. The pricing provider provides for each type of investment to the Bank a document explaining the methodology applied to obtain their fair value assessments. The Bank analyzes in detail the various inputs, observable and unobservable, used in the fair value calculation (e.g., prepayment speeds, yield curve benchmarks, spreads, delinquency rates). Such 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 trading securities and securities AFS portfolios could result in a different estimate of fair value at the reporting date.

There were no recurring liabilities measured at fair value in the Bank's financial statements as of December 31, 2009.

The table below includes a rollforward of the balance sheet amounts for the years ended December 31, 2009 and 2008 (including the change in fair value), for financial instruments classified by the Bank within level 3 of the valuation hierarchy. When a determination is made to classify a financial instrument within level 3, it is due to the use of significant unobservable inputs. 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 in the table below include changes in fair value due, in part, to observable factors that are part of the valuation methodology:

<i>(in thousands of dollars)</i>	<u>2009</u>	<u>2008</u>
Beginning balance	\$ 80,519	\$ 81,587
Unrealized gain (loss) included in other comprehensive income	1,122	(1,383)
Net acquisitions	111,383	32,277
Realized (loss) gain on sales	(148)	33
Transfer out of level 3, net	(42,226)	(31,995)
Ending balance	<u>\$ 150,649</u>	<u>\$ 80,519</u>

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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, 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)	\$ -	\$ -	\$ 212,162	\$ 16,289
Other real estate owned	-	-	19,265	5,588
Total	\$ -	\$ -	\$ 231,427	\$ 21,877

(1) Collateral dependent impaired loans whose impairment was measured based on the fair value of the collateral.

(in thousands of dollars)

Description	December 31, 2008			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)	\$ -	\$ -	\$ 141,348	\$ 18,802
Total	\$ -	\$ -	\$ 141,348	\$ 18,802

As of December 31, 2009, the Bank did not have any liabilities measured on a non-recurring basis; as such, no disclosure for this type of items was applicable.

Collateral Dependent Loans Measured For Impairment

The Bank measures the impairment of collateral dependent loans based on the fair value of the collateral in accordance with the provisions of the guidance Measurement of Impairment. The Bank primarily uses third party appraisals to assist in measuring impairment on collateral dependent impaired loans. The Bank also uses 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 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 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

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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.

Impaired Other Real Estate Owned

Other real estate owned is generally valued using third party appraisals or discounted cash flows when appraisal is not available at the time of closing the period. These 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 appraisers use professional judgment in determining the fair value of the properties and we 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 guidance "*Disclosure about Fair Value of Financial Instruments*" requires the disclosure of estimated fair value of financial instruments including those financial instruments for which the Bank did not elect the fair value option. The fair value of such instruments, have been derived, in part, by management's assumptions, the estimated amount and timing of future cash flows and estimated discount rates. Different assumptions could significantly affect these estimated fair values. 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 fair value:

- The book value was used as a reasonable estimate of fair value for cash and due from banks, federal funds sold, interest earning deposits with banks, securities purchased under agreements to resell, 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.
- Fair values for securities are based on quoted market prices, when available (see Note 3).
- Fair values of derivative instruments are based on quoted market prices, when available.
- The fair values of commitments and letters of credit are based on the assumption that the Bank will be required to perform on all such instruments. The commitment amount approximates estimated fair value.
- Fair values of fixed rate loans and advances from the Federal Home Loan Bank are estimated by discounting the future cash flows using the current rates at which similar instruments would be issued with comparable credit ratings and terms.
- Fair value of time deposits or certificate of deposit is based on the discounted value of contractual cash flow using current rates.

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The estimated fair value of financial instruments where fair value differs from book value are as follows:

(in thousands of dollars)

	2009		2008	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets				
Loans	\$ 763,905	\$ 760,147	\$ 984,191	\$ 979,349
Financial Liabilities				
Time Deposits	\$ 973,204	\$ 979,704	\$ 1,426,284	\$ 1,440,907
Advances from the Federal Home Loan Bank	\$ 201,754	\$ 207,171	\$ 151,767	\$ 161,059
Securities sold under agreements to repurchase	\$ 337,000	\$ 357,119	\$ 362,000	\$ 397,791

17. Regulatory Matters

The Bank is subject to various regulatory requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. 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. Management believes, as of December 31, 2009, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2009, 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 institution's category.

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

	Actual		Required for Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
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%
As of December 31, 2008						
Total capital ratio	\$ 581,940	16.7%	\$ 278,160	8.0%	\$ 347,700	10.0%
Tier I capital ratio	\$ 538,101	15.5%	\$ 139,080	4.0%	\$ 208,620	6.0%
Tier I leverage ratio	\$ 538,101	8.7%	\$ 246,915	4.0%	\$ 308,644	5.0%

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