

BPD Bank and Subsidiary

Consolidated Financial Statements

December 31, 2010 and 2009

BPD Bank and Subsidiary
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December 31, 2010 and 2009

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Report of Independent Auditors

To the Board of Directors of
BPD Bank and Subsidiary

We have audited the accompanying consolidated balance sheet of BPD Bank and Subsidiary (the "Bank") as of December 31, 2010, and the related consolidated statements of operations, changes in stockholder's equity and comprehensive income and cash flows for the year then ended. 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 audit. The financial statements of the Bank as of December 31, 2009 and for the year then ended were audited by other auditors whose report dated March 31, 2010 expressed an unqualified opinion on those statements.

We conducted our audit 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BPD Bank and Subsidiary at December 31, 2010, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 14, 2011

BPD Bank and Subsidiary
Consolidated Balance Sheets
December 31, 2010 and 2009

	2010	2009
Assets		
Cash and cash equivalents	\$ 45,614,473	\$ 64,255,554
Interest-bearing time deposits with banks	6,287,490	171,000
Securities available for sale at fair value (Note 3)	77,493,401	71,742,037
Loans, net (Note 4)	245,928,921	265,546,048
Office equipment and leasehold improvements, net (Note 5)	1,963,095	3,302,420
Accrued interest receivable	1,807,681	2,060,873
Deferred tax asset, net (Note 10)	13,163,356	13,269,665
Bank-owned life insurance	8,300,768	9,452,462
Other assets	9,466,027	13,288,094
	<u>\$410,025,212</u>	<u>\$ 443,088,153</u>
Liabilities and Stockholder's Equity		
Liabilities		
Deposits		
Noninterest-bearing deposits		
Demand deposits	\$ 125,969,660	\$ 124,963,801
Interest-bearing deposits		
NOW and money market	78,584,098	87,400,454
Savings accounts	1,593,981	2,375,979
Time deposits (Note 6)	97,851,980	111,486,352
Total deposits	303,999,719	326,226,586
Borrowed funds (Note 7)	40,000,000	53,000,000
Accrued interest payable	373,755	588,281
Other liabilities	2,902,078	4,564,462
Total liabilities	347,275,552	384,379,329
Commitments and contingencies (Note 11)		
Stockholder's equity		
Capital stock, par value \$100. Authorized 400,000 shares, issued and outstanding 278,627 shares	27,862,700	27,862,700
Additional paid in capital	17,742,094	17,742,094
Retained earnings	17,196,198	13,372,918
Accumulated other comprehensive loss	(51,332)	(268,888)
Total stockholder's equity	62,749,660	58,708,824
Total liabilities and stockholder's equity	<u>\$410,025,212</u>	<u>\$ 443,088,153</u>

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

BPD Bank and Subsidiary
Consolidated Statements of Operations
Years Ended December 31, 2010 and 2009

	2010	2009
Interest income		
Loans and lease financing (Note 4)	\$ 14,188,235	\$ 18,838,744
Interest-bearing time deposits with banks	160,746	77,287
Securities available for sale	3,962,593	4,326,670
Total interest income	<u>18,311,574</u>	<u>23,242,701</u>
Interest expense		
Deposits	1,634,822	3,530,324
Borrowed funds and other	1,353,762	1,830,713
Total interest expense	<u>2,988,584</u>	<u>5,361,037</u>
Net interest income	15,322,990	17,881,664
Provision for loan losses (Note 4)	6,413,588	5,759,932
Net interest income after provision for loan losses	<u>8,909,402</u>	<u>12,121,732</u>
Other income		
Foreign exchange gains (losses)	(249,204)	296,530
Service fees	954,310	642,077
Wire transfer fees	1,336,337	1,231,646
Letters of credit fees	87,243	104,404
Net realized gain on securities transactions	6,800,917	8,682,602
Other	90,659	2,773,232
Total other income	<u>9,020,262</u>	<u>13,730,491</u>
Other expenses		
Salaries and employee benefits	6,857,440	9,064,378
Depreciation, amortization and occupancy expenses	3,317,113	3,504,384
Loss on disposal of Trust preferred securities to affiliate	-	6,217,044
Other operating expenses (Note 8)	4,453,296	5,152,822
Total other expenses	<u>14,627,849</u>	<u>23,938,628</u>
Income (loss) before income tax provision	3,301,815	1,913,595
Income tax benefit (Note 10)	(521,465)	(750,642)
Net income	<u>\$ 3,823,280</u>	<u>\$ 2,664,237</u>

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

BPD Bank and Subsidiary
Consolidated Statements of Changes in Stockholder's Equity and Comprehensive
Income
Years Ended December 31, 2010 and 2009

	Capital Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss Net of Tax	Total
Balance, December 31, 2008	\$ 22,256,400	\$ 13,348,394	\$ 10,708,681	\$ (2,610,888)	\$ 43,702,587
Capital stock issued	5,606,300	4,393,700	-	-	10,000,000
Comprehensive income					-
Net income	-	-	2,664,237	-	2,664,237
Net change in unrealized gain and loss on securities, net of taxes	-	-	-	1,866,880	1,866,880
Pension liability adjustment	-	-	-	475,120	475,120
Total comprehensive income					5,006,237
Balance, December 31, 2009	27,862,700	17,742,094	13,372,918	(268,888)	58,708,824
Capital stock issued	-	-	-	-	-
Comprehensive income					-
Net income	-	-	3,823,280	-	3,823,280
Net change in unrealized gain and loss on securities, net of taxes	-	-	-	217,556	217,556
Total comprehensive income					4,040,836
Balance, December 31, 2010	\$ 27,862,700	\$ 17,742,094	\$ 17,196,198	\$ (51,332)	\$ 62,749,660

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

BPD Bank and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Net income	\$ 3,823,280	\$ 2,664,237
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	6,413,588	5,759,932
Depreciation and amortization	1,404,337	1,403,933
Amortization of discounts/premiums on securities	1,158,032	1,225,205
Deferred income tax benefit	(62,917)	(44,577)
Net realized gain on securities available for sale	(6,800,917)	(2,465,558)
Losses on sale of office equipment and leasehold improvements	18,118	-
Losses on sale of foreclosed properties	199,678	-
Decrease in accrued interest receivable	253,192	1,613,031
Increase (decrease) in bank-owned life insurance	1,151,694	(477,137)
Increase (decrease) in other assets	3,542,293	(119,181)
Decrease in accrued interest payable	(214,526)	(1,001,953)
Decrease in other liabilities	(1,493,158)	(3,751,802)
Net cash provided by operating activities	<u>9,392,694</u>	<u>4,806,130</u>
Cash flows from investing activities		
Decrease (increase) in interest-bearing deposits with banks	(6,116,490)	470,360
Maturities of securities available for sale	59,837,984	36,578,102
Proceeds from the sale of available for sale securities	206,704,188	158,004,684
Purchases of securities available for sale	(266,433,095)	(152,004,175)
Proceeds from sale of loans	28,298,671	9,498,772
Loans made to customers	(60,499,225)	(169,638,967)
Maturities loans	45,404,093	278,224,545
Purchase of office equipment and leasehold improvements	(97,130)	(654,959)
Sale of office equipment and leasehold improvements	14,000	-
Proceeds from sales of foreclosed properties	80,096	-
Net cash provided by investing activities	<u>7,193,092</u>	<u>160,478,362</u>
Cash flows from financing activities		
Net increase (decrease) in demand deposits	1,005,859	(8,077,683)
Net increase (decrease) in NOW and money market deposits	(8,816,356)	5,220,308
Net increase (decrease) in savings accounts	(781,998)	517,407
Net decrease in deposits	(13,634,372)	(118,308,695)
Capital stock issued	-	10,000,000
Net decrease from borrowed funds	(13,000,000)	(35,000,000)
Net cash used in financing activities	<u>(35,226,867)</u>	<u>(145,648,663)</u>
Net increase in cash and cash equivalents	(18,641,081)	19,635,829
Cash and cash equivalents		
Beginning of year	<u>64,255,554</u>	<u>44,619,725</u>
End of year	<u>\$ 45,614,473</u>	<u>\$ 64,255,554</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for		
Interest	\$ 3,203,110	\$ 6,362,990
Income tax	346,500	1,715,976

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

BPD Bank and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

1. Organization and Summary of Significant Accounting Policies

a. Organization

BPD Bank and subsidiary (the Bank) is a New York state-chartered commercial bank. The Bank is 100% owned by BPD Holding, Inc., a U.S. bank holding company established in 2004, which is 100% owned by Grupo Popular, S.A. (GP), a foreign banking organization located in the Dominican Republic. On September 22, 2008, the Bank established a subsidiary Brandon Woods Properties, Inc. to manage real estate received in foreclosure.

The Bank provides a full range of banking services to individual and corporate customers in the New York City metropolitan area, Miami Florida and trade-related services under loan and letter of credit arrangements to banks and other companies, primarily in Latin America and the Caribbean. The Bank also is subject to the regulations of certain Federal and State agencies and undergoes periodic examination by those regulatory authorities.

b. Principles of Consolidation and Basis of Preparation

The consolidated Financial Statements include the accounts of the Bank and its majority-owned subsidiary. All significant intercompany accounts and transactions have been eliminated. The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America. Certain reclassifications have been made to the prior year's presentation to conform to the current year's presentation. These reclassifications had no impact on net income or stockholder's equity.

c. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Bank's management to make estimates and assumptions that affect the amounts reported in the financial statements and amounts and disclosures in the accompanying notes. Actual results could differ from these estimates and assumptions. The allowance for loan losses, the valuation of certain investment securities and the assessment of other-than-temporary impairment, as well as the determination of future taxable income to support the valuation of the deferred tax asset involve estimates that are particularly susceptible to near term change. The current economic environment has increased the uncertainty inherent in these material estimates.

d. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, and federal funds sold with original maturities of three months or less.

e. Securities Available for Sale and Other Investments

The Bank's securities may be sold in response to or in anticipation of changes in interest rates and other factors and are, therefore, classified as available for sale. The Bank does not invest in trading securities. Changes in the fair value of securities available for sale are excluded from current earnings and reported, net of deferred taxes, in other comprehensive income. Interest income on securities, including amortization of premiums and accretion of discounts, is recognized using the interest method. Realized gains and losses from the sale of securities are determined using the specific-identification method and are recorded in net realized gain on securities transactions, and loss on disposal of Trust preferred securities to affiliate in the consolidated statement of operations.

BPD Bank and Subsidiary

Notes to Consolidated Financial Statements

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The Bank regularly evaluates each security available for sale whose value has declined below amortized cost to assess whether the decline in fair value is other-than-temporary. In determining whether an impairment is other-than-temporary, the Bank considers the severity and duration of the decline in fair value, the length of time expected for recovery, the financial condition of the issuer, and other qualitative factors, as well as whether the Bank either plans to sell the security or it is more-likely-than-not that it will be required to sell the security before recovery of its amortized cost. Beginning in 2009, the credit component of an-other-than-temporary impairment loss is recognized in earnings and the noncredit component is recognized in accumulated Other Comprehensive Income in situations where the Bank does not intend to sell the security and it is more-likely-than-not that the Bank will not be required to sell the security prior to recovery.

Equity stock held in the Federal Reserve Bank of New York and the Federal Home Loan Bank of New York is recorded at cost in other assets and is evaluated for impairment at least annually.

f. Loans

Loans are stated at the principal amount outstanding, net of any unearned income, deferred loan fees in excess of origination costs, and the allowance for loan losses. Unearned income, unamortized discounts and net deferred loan fees are recorded to interest income using methods that result in an approximate level rate of return over the term of the loan.

Except for those loans which are well secured and in the process of collection, the accrual of interest on loans, including impaired loans, is discontinued when the loan is past due over 90 days or when, in the opinion of management, there is an indication that the borrower may be unable to make payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed and income on such loans is recognized only to the extent that cash is received and future collection of principal is probable.

g. Allowance for Loan Losses

The allowance for loan losses is based on management's evaluation of the loan portfolio after considering reviews of individual loans, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans, and such other factors that, in management's judgment, deserve consideration in estimating loan losses. The allowance is increased by provisions charged to earnings and reduced by charge-offs, net of recoveries.

In addition to the allowance for loan and lease losses, the Bank also estimates probable losses related to unfunded lending commitments, such as letters of credit and binding unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Bank's internal risk rating scale.

If necessary, a specific allowance for loan and lease losses is established for individual impaired commercial loans. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the agreement, and once a loan has been identified as individually impaired, management measures impairment in accordance with SFAS 114.

Management believes that the allowance for loan losses is adequate to absorb losses inherent in the loan portfolio. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions and/or facts related to particular credits. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for losses on loans.

BPD Bank and Subsidiary

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h. Office Equipment and Leasehold Improvements

Office equipment is stated at cost less accumulated depreciation. Depreciation is computed on the straight-line basis over the estimated useful lives of the respective assets (3-10 years). Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvement, whichever is shorter. Expenditures for maintenance, repairs, renewals and minor improvements are charged to expense as incurred.

i. Foreign Exchange

The Bank holds foreign currency for its own account. Foreign currency assets and liabilities are translated into U.S. dollars at year-end exchange rates with changes in foreign currency exchange rates included in other income.

j. Income Taxes

The Bank's provision for income taxes is composed of current and deferred taxes. Deferred income taxes are determined under the asset and liability method and are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates expected to apply to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realized. The effect of tax rate changes on deferred taxes is recognized in the income tax provision in the period that includes the enactment date. The Bank provides a valuation allowance against deferred tax assets ("DTAs") when it is more likely than not that such DTAs will not be realized.

Uncertain tax positions that meet the more-likely-than not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the largest amount of benefit that the management believes is more likely than not be realized upon settlement. The Bank recognizes interest and penalties related to income tax matters as a component of income tax.

The Bank records interest income on loans to foreign borrowers pursuant to net-loan agreements. A net loan is a loan in which the foreign borrower agrees to bear the foreign withholding tax. Interest income may therefore include a component of foreign tax expense.

k. Comprehensive Income

Comprehensive income consists of net income, pension liability adjustment and net unrealized gains and losses on securities available for sale, net of taxes and is presented in the statement of changes in stockholder's equity.

l. Bank-Owned Life Insurance

Bank-owned life insurance is a tax advantaged transaction that is used to partially offset liabilities associated with employee compensation and benefit programs. Policies are purchased insuring officers of the Bank using a single premium method of payment.

Bank-owned life insurance is accounted for using the cash surrender value method. The change in the net asset is included in Other income.

m. Real Estate Owned

Real estate acquired by foreclosure is recorded in other assets at fair value less estimated selling costs at the date of acquisition and thereafter at the lower of cost or fair value less estimated selling costs. The fair value of such assets is determined based primarily upon independent appraisals and other factors. Expenses incurred to maintain this real estate and realized gains or losses on ultimate disposal are included in other income or expense as appropriate.

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2. Accounting Changes

a. Accounting Standards Codification

During 2009, the Bank adopted new guidance that established the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) as the single source of authoritative GAAP. The Codification establishes a common referencing system for accounting standards and is generally organized by subject matter. Use of the Codification has no impact on the Bank's financial condition or results of operations.

b. Income Taxes

Effective January 1, 2009, the Bank adopted FASB Interpretation ASC, *Accounting for Uncertainty in Income Taxes*. ASC 740 requires a company to evaluate whether a tax position taken by the company will "more likely than not" be sustained upon examination by the appropriate taxing authority. It also provides guidance on how a company should measure the amount of benefit that the company is to recognize in its financial statements. The adoption of ASC 740 had no impact on Stockholders' Equity.

c. Subsequent Events

During 2009, the Bank adopted FASB ASC 855, *Subsequent Events*. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855 defines the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure, the circumstances under which an organization shall recognize events occurring after the balance sheet date and the disclosures that an organization shall make about those events or transactions. The guidance was effective for interim or annual financial periods ending after June 15, 2009. The application of the guidance by the Bank in 2009 did not have any impact on the balance sheet or results of operations.

d. Other-than-Temporary Impairment on Investment Securities

In April 2009, the Bank adopted FSP FAS 115-2, *Recognition and Presentation of Other-Than-Temporary Impairments (now ASC 320-10, Investments—Debt and Equity Securities: Recognition of an Other-Than-Temporary Impairment)*. Accordingly, any credit-related impairment related to debt securities that the Bank does not plan to sell and is not likely to be required to sell is recognized in the Consolidated Statement of Operations, with the noncredit-related impairment recognized in AOCI. Impairment exists when the current fair value of an individual security is less than its amortized cost basis. Impairments that are determined to be temporary in nature are recorded, net of tax, in AOCI for available-for-sale securities. The Bank did not record any cumulative effect on adoption of FSP FAS 115-2 as the Bank had the intention to sell the securities for which other than-temporary impairment had been recorded in prior periods.

e. Measurement of Fair Value in Inactive Markets.

In April 2009, the Bank adopted FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (now ASC 820, Fair Value Measurements and Disclosures: Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased)*. The FSP superseded FSP FAS 157-3 and reaffirms that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The FSP also reaffirms the need to use judgment in determining whether a formerly active market has become inactive and in determining fair values when the market has become inactive. The adoption of the FSP had no effect on the balance sheet or results of operations.

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f. Additional Disclosures Regarding Fair Value Measurements

In January 2010, the FASB issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements*. The ASU requires disclosing the amounts of significant transfers in and out of Levels 1 and 2 of the fair value hierarchy and describing the reasons for the transfers. The disclosures are effective for reporting periods beginning after December 15, 2009. The Bank adopted ASU 2010-06 as of January 1, 2010 (See note 15).

j. Future Applications of Accounting Standards

Credit Quality and Allowance for Credit Losses Disclosures

In July 2010, the FASB issued ASU No. 2010-20, *Disclosures about Credit Quality of Financing Receivables and Allowance for Credit Losses*. The ASU requires a greater level of disaggregated information about the allowance for credit losses and the credit quality of financing receivables. For nonpublic entities, the period-end balance disclosure requirements for loans and the allowance for loans losses will be effective for reporting periods ending on or after December 15, 2011.

3. Securities Available for Sale

The amortized cost and estimated fair value of securities available for sale as of December 31, 2010 and 2009 are as follows:

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agency securities	\$ 11,765,194	\$ 220,698	\$ (1,109)	\$ 11,984,783
CMO's and mortgage backed securities	60,983,277	332,010	(706,668)	60,608,619
Other corporate bonds	4,837,085	62,914	-	4,899,999
	<u>\$ 77,585,556</u>	<u>\$ 615,622</u>	<u>\$ (707,777)</u>	<u>\$ 77,493,401</u>

	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agency securities	\$ 23,607,057	\$ 10,315	\$ (111,684)	\$ 23,505,688
CMO's and mortgage backed securities	46,019,111	58,725	(464,103)	45,613,733
Other corporate bonds	2,594,829	27,787	-	2,622,616
	<u>\$ 72,220,997</u>	<u>\$ 96,827</u>	<u>\$ (575,787)</u>	<u>\$ 71,742,037</u>

The amortized cost and estimated fair value of securities available for sale as of December 31, 2010, by contractual maturity, are as follows:

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	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 1,026,482	\$ 1,026,412
Due after one year through five years	3,890,987	3,953,827
Due after five years through ten years	8,583,334	8,759,552
Due after ten years	<u>64,084,753</u>	<u>63,753,610</u>
	<u>\$ 77,585,556</u>	<u>\$ 77,493,401</u>

The amortized cost and estimated fair value of securities available for sale as of December 31, 2009, by contractual maturity, are as follows:

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 1,000,000	\$ 1,000,000
Due after one year through five years	1,756,406	1,783,439
Due after five years through ten years	20,290,494	20,244,494
Due after ten years	<u>49,174,097</u>	<u>48,714,104</u>
	<u>\$ 72,220,997</u>	<u>\$ 71,742,037</u>

At December 31, 2010 and 2009 U.S. Government agency, CMO's and mortgage backed securities with a fair value of \$62,465,303 and \$61,082,160, respectively, were held as collateral by the Federal Home Loan Bank in connection with a line of credit granted to the Bank. At December 31, 2010 and 2009 the Bank has drawn long term advances from the Federal Home Loan Bank totaling \$40,000,000 and \$53,000,000, respectively.

At December 31, 2010 and 2009, U.S. Government agency securities with a fair value of \$10,128,100 and \$8,037,261, respectively, were held as collateral by the Federal Reserve Bank in connection with an available line of credit at the discount window.

The following table summarizes the unrealized losses of the available-for-sale portfolio as of December 31, 2010 as follows:

	2010					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(in thousands)</i>						
U.S. Government and agency obligations	\$ -	\$ -	\$ 263	\$ 1	\$ 263	\$ 1
CMO's and mortgage-backed securities	<u>33,415</u>	<u>702</u>	<u>650</u>	<u>5</u>	<u>34,065</u>	<u>707</u>
	<u>\$ 33,415</u>	<u>\$ 702</u>	<u>\$ 913</u>	<u>\$ 6</u>	<u>\$ 34,328</u>	<u>\$ 708</u>

The following table summarizes the unrealized losses of the available-for-sale portfolio as of December 31, 2009 as follows:

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<i>(in thousands)</i>	2009					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and agency obligations	\$ -	\$ -	\$ 21,965	\$ 112	\$ 21,965	\$ 112
CMO's and mortgage-backed securities	37,301	456	1,244	8	38,545	464
	<u>\$ 37,301</u>	<u>\$ 456</u>	<u>\$ 23,209</u>	<u>\$ 120</u>	<u>\$ 60,510</u>	<u>\$ 576</u>

Management monitors the fair value of the Bank's securities portfolio as part of an ongoing other-than-temporary impairment evaluation process. Numerous factors are considered in this evaluation, including the duration and severity of the impairment, the intent and ability of management to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value, and the financial condition and prospects of the issuer. Events which may cause material declines in the fair value of these security investments may include, but are not limited to, deterioration of credit metrics, higher incidences of default of the underlying collateral, worsening illiquidity, worsening global or domestic economic conditions, adverse regulatory action or further government intervention. As of December 31, 2010, the Bank does not intend to sell the securities with a loss position in accumulated other comprehensive income, and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis. The Bank believes that the securities with an unrealized loss in accumulated other comprehensive income are not other-than temporarily impaired as of December 31, 2010. However, based on future changes it is reasonably possible that the Bank will recognize other-than-temporary impairment losses related to these securities in future periods.

The majority of securities in an unrealized loss position as displayed in the above table are discussed below:

U.S. Government and Agency Obligations and Mortgage Backed Securities (MBS)

MBSs held by the Bank are issued by the Government National Mortgage Association (GNMA) and the Federal National Mortgage Association (FNMA). These entities are U.S. Government sponsored entities (GSE) that guarantee the payment of principal and interest on the underlying securities. In particular, payments of principal and interest on securities issued by GNMA are backed by the full faith and credit of the United States Government. All of the securities are current as to the payment of interest and principal, where applicable.

The Bank holds fixed rate securities known as Small Business Association (SBA) Pools that are exhibiting impairment at December 31, 2010 and 2009. These securities carry the full faith and credit of the United States Government. All of the securities are current as to the payment of interest and principal, where applicable.

Management considers that the impairment exhibited by the CMO, MBS and SBA Pool securities discussed above as of December 31, 2010 and 2009 is temporary, as it results from the widening of interest rate spreads across market sectors (particularly the financial services sector) as well as continued market illiquidity, uncertainty over the direction and magnitude of future government intervention as well as overall uncertainty of the securities markets and the domestic and global economies. During 2010 and 2009, the fair value of these securities was negatively impacted by the worsening global economic crisis and its related effect on the securities markets in general and on the financial services sector in particular.

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4. Loans

The major classifications of loans at December 31, 2010 and 2009 are as follows:

	2010	2009
Commercial		
Domestic	\$ 6,900,297	\$ 19,012,020
Foreign	105,219,601	55,547,457
Mortgage and real estate	138,598,361	192,467,332
Consumer		
Other indirect, primarily used automobiles	690,389	4,677,996
Direct	<u>16,165</u>	<u>115,192</u>
	251,424,813	271,819,997
Unearned income and unamortized discounts	(353,378)	(618,979)
Allowance for loan losses	<u>(5,142,514)</u>	<u>(5,654,970)</u>
	<u>\$245,928,921</u>	<u>\$265,546,048</u>

The Bank has geographic concentration of credit risk with respect to our commercial real estate portfolios, in New York and Miami, which represent a large percentage of our credit portfolio. The current financial crisis and economic slowdown has adversely affected these portfolios and further exposed us to this concentration of risk. Continued economic weakness or deterioration in real estate values could result in materially higher credit losses.

At December 31, 2010 and 2009, the Bank's loan portfolio included \$33,183,165 and \$50,116,593, respectively, corresponding to real estate construction development.

At December 31, 2010 and 2009, the Bank's loan portfolio included \$361,103 and \$168,350, respectively, corresponding to customer overdrafts.

Foreign commercial loans are concentrated in Latin America and the Caribbean. Loans to foreign financial institutions of \$30,573,829 and \$1,293,443 at December 31, 2010 and 2009, respectively, represent short-term trade-related loans and letter of credit acceptances discounted for the account of foreign financial institutions. Foreign commercial loans of \$55,161,822 and \$10,910,312 at December 31, 2010 and 2009, respectively, represent foreign corporate trade-finance loans. The balance of foreign commercial loans represents nontrade-related exposures at December 31, 2010 and 2009.

Gross loans as of December 31, 2010 and 2009, based on the interest-bearing nature are summarized as follows:

	2010	2009
Loans		
Fixed interest rate	\$ 156,315,364	\$ 119,631,920
Floating interest rate	<u>95,109,449</u>	<u>152,188,077</u>
	<u>\$251,424,813</u>	<u>\$271,819,997</u>

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

	2010	2009
Balance, beginning of year	\$ 5,654,970	\$ 5,002,839
Provision	6,413,588	5,759,932
Charge-offs	(7,123,708)	(5,431,512)
Recoveries	197,664	323,711
Balance, end of year	<u>\$ 5,142,514</u>	<u>\$ 5,654,970</u>

Loans on which the accrual of interest has been discontinued amounted to approximately \$2,555,143 and \$3,123,443 at December 31, 2010 and 2009, respectively. If interest on those loans had accrued at the original contract rates, such income would have approximated \$130,725 and \$130,261 for 2010 and 2009, respectively. There were no commitments to lend additional funds on nonaccrual loans outstanding at December 31, 2010 and 2009.

At December 31, 2010 and 2009, the Bank had \$28.1 million and \$27.4 million respectively, of commercial and real estate loans whose terms have been modified in a troubled debt restructuring. There were outstanding commitments to lend additional funds on troubled debt restructured loans of \$2.7 million and \$0 at December 31, 2010 and 2009, respectively.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming and nonaccrual loans.

An analysis of impaired loans at December 31, 2010 and 2009 is as follows:

	2010	2009
At December 31		
Impaired loans outstanding	\$ 3,384,226	\$ 4,979,884
Impairment allowance	1,167,931	2,215,360
For the year ended December 31		
Average recorded investment in impaired loans	6,499,261	8,035,948
Interest income recognized on impaired loans	49,636	105,232

In addition to the impaired loans noted above, the Bank acquired real estate on foreclosure of \$279,774 which is recorded in Other assets as of December 31, 2009. This real estate was sold during 2010.

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5. Office Equipment and Leasehold Improvements

Office equipment and leasehold improvements at December 31, 2010 and 2009 are as follows:

	2010	2009
Computer software and equipment	\$ 4,067,632	\$ 4,357,126
Office equipment and fixtures	1,649,830	1,266,487
Leasehold improvements	<u>1,359,683</u>	<u>1,334,478</u>
	7,077,145	6,958,091
Accumulated depreciation and amortization	<u>(5,114,050)</u>	<u>(3,655,671)</u>
	<u>\$ 1,963,095</u>	<u>\$ 3,302,420</u>

Depreciation expense amounted to \$1,404,337 and \$1,403,933, respectively in 2010 and 2009.

6. Deposits

The aggregate amount of time deposits of \$100,000 or more was \$86,125,801 and \$96,580,112 as of December 31, 2010 and 2009, respectively.

At December 31, 2010 and 2009, time deposits, had the following scheduled maturities:

	2010	2009
Year ending December 31		
2010	\$ -	\$ 91,801,854
2011	68,702,059	12,044,662
2012	13,392,543	7,639,836
2013 and over	<u>15,757,378</u>	<u>-</u>
	<u>\$ 97,851,980</u>	<u>\$ 111,486,352</u>

7. Borrowed Funds

As of December 31, 2010 and 2009, borrowed funds were as follows:

	2010	2009
FHLB advances and borrowings		
Amount outstanding at year end	\$ 40,000,000	\$ 53,000,000
Average outstanding during the year	40,833,333	56,235,068
Maximum outstanding at any month end	43,000,000	68,000,000
Weighted average interest rate for the period	3.32 %	3.26 %

At December 31, 2010 and 2009 the Bank had available lines of credit with the Federal Reserve Bank of New York totaling \$10.0 and \$8.0 million, the Federal Home Loan Bank totaling \$18.9 and \$4.7 million and other financial entities totaling \$15.0 million for 2010 and 2009.

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At December 31, 2010 and 2009, Borrowed Funds had the following scheduled maturities:

	2010	2009
2010	\$ -	\$ 15,000,000
2011	3,000,000	3,000,000
2012	5,000,000	5,000,000
2013	17,000,000	15,000,000
2014	9,000,000	9,000,000
2015	5,000,000	5,000,000
2016	1,000,000	1,000,000
	<u>\$ 40,000,000</u>	<u>\$ 53,000,000</u>

8. Other Operating Expenses

Other operating expenses for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Professional services	\$ 1,091,739	\$ 1,300,987
Insurance	454,082	460,375
Communication	346,606	323,959
Directors' fees	297,784	319,322
Travel	191,096	134,442
General and administrative and other	2,071,989	2,613,737
	<u>\$ 4,453,296</u>	<u>\$ 5,152,822</u>

9. Transactions and Balances with Related Parties

Related parties include Grupo Popular and other affiliates of the Bank in which there exists control or significant influence by Grupo Popular, S.A. In the ordinary course of business, the Bank has conducted transactions with related parties which result in certain balances due to and due from such related parties and corresponding amounts of income and expenses.

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Related party balances and transactions with Grupo Popular and affiliates are as follows:

	2010	2009
In the accompanying balance sheets		
Due from banks	\$ 38,395	\$ 135,420
Interest-bearing time deposits with banks	\$ 5,622,490	\$ -
Accounts receivable (other assets)	161,779	4,423
Deposits, overnight (NOW and money market)	38	1,000,208
Deposits, noninterest bearing	8,767,180	18,477,629
Deposits, rent (other assets)	-	25,000
Accrued interest payable—deposits	10,445	9,230
In the accompanying statements of operations		
Interest income, interest-bearing time deposits with banks	61,392	-
Interest expense, deposits	11,894	65,866
Service fees income	438,179	208,136
Gains on disposal of available for sale securities to affiliate	3,345,633	1,660,356
Service fee expenses (other operating expenses)	185,172	33,789
Loss on disposal of Trust preferred securities to affiliate	-	6,217,044
Rent expenses (depreciation, amortization and occupancy expenses)	83,520	158,920
In the accompanying statements of cash flows		
Cash flows from investing activities		
Proceeds from loans sold	28,298,671	9,498,772
Proceeds from the sale of available for sale securities	106,603,655	39,304,352

Transactions involving interest income and expense, and service fee income and expenses are priced using market rates applicable to similar transactions. Available for sale securities sold were transacted at the applicable market price at the time of the transaction.

During 2009 the Bank sold its portfolio of eleven Pooled Trust Preferred Securities to an affiliate generating additional losses of \$6.2 million presented in other expenses in the consolidated statement of operations for the year. Management used its best estimate of fair value using discounted cash flow techniques and broker quotes to determine the sales price. The market for these securities is illiquid. Different weightings of the inputs used in determining the sales prices could have resulted in a materially different result.

During 2010 and 2009 the Bank sold to an affiliate impaired loans with \$31.6 and \$11.8 million of unpaid principal balance, respectively. The sale prices were based on the fair value of the loans at the time of their sale, resulting in \$3.3 and \$2.3 million of charge-offs included in the provision for loan losses in the consolidated statements of operations for 2010 and 2009, respectively. Management estimated the fair value of the loans at the time of sale using estimated cash flows that took into account the expected proceeds from third parties, sale related expenses, and expenses related to maintaining the property until the sale, discounted at a rate of discount for the estimated period until realization.

10. Income Taxes

The Bank's current and deferred income tax provisions for the years ended December 31, 2010 and 2009 consist of the following:

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	2010	2009
Current income tax benefit		
Federal, State and local	\$ 458,548	\$ 706,065
Deferred income tax benefit		
Federal, State and local	<u>62,917</u>	<u>44,577</u>
Total income tax benefit	<u>\$ 521,465</u>	<u>\$ 750,642</u>

The Bank files a federal tax return and a combined New York State and City return with BPD Holding, Inc. and separate returns for Florida and New Jersey. In 2003 and 2002, the Bank purchased Low Income Housing Tax Credits of \$4,535,475 and \$800,025, respectively. These tax credits are recognized into income over a seven year period and unused credits are carried forward for 20 years. The Bank's credits will begin to expire in 2023.

The effective Federal income tax rate of (16%) differs from the "expected" rate of 34% because of the income from the lapses of statutes of limitation of unrecognized tax benefits, the cash surrender value of the Bank owned life insurance, the benefit from the Low Income Housing Tax Credit, and state and local taxes.

The Bank records a deferred tax asset relating to the unrecognized benefit of all temporary differences that will result in future tax deductions and a deferred liability relating to the unrecognized obligation of all temporary differences that will result in future tax expenses. Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

At December 31, 2010 and 2009, the Bank's deferred tax assets consist of the following tax effected temporary differences:

	2010	2009
Deferred tax assets		
Allowance for loan losses	\$ 2,274,192	\$ 2,350,840
Securities available-for-sale	40,824	210,051
Low income housing tax credits	3,627,377	3,256,824
Loss on disposal of securities to affiliate	4,621,215	4,599,654
AMT credit	209,989	151,982
Related party loss on loans and securities sold	1,603,926	1,700,049
Depreciation and amortization expense, net	313,151	157,986
Pension and other	472,682	738,148
Net operating loss	<u>-</u>	<u>104,131</u>
Deferred tax assets	<u>\$ 13,163,356</u>	<u>\$ 13,269,665</u>

Effective January 1, 2009, the Bank adopted FASB Interpretation (FIN) No. 48 *Accounting for Uncertainty in Income Taxes (now ASC 740-10 Accounting for Uncertainty in Income taxes)*. FIN 48 requires a company to evaluate whether a tax position taken by the company will "more likely than not" be sustained upon examination by the appropriate taxing authority. It also provides guidance on how a company should measure the amount of benefit that the company is to recognize in its financial statements. The adoption of FIN 48 had no impact on Shareholders

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Equity. As of January 1, 2009, the total unrecognized tax benefits were \$2,909,600, all of which if recognized, would impact the effective tax rate.

It is the Bank's policy to recognize interest and penalties related to income tax matters in income tax expense. Interest and penalties recorded as income tax expense in the consolidated statements of operations, were \$204,574 and \$222,179 for 2010 and 2009 respectively. Accrued interest and penalties were \$278,356 and \$493,055 as of December 31, 2010 and 2009, respectively.

As of December 31, 2010 the Bank had unrecognized tax benefits of \$1,290,784 all of which if recognized would affect the effective tax rate.

The following table summarizes the tax years that remain open in the jurisdictions in which the Bank operates:

Jurisdiction	Open Tax Years
U.S. federal	2007-2010
New York State	2007-2010
New York City	2008-2010
Florida	2010
New Jersey	2007-2010

11. Commitments and Contingencies

The Bank leases office space in downtown Manhattan under a 10-year lease agreement expiring in 2014, office space in Jersey City, New Jersey under a 3-year lease agreement expiring in 2012 and an office in Miami, Florida under a 4-year lease agreement expiring in 2014. During May 2008, the Bank leased office space in the Dominican Republic to set up a representative office in that country under a 5-year lease agreement expiring in 2013. Following is a schedule of future minimum lease commitments under operating leases with non-cancellable lease terms that expire after December 31, 2010:

Year	Lease Obligations
2011	\$ 1,017,022
2012	1,002,977
2013	849,061
2014	496,948
2015 and thereafter	-
	<u>\$ 3,366,008</u>

The leases contain escalation clauses providing for increased rentals based upon maintenance, utilities and tax increases, which are accounted for ratably to rental expense over the lease term. A standby letter of credit for \$170,844 was issued as security for the premises in Manhattan. In addition, the Bank has a \$58,572 security deposit, which is included in other assets in the consolidated balance sheets at December 31, 2010 and 2009. Net rental expense was \$934,461 in 2010 and \$1,167,731 in 2009.

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12. Financial Instruments with Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of its 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 amounts recognized in the balance sheets. The contract amounts of these instruments reflect the extent of the involvement that the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, and to potential credit loss associated with letters of credit issued or confirmed, is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments as it does for loans. As of December 31, 2010, the Bank had reserve for losses related to unfunded lending commitments of \$212,428 included in other liabilities. There was no reserve for losses related to unfunded lending commitments at December 31, 2009.

Commitments to extend credit whose contract amounts represent credit risk include the following at December 31, 2010 and 2009.

	2010	2009
Commitments to extend credit	\$ 8,414,892	\$ 24,006,638
Commercial letters of credit	143,000	1,043,000
Standby letters of credit	<u>3,779,127</u>	<u>3,425,866</u>
	<u>\$ 12,337,019</u>	<u>\$ 28,475,504</u>

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The guarantees are generally extended for a term of one year, and are secured in a manner similar to existing extensions of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. For each guarantee issued, the Bank would have to perform under the guarantee if the customer defaults on a payment. The Bank is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee and subsequently re-measure it until its expiration. The following table summarizes the Bank's standby letters of credit at December 31, 2010 and 2009:

	2010			
	Expire within One year	Expire After One Year	Total Gross Amount (*)	Collateral Received
Standby letters of credit	\$ 3,608,283	\$ 170,844	\$ 3,779,127	\$ 400,000

	2009			
	Expire within One year	Expire After One Year	Total Gross Amount (*)	Collateral Received
Standby letters of credit	\$ 3,255,022	\$ 170,844	\$ 3,425,866	\$ 1,165,576

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(*) This represents the maximum amount (undiscounted) the Bank could be required to pay under the guarantee.

13. Regulatory Matters

Capital Adequacy

The Bank is subject to various regulatory capital requirements administered by state and 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 quarterly average assets. Management believes that the Bank meets all capital adequacy requirements to which it is subject as of December 31, 2010

The Bank's actual capital amounts and ratios as of December 31, 2010 and 2009 are as follows:

	Actual		Minimum Capital For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2010						
Total capital (to risk weighted assets)	\$ 65,908,418	26.73 %	\$ 19,724,721	8.00 %	\$ 24,655,902	10.00 %
Tier I capital (to risk weighted assets)	62,800,992	25.47 %	9,862,361	4.00 %	14,793,541	6.00 %
Tier I capital (to average assets)	62,800,992	15.59 %	16,111,316	4.00 %	20,139,145	5.00 %
As of December 31, 2009						
Total capital (to risk weighted assets)	62,520,712	22.22 %	22,505,088	8.00 %	28,131,359	10.00 %
Tier I capital (to risk weighted assets)	58,977,712	20.96 %	11,252,544	4.00 %	16,878,816	6.00 %
Tier I capital (to average assets)	58,977,712	12.61 %	18,704,838	4.00 %	23,381,047	5.00 %

14. Employee Benefit Plan and Bank Owned Life Insurance

The Bank has a 401(k) savings plan whereby eligible employees may voluntarily contribute a percentage of compensation. Under the provisions of the plan, the Bank annually contributes 75% up to the first 6% of an employee's annual contribution. Bank contributions vest 25% per year after completion of one year of service and participation in the plan. Bank contributions to the plan were \$178,920 and \$245,629 in 2010 and 2009, respectively.

Before January 01, 2009 the Bank had a Supplemental Executive Retirement Plan (SERP or the plan), which provided post-employment supplemental retirement benefits to certain officers of the Bank.

Effective January 1, 2009 the Bank terminated the Supplemental Executive Retirement Plan (SERP) and made payments to each participant for a total of \$1,295,000. The net expenses recorded in 2009 for the SERP was a credit of \$305,083 recorded in other income.

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In connection with the SERP the Bank had purchased certain life insurance contracts to partially offset liabilities associated with the plan. The cash value of these policies at December 31, 2009 was \$1,432,452. No cash value of these policies at December 31, 2010.

The cash value of other policies included in bank owned life insurance at December 31, 2010 and 2009 was \$8,300,768 and \$8,020,010, respectively.

15. Fair Value of Financial Instruments

The Bank uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. There were no liabilities recorded at fair value at December 31, 2010 and December 31, 2009. Debt securities available-for-sale are recorded at fair value on a recurring basis. Additionally, other assets or liabilities may be required to be recorded at fair value on a nonrecurring basis, such as foreclosed real estate owned and certain impaired loans. These nonrecurring fair value adjustments generally involve the write-down of individual assets due to impairment. In accordance with ASC 820 and for purposes of fair value determination, assets are grouped in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Bank's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques could include the use of option pricing models, discounted cash flow models and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability.

Fair values are based on the price that would be received when selling an asset in an orderly transaction between market participants at the measurement date. U.S. GAAP requires maximizing the use of observable inputs and minimizing the use of unobservable inputs when measuring fair value.

Assets that are measured at fair value on a recurring basis are limited to the available-for-sale debt securities portfolio, which is carried at fair value with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income or loss in shareholder's equity. The majority of the available-for-sale portfolio consists of collateralized mortgage obligations and mortgage-backed securities and securities issued by government-sponsored enterprises. The fair values for substantially all of these securities are obtained from an independent nationally recognized pricing service. Based on the nature of the securities, they are categorized as Level 2, since quoted prices in active markets for identical assets are generally not available for the majority of them.

ASC 825, *Disclosures about Fair Value of Financial Instruments*, requires the Bank to disclose fair value information about financial instruments for which it is practicable to estimate the value, whether or not such financial instruments are recognized on the balance sheet.

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Quoted market prices are not available for a significant portion of the Bank's financial instruments. As a result, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of the net realizable or liquidation value. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Certain financial instruments and all nonfinancial instruments are excluded from the scope of FASB ASC 825. Accordingly, the fair value disclosures required by FASB ASC 825 provide only a partial estimate of the fair value of the Bank. The Bank has developed relationships with its core depositors that in the opinion of management have significant economic value which is not reflected in the balance sheets. Specifically, a significant intangible value arises from the Bank's core deposit funding base, comprising noninterest-bearing demand deposits, NOW accounts and money market accounts, which represent a low-cost source of funds. In the aggregate, Bank management believes that these relationships add significant value to the Bank, but their fair value is not disclosed in this note.

Reasonable comparability of fair values among financial institutions is not likely due to the wide range of permitted valuation techniques and numerous estimates that must be made. This lack of objective valuation standards introduces a greater degree of subjectivity to these derived or estimated fair values. Therefore, readers are cautioned in using this information for purposes of evaluating the financial condition of the Bank.

The following criteria have been used in order to estimate the fair value of financial instruments disclosed below.

a. Cash and Short-term Investments

For cash and due from banks, interest-bearing deposits with banks and Federal funds sold, the carrying amount is a reasonable estimate of fair value, due to the short-term nature of these assets.

b. Securities Available for Sale

For securities available for sale fair values are obtained from an independent nationally recognized pricing service. See further details in preceding paragraphs.

c. Loans

The fair value of loans is estimated by discounting the future expected cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value for nonaccrual loans, including impaired loans, is estimated using discounted cash flow analyses or underlying collateral values, where applicable.

d. Deposits

The fair value of noninterest-bearing demand deposits, savings accounts, NOW accounts and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity time deposits is estimated using the rates currently offered for deposits of similar remaining maturities.

e. Borrowed funds

The fair value of borrowed funds is estimated using the rates currently offered for borrowed funds and FHLB advances of similar remaining maturities.

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f. Commitments to Extend Credit and Letters of Credit

The fair value of fees related to these commitments is not significant and is offset by associated credit risk with respect to any amounts to be funded, thereby resulting in no fair value of significance.

The carrying amounts and estimated fair values of the Bank's financial instruments are as follows:

<i>(in thousands)</i>	December 31, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Cash and short-term investments	\$ 51,902	\$ 51,902	\$ 64,427	\$ 64,427
Securities available for sale	77,493	77,493	71,742	71,742
Loans	245,929	250,135	265,546	267,099
Bank-owned life insurance	8,300	8,300	9,452	9,452
Financial liabilities				
Deposits	304,000	303,336	326,227	325,059
Borrowed funds	40,000	41,875	53,000	53,424

The following table provides information as of December 31, 2010 and 2009 about the Bank's securities available for sale measured at fair value on a recurring basis.

<i>(in thousands)</i>	2009			
	Level 1	Level 2	Level 3	Total
Securities available for sale at fair value				
U.S. Government Agency securities	\$ -	\$ 23,506	\$ -	\$ 23,506
CMO's and mortgage backed securities	-	45,614	-	45,614
Other corporate bonds	-	2,623	-	2,623
Total securities available for sale	<u>\$ -</u>	<u>\$ 71,743</u>	<u>\$ -</u>	<u>\$ 71,743</u>
<i>(in thousands)</i>	2010			
	Level 1	Level 2	Level 3	Total
Securities available for sale at fair value				
U.S. Government Agency securities	\$ -	\$ 11,985	\$ -	\$ 11,985
CMO's and mortgage backed securities	-	60,609	-	60,609
Other corporate bonds	-	4,900	-	4,900
Total securities available for sale	<u>\$ -</u>	<u>\$ 77,494</u>	<u>\$ -</u>	<u>\$ 77,494</u>

The following table summarizes the changes in securities available for sale classified in Level 3. Gains and losses reported in this table may include changes in fair value that are attributable to both observable and unobservable inputs.

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<i>(in thousands)</i>	Pooled Trust Preferred Securities	
	2010	2009
Beginning balance	\$ -	\$ 7,716
Transfers in and/or out of Level 3	-	-
Total gains (losses) realized/unrealized		
Included in earnings	-	(6,217)
Included in other comprehensive income	-	-
Purchases, issuances, and settlements	-	(1,499)
Ending balance	\$ -	\$ -

16. Subsequent Events

Management evaluated all events and transactions that occurred after December 31, 2010 through March 14, 2011, the date these financial statements were issued. There have been no material subsequent events that occurred during such period that would require disclosure or would be required to be recognized in the consolidated financial statements for the year ended December 31, 2010.