

COMMERCIAL BANKSHARES INC

Form 10-K

March 15, 2007

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 33-67254

Commercial Bankshares, Inc.
(Exact name of registrant as specified in its charter)

Florida (State or other jurisdiction of incorporation or organization)	65-0050176 (I.R.S. Employer Identification No.)
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1550 S.W. 57th Avenue, Miami, Florida (Address of principal executive offices)	33144 (Zip Code)
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(305) 267-1200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:	
Title of Each Class	Name of Each Exchange on Which Registered
None	None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock,
par value \$.08 per
share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ___ No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ___ No .

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [].

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the Company's outstanding common equity held by non-affiliates on June 30, 2006 (the last business day of the Company's most recently completed second fiscal quarter) was \$224 million.

As of March 12, 2007, there were 6,221,782 shares of common stock outstanding.

Documents Incorporated by Reference

1. Certain portions of the Annual Report to Shareholders of Commercial Bankshares, Inc., for fiscal year ended December 31, 2006 are incorporated by reference into Part I and Part II.

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Certification of Chief Executive Officer Pursuant to Rule 15A-14(A) or 15D-14(A) of the Securities Exchange Act of 1934, As Adopted Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification of Chief Financial Officer Pursuant to Rule 15A-14(A) or 15D-14(A) of the Securities Exchange Act of 1934, As Adopted Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 99.1 Report of Independent Registered Certified Public Accounting Firm, 2004

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PART I

Item 1. Business.

Commercial Bankshares, Inc.

Commercial Bankshares, Inc. (the "Company"), a Florida corporation organized in 1988, is a bank holding company registered under the Bank Holding Company Act of 1956 ("BHCA"), as amended, whose wholly-owned subsidiary and principal asset is the Commercial Bank of Florida, (the "Bank"). The Company, through its ownership of the Bank, is engaged in a commercial banking business, and its primary source of earnings is derived from income generated by its ownership and operation of the Bank. Unless the context otherwise requires, references herein to the Company include the Company and its wholly-owned subsidiary, the Bank, on a consolidated basis.

The Company is a legal entity separate and distinct from the Bank, and there are various legal limitations on the ability of the Bank to finance or otherwise supply funds to the Company. In particular, under federal banking law, the Bank may not declare a dividend that exceeds undivided profits. In addition, the approval of the Federal Reserve Bank of Atlanta ("Atlanta FRB") and the Florida Department of Banking and Finance is required if the total amount of all dividends declared in any calendar year exceeds the Bank's net profits, as defined, for that year combined with its retained net profits for the preceding two years. The Atlanta FRB also has the authority to limit further the payment of dividends by the Bank under certain circumstances. In addition, federal banking laws prohibit or restrict the Bank from extending credit to the Company under certain circumstances.

On January 23, 2007, Commercial Bankshares, Inc., ("Registrant") entered into an Agreement and Plan of Merger ("Merger Agreement") with The Colonial BancGroup, Inc., a Delaware corporation ("Colonial"), whereby Registrant will merge with and into Colonial, with Colonial remaining as the surviving corporation ("Merger").

The Merger Agreement provides that at the closing of the Merger, the Registrant's shareholders will have their shares canceled and converted into the right to receive either \$49.00 in cash or 2.0214 shares of Colonial common stock, par value \$2.50 per share, or any combination thereof at the election of each such shareholder, provided that the aggregate cash consideration is fixed at 50% of number of outstanding shares of Registrant's common stock times \$49.00. Accordingly, each such shareholder's election is subject to adjustment, on a pro rata basis, to the extent of an aggregate overelection or underelection of cash.

Commercial Bank of Florida

The Bank is a Florida chartered banking corporation originally chartered in February, 1979. It operated as Sunset Commercial Bank until its acquisition by the Company in 1988, at which time its name was changed to Commercial Bank of Florida. The Bank engages in commercial banking and related businesses from its fourteen banking facilities: its main office and nine other offices located in Miami-Dade County, Florida, and four offices in Broward County, Florida.

The Bank is operated as a network of community bank branches. The Bank primarily focuses on providing personalized banking services to small businesses and individuals within the market areas where its banking offices are located. Management believes that this local market strategy, accompanied by the strategic placement of Bank personnel within market areas where they have served customers for many years, enables the Bank to attract and retain low cost core deposits, which provide substantially all of the Bank's funding requirements.

Deposit products include certificates of deposit, individual retirement accounts ("IRAs") and other time deposits, checking and other demand deposit accounts, NOW accounts, savings accounts, and money market accounts. The transaction accounts and time certificates are tailored to the principal market areas at rates competitive to those in the

area. All deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to the maximum limits permitted by law. The Bank solicits these accounts from small businesses, professional firms, and households located throughout its primary market area.

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The Bank also offers ATM cards with access to local, state, and national networks, internet banking, safe deposit boxes, wire transfers, direct deposit of payroll and social security payments, and automatic drafts for various accounts. The Bank presently does not provide fiduciary or appraisal services.

The Bank conducts commercial and consumer banking business, which primarily consists of attracting deposits from the areas served by its banking offices and using those deposits, together with funds derived from other sources, to originate a variety of commercial, consumer, and real estate loans (including commercial loans collateralized by real estate).

The Company considers the general business of retail banking to be its only operating segment.

As is the case with banking institutions generally, the Bank's operations are materially and significantly influenced by general economic conditions and by related monetary and fiscal policies of financial institution regulatory agencies, including the Federal Reserve Board ("FRB"), the FDIC, and the State of Florida. Deposit flows and the cost of funds are influenced by interest rates on competing investments and general market rates of interest. Lending activities are affected by the demand for financing of real estate and other types of loans, which in turn is affected by the interest rates at which such financing may be offered and other factors affecting local demand and availability of funds. The Bank faces strong competition in the attraction of deposits (its primary source of lendable funds) and in the origination of real estate loans.

Employees

At December 31, 2006, the Company and the Bank together employed 194 employees, of whom ten are part-time. None of these employees is covered by a collective bargaining agreement. The Company believes that its employee relations are good.

Market Information

The Bank's fourteen banking offices are located in Miami-Dade and Broward counties, which comprise the Bank's primary market area. Management believes that the Bank's principal markets are: (i) the established and expanding commercial market within the primary market area, and (ii) the moderate and the affluent residential market within the primary market area. Management also believes that the most profitable banking relationships are characterized by high deposit balances with a low frequency of transactions. Moreover, management believes that a community bank with local management is well positioned to establish these relationships with the smaller commercial customers and households. Management believes that the Bank is well positioned to take advantage of its market segment.

Competition

Competition in the banking and financial services industry is intense. In its primary market areas, the Bank competes with other commercial banks, savings institutions, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Most of these competitors have substantially greater resources and lending limits than the Bank and may offer certain services, such as trust services, that the Bank does not provide at this time. In addition many of the Company's non-bank competitors are not subject to the same extensive federal regulations that govern the Bank and the Company. The profitability of the Company depends upon the Bank's ability to compete in its market areas.

Available Information

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A copy of the Company's Annual Report on Form 10-K along with copies of the Company's other periodic reports required to be filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, are available free of charge (absent exhibits) from the Company upon written request to Barbara E. Reed, Chief Financial Officer, Commercial Bankshares, Inc. 1550 S.W. 57th Avenue Miami, Florida 33144. Copies of such reports are also available electronically at the SEC's internet website www.sec.gov, or via the Company's website at www.commercialbankfl.com. Reference to the Company's website in this Annual Report on 10K does not in any way incorporate information contained in such website into this report.

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Supervision and Regulation

Bank holding companies and banks are extensively regulated under both federal and state law. These laws and regulations are intended to protect depositors, not stockholders. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in the applicable law or regulation may have a material effect on the business and prospects of the Company and the Bank.

Bank Holding Company Regulation

As a bank holding company registered under the BHCA, the Company is subject to the regulation and supervision of the FRB. The Company is required to file with the FRB annual reports and other information regarding its business operations and those of its subsidiaries. Under the BHCA, the Company's activities and those of its subsidiaries are limited to banking, managing or controlling banks, furnishing services to or performing services for its subsidiaries, or engaging in any other activity which the FRB determines to be so closely related to banking or managing or controlling banks as to be properly incident thereto.

The BHCA requires, among other things, the prior approval of the FRB in any case where a bank holding company proposes to (i) acquire all or substantially all of the assets of any other bank, (ii) acquire direct or indirect ownership or control of more than 5% of the outstanding voting stock of any bank (unless it owns a majority of such bank's voting shares), or (iii) merge or consolidate with any other bank holding company. The FRB will not approve any acquisition, merger, or consolidation that would have a substantially anti-competitive effect, unless the anti-competitive impact of the proposed transaction is clearly outweighed by a greater public interest in meeting the convenience and needs of the community to be served. The FRB also considers capital adequacy and other financial and managerial resources and future prospects of the companies and the banks concerned, together with the convenience and needs of the community to be served, when reviewing acquisitions or mergers.

Additionally, the BHCA prohibits a bank holding company, with certain limited exceptions, from (i) acquiring or retaining direct or indirect ownership or control of more than 5% of the outstanding voting stock of any company which is not a bank or bank holding company, or (ii) engaging directly or indirectly in activities other than those of banking, managing, or controlling banks, or performing services for its subsidiaries, unless such non-banking business is determined by the FRB to be so closely related to banking or managing or controlling banks as to be properly incident thereto. In making such determinations, the FRB is required to weigh the expected benefits to the public, such as greater convenience, increased competition, or gains in efficiency, against the possible adverse effects, such as under-concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices.

There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by law and regulatory policy that are designed to minimize potential loss to the depositors of such depository institutions and the FDIC insurance funds in the event the depository institution becomes in danger of default or in default. Under a policy of the FRB with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such policy. The FRB also has the authority under the BHCA to require a bank holding company to terminate any activity or to relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the FRB's determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

Capital Adequacy Guidelines for Bank Holding Companies

The Company is subject to certain FRB risk-based capital guidelines for bank holding companies. The risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance sheet exposure, and to minimize disincentives for holding liquid assets. Under these guidelines, assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

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The minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) is 8%. At least 4% of the total capital is required to be "Tier I Capital," which consists of common stockholders' equity, noncumulative perpetual preferred stock, and a limited amount of cumulative perpetual preferred stock, less certain goodwill items and the unrealized holding gain/loss on available for sale securities. The remainder ("Tier II Capital") may consist of (i) the allowance for loan losses of up to 1.25% of risk-weighted risk assets, (ii) 45% of unrealized holding gain on available for sale equity securities, (iii) excess of qualifying perpetual preferred stock, (iv) hybrid capital instruments, (v) perpetual debt, (vi) mandatory convertible securities, and (vii) subordinated debt and intermediate-term preferred stock up to 50% of Tier I capital. Total capital is the sum of Tier I and Tier II capital less reciprocal holdings of other banking organizations' capital instruments, investments in unconsolidated subsidiaries, and any other deductions as determined by the FRB (determined on a case by case basis or as a matter of policy after formal rule-making).

Bank holding company assets are given risk-weights of 0%, 20%, 50% and 100%. In addition, certain off-balance sheet items are given similar credit conversion factors to convert them to asset-equivalent amounts to which an appropriate risk-weight will apply. These computations result in the total risk-weighted assets.

The Company's management believes that the risk-weighting of assets under current FRB guidelines does not and will not have a material impact on the Company's operations or on the operations of the Bank. As of December 31, 2006 and 2005, the Company's total risk-based capital ratios were 13.84% and 14.11%, respectively. In addition to the risk-based capital guidelines, the FRB has adopted a minimum Tier I capital (leverage) ratio, under which a bank holding company must maintain a minimum level of Tier I capital to total consolidated assets of at least 3% in the case of a bank holding company that has the highest regulatory examination rating and is not contemplating significant growth or expansion. All other bank holding companies are expected to maintain a leverage ratio of at least 100 to 200 basis points above the stated minimum. Federal Reserve Board requirements also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above regulatory minimums without significant reliance on intangible assets. The Federal Reserve Board may continue to consider a "tangible Tier 1 leverage ratio" (deducting all intangibles) in evaluating proposals for expansion or new activities. As of December 31, 2006 and 2005, the Company's leverage ratios were 8.44% and 7.62%, respectively.

Bank Regulation

The Bank is a state-chartered banking corporation and is subject to the supervision of and regular examination by the FRB and the Florida Department of Banking and Finance, as well as to the supervision of the FDIC.

The operations of the Bank are subject to state and federal statutes applicable to banks which are members of the Federal Reserve System and to the regulations of the FRB, the FDIC, and the State of Florida. Such statutes and regulations relate to required reserves against deposits, investments, loans, mergers and consolidations, issuance of securities, payment of dividends, establishment of branches, and other aspects of the Bank's operations. Various consumer laws and regulations also affect the operations of the Bank, including state usury laws, laws relating to fiduciaries, consumer credit and equal credit, and fair credit reporting. Under the provisions of the Federal Reserve Act, the Bank is subject to certain restrictions on any extensions of credit to the Company or, with certain exceptions, to other affiliates, on investments in the stock or other securities of national banks, and on the taking of such stock or securities as collateral. These regulations and restrictions may limit the Company's ability to obtain funds from the Bank for its cash needs, including funds for acquisitions and the payment of dividends, interest, and operating expenses.

The FDIC insures the deposits of the Bank to the current maximum allowed by law. As an institution whose deposits are insured by the Bank Insurance Fund ("BIF") of the FDIC, the Bank also is subject to insurance assessments

imposed and set by the FDIC from time to time. The FDIC is further authorized to impose one or more special assessments in any amount deemed necessary to enable repayment of amounts borrowed by the FDIC from the Treasury Department. The actual assessments to be paid into the BIF are based on the institution's assessment risk classification, which is whether the institution is considered "well capitalized", "adequately capitalized", or "under-capitalized", as those terms have been defined in applicable federal regulations, and whether the institution is considered by its supervising agency to be financially sound or to have supervisory concerns.

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Sarbanes-Oxley Act of 2002

On July 30, 2002, the President of the United States signed into law the Sarbanes-Oxley Act of 2002 (the “Act”) which mandated a variety of reforms intended to address corporate and accounting fraud. The Company believes that it has complied with all provision of the Act. The Act provides for the establishment of a new Public Company Accounting Oversight Board (“PCAOB”) which enforces auditing, quality control and independence standards for firms that audit SEC-reporting companies and is funded by fees from all SEC-reporting companies. The Act imposes higher standards for auditor independence and restricts performance of consulting services by auditing firms to companies they audit. Any non-audit services being provided to an audit client requires preapproval by the Company’s audit committee members. In addition, certain audit partners must be rotated periodically. The Act requires chief executive officers and chief financial officers, or their equivalent, to certify to the accuracy of periodic reports filed with the SEC, subject to civil and criminal penalties if they knowingly or willfully violate this certification requirement. In addition, under the Act, the Company’s counsel is required to report evidence of a material violation of the securities laws or a break of fiduciary duty by a company to its chief executive officer or its chief legal officer, and if such officer does not appropriately respond, to report such evidence to the audit committee or other similar committee of the board of directors or the board itself.

The Act also increases the oversight and authority of audit committees of publicly traded companies. Audit committee members must be independent, pursuant to Rule 10A-3 of the Exchange and are barred from accepting consulting, advisory or other compensatory fees from the issuer. In addition all SEC reporting companies must disclose whether at least one member of the committee is a “financial expert” (as such term is defined by the SEC rules) and if not, why not. Audit committees of publicly traded companies have authority to retain their own counsel and other advisors funded by the company. Audit committees must establish procedures for the receipt, retention and treatment of complaints regarding accounting and auditing matters and procedures for confidential, anonymous submission of employee concerns regarding questionable accounting or auditing matters.

It is unlawful for any person that is not a registered public accounting firm (“RPAF”) with the PCAOB to audit an SEC-reporting company. Under the Act, a RPAF is prohibited from performing statutorily mandated audit services for a company if such company’s chief executive officer, chief financial officer, comptroller, chief accounting officer or any person serving in equivalent positions has been employed by such firm and participated in the audit of such company during the one-year period preceding the audit initiation date. The Act also prohibits any officer or director of a company or any other person acting under their direction from taking any action to fraudulently influence, coerce, manipulate or mislead any independent public or certified accountant engaged in the audit of the Company’s financial statements for the purpose of rendering the financial statement’s materially misleading. The Act also requires the SEC to prescribe rules requiring inclusion of an internal control report and assessment by management in the annual report to shareholders. The Act requires the RPAF that issues the audit report to attest to management’s assessment of and report on the Company’s internal controls. In addition, the Act requires that each financial report required to be prepared in accordance with generally accepted accounting principles and filed with the SEC reflect all material correcting adjustments that are identified by a RPAF in accordance with generally accepted accounting principles and the rules and regulations of the SEC.

The USA Patriot Act

On October 26, 2001, President Bush signed into law The USA Patriot Act of 2001 (the “Act”). The Act substantially broadens existing anti-money laundering legislation and the extraterritorial jurisdiction of the United States; imposes new compliance and due diligence obligations; creates new crimes and penalties; compels the production of documents located both inside and outside the United States, including those of non-U.S. institutions that have a correspondent relationship in the United States; and clarifies the safe harbor from civil liability to customers. The Act mandates the U.S. Treasury Department to issue a number of regulations to further clarify the Act’s requirements or

provide more specific guidance on their application.

The Act requires all “financial institutions,” as defined, to establish certain anti-money laundering compliance and due diligence programs. The Act requires financial institutions that maintain correspondent accounts for non-U.S. institutions or persons that are involved in private banking for “non-United States persons” or their representatives, to establish “appropriate, specific and, where necessary, enhanced due diligence policies, procedures, and controls that are reasonably designed to detect and report instances of money laundering through those accounts.”

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Gramm-Leach-Bliley Act

The Gramm-Leach-Bliley Act (the "Act") was signed into law in November 1999 to remove depression-era barriers that separate banking, securities and insurance functions. The Act allows full affiliation between banks and securities firms by permitting the creation of financial holding companies designed to engage in a range of financial activities, including securities underwriting and merchant banking. The Act also repeals the SAIF special reserve; modernizes the Federal Home Loan Bank System; provides for less frequent Community Reinvestment Act ("CRA") compliance examinations for community banks with \$250 million or less in assets, and gives customers the right to prevent banks from sharing information with third parties, such as telemarketers. The Act prohibits unitary savings and loan holding companies formed after May 4, 1999 from engaging in nonfinancial activities, and also prohibits purchase of unitary thrift holding companies by commercial firms. The Act contains requirements for the protection of consumer's financial privacy ("Regulation P"). The Bank has identified obligations, developed a privacy policy and provided disclosure of the policy to customers. The Bank is in full compliance with Regulation P.

Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA")

Among other things, the FDICIA provides the federal bank regulatory agencies with broad powers to take prompt corrective action to resolve problems of insured depository institutions. The extent of those powers depends upon whether the institution in question is "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized", or "critically undercapitalized." A depository institution's capital tier will depend upon where its capital levels compare to various established capital measures and certain other factors, as established by regulation. As of December 31, 2005, the Bank met the definition of a "well capitalized" institution.

The FDICIA generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the depository institution would thereafter be "undercapitalized". "Undercapitalized" depository institutions are subject to growth limitations and are required to submit a capital restoration plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized". "Significantly undercapitalized" depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized", requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

The FDICIA further requires an increase in the frequency of "full-scope, on-site" examinations and expands audit requirements. In addition, federal bank regulatory agencies are required to review and prescribe uniform accounting standards that are at least as stringent as Generally Accepted Accounting Principles.

The FDICIA also contains the Truth in Savings Act. The purpose of the Truth in Savings Act is to require the clear and uniform disclosure of the rates of interest which are payable on deposit accounts by depository institutions and the fees that are assessable against deposit accounts, so that consumers can make a meaningful comparison between the competing claims of financial institutions with regard to deposit accounts and products.

The Bank became subject to the provisions of FDICIA relating to internal controls effective January 1, 2001, when provisions required that banks over \$500 million in assets document and test their internal control structure and report on it on an annual basis. During 2005, the threshold for FDICIA was raised from \$500 million to \$1 billion in assets as of January 1, 2005. The Bank, therefore, was not subject to the provisions of FDICIA for 2005. In 2006 the Bank once again became subject to its provisions.

Payment of Dividends

The Bank is subject to legal limitations on the frequency and amount of dividends paid to the Company. The FRB or the FDIC may restrict the ability of a bank to pay dividends if such payments would constitute an unsafe or unsound banking practice. These regulations and restrictions may limit the Company's ability to obtain funds from the Bank for its cash needs, including funds for acquisitions and the payment of dividends, interest, and operating expenses.

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In addition, Florida law places certain restrictions on the declaration of dividends from state-chartered banks to their holding companies. Pursuant to Section 658.37 of the Florida Banking Code, the Board of Directors of a state-chartered bank, after charging off bad debts, depreciation, and other worthless assets, if any, and making provisions for reasonably anticipated future losses on loans and other assets, may quarterly, semi-annually, or annually declare a dividend of up to the aggregate of net profits of that period, combined with the bank's retained net profits for the preceding two years and, with the approval of the Florida Department of Banking and Finance, declare a dividend from retained net profits which accrued prior to the preceding two years. Before declaring such dividends, 20% of the net profits for the preceding period as is covered by the dividend must be transferred to the surplus fund of the bank until this fund becomes equal to the amount of the bank's common stock then issued and outstanding. A state-chartered bank may not declare any dividend if (i) its net income from the current year combined with the retained net income for the preceding two years is a loss, or (ii) the payment of such dividend would cause the capital account of the bank to fall below the minimum amount required by law, regulation, order, or any written agreement with the Florida Department of Banking and Finance or a federal regulatory agency.

Depositor Preference Statute

Legislation has been enacted providing that deposits and certain claims for administrative expenses and employee compensation against an insured depository institution would be afforded a priority over other general unsecured claims against such an institution, including federal funds and letters of credit, in the "liquidation or other resolution" of such an institution by any receiver.

Monetary Policy And Economic Control

The commercial banking business in which the Bank engages is affected not only by general economic conditions but also by the monetary policies of the FRB. Changes in the discount rate on member bank borrowing, availability of borrowing at the "discount window," open market operations, the imposition of changes in reserve requirements against member banks' deposits and assets of foreign branches, and the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates are some of the instruments of monetary policy available to the FRB. These monetary policies are used in varying combinations to influence overall growth and distributions of bank loans, investments, and deposits, and this use may affect interest rates charged on loans or paid on deposits. The monetary policies of the FRB have had a significant effect on the operating results of commercial banks and are expected to do so in the future. The monetary policies of these agencies are influenced by various factors, including inflation, unemployment, and short-term and long-term changes in the international trade balance and in the fiscal policies of the United States Government. Future monetary policies and the effect of such policies on the future business and earnings of the Company and the Bank cannot be predicted.

Item 1A. Risk Factors.

An investment in the shares of common stock the Company may involve a material degree of risk. Accordingly, shareholders should carefully consider the following risk factors, in addition to the other information concerning the Company and its business contained elsewhere in this Annual Report.

Financial conditions and governments regulations restrict our ability to pay dividends on shares of common stock.

There can be no assurance that the Company will declare or pay cash dividends on its common stock at any particular time. The determination of whether to pay dividends will depend on factors deemed appropriate by the Boards of Directors of the Bank and the Company including the availability of funds for such a distribution. We conduct our business through our bank subsidiary from which we receive our dividends. Dividends payable by the Company are

subject to the financial condition of the Bank and the Company.

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In addition, banking regulations limit the amount of dividends that may be paid by the Bank to the Company without prior regulatory approval. The payment of dividends by the Bank to the Company is regulated by various state and federal laws and by regulations promulgated by the Federal Reserve Bank, which restrict the payment of dividends under certain circumstances. In addition, such regulations also impose certain minimum capital requirements which affect the amount of cash available for the payment of dividends by a regulated banking institution such as the Bank. Even if the Bank is able to generate sufficient earnings to pay dividends, there is no assurance that the Board of Directors might not decide or be required to retain a greater portion of the Bank's earnings in order to maintain or achieve the capital necessary because of any: (i) increase in the capital requirements established by the Federal Reserve Bank; (ii) significant increase in the total of risk-weighted assets held by the Bank; (iii) significant decreases in the Bank's income; (iv) significant deterioration of the quality of the Bank's loan portfolio; or (v) new federal or state regulations. The occurrence of any of these events would decrease the amount of funds potentially available for the payment of dividends by the Bank to the Company. In addition, in some cases, the Federal Reserve Bank could take the position that it has the power to prohibit the Bank from paying dividends, if, in its view, such payments would constitute unsafe or unsound banking practices.

In the event the Company decides to issue dividends on the shares of common stock, there may be securities issued in the future, such as preferred stock, which may receive equal or greater dividend preference than the common stock.

Some of our loans may not be repaid and we may not have made sufficient allowances for these losses.

There is substantial likelihood that some of our loans will not be repaid in part or in full due to, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan and in the case of a collateralized loan, the quality of the collateral for the loan. We maintain an allowance for loan losses based on, among other things, an evaluation of economic conditions, and regular reviews of delinquencies, loan portfolio quality, the mix of the loan portfolio, loan grades, concentration of risk and current delinquency trends. Based upon such factors, we make various assumptions and judgments about the ultimate collectability of the loan portfolio and provide an allowance for potential loan losses based upon a percentage of the outstanding balances and for each category at loan grade. Loans specifically identified as high risk may be evaluated individually rather than by loan grade.

We actively manage our non-performing loans in an effort to minimize credit losses and monitor its asset quality to maintain an adequate loan loss allowance. Although we believe that our allowance for loan losses is adequate, there can be no assurance that the allowance will prove sufficient to cover future loan losses. Further, although we use the best information available to make determinations with respect to the allowance for loan losses, future adjustments may be necessary if economic conditions differ substantially from the assumptions used or adverse developments arise with respect to our non-performing or performing loans. Material additions to our allowance for loan losses would result in a decrease of our net income and, possibly our capital, and could result in the inability to pay dividends, among other adverse consequences.

State and federal regulations and agencies restrict how we conduct our business and our ability to respond to changing economic and financial conditions.

Bank holding companies and banks operate in a highly regulated environment and are subject to the supervision and examination by several federal and state regulatory agencies. The Company is subject to the Bank Holding Company Act of 1956, as amended and to regulation and supervision by the Federal Reserve Bank. The Bank is also subject to the regulation and supervision of the FDIC and the Florida Department of Banking and Finance. Federal and state laws and regulations govern matters ranging from the regulation of certain debt obligations, changes in the control of the bank holding companies, and the maintenance of adequate capital for the general business operations and financial condition of the Bank, including permissible types, amounts and terms of loans and investments, the amount of

reserves against deposits, restrictions on dividends, establishment of branch offices, and the maximum rate of interest that may be charged by law. The Federal Reserve Bank also possesses cease and desist powers over bank holding companies to prevent or remedy unsafe or unsound practices or violations of law. These and other restrictions limit the manner by which the Company and the Bank may conduct their business and obtain financing.

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We are subject to the monetary policies of the Federal Reserve and other federal instrumentalities.

A primary instrument of monetary policy employed by the Federal Reserve is the restriction of expansion of the money supply through open market operations and changes in reserve requirements and the discount rate. These operations sometimes cause wide fluctuations in interest rates and can have direct, adverse effects on our operating results. Changes to the discount rate by the Federal Reserve Board usually lead to corresponding interest rate changes, which affect our interest income, interest expense and the value of our investment portfolio. Also, governmental policies, such as the creation of a tax deduction for individual retirement accounts, can alter the rate of savings and affect the costs of funds. The nature, timing and effect on us and our results of operations of any future changes in federal monetary and fiscal policies are not predictable. Such changes could materially adversely affect our business, future prospects, financial condition or results of operation.

Our results of operations are directly affected by levels of, and fluctuations in, interest rates.

Changes in interest rates could reduce our net interest income, reduce gains from loan sales, result in higher loan losses and reduce loan originations and corresponding loan servicing income. A substantial and/or sustained increase in interest rates could prevent us from originating or selling loans with returns consistent with past practices. It could also prevent borrowers with variable rate loans from meeting scheduled debt service requirements. A rapid increase or decrease in interest rates could materially adversely affect our net interest margin, future prospects, financial condition or results of operations because of imbalances in the maturities of our assets and liabilities and the mix of our adjustable and fixed rate loans.

Asset/Liability Management

The operations and profitability of the Bank are largely impacted by changes in interest rates and management's ability to control interest rate sensitivity of the Bank's assets and liabilities. The Bank has generally experienced a negative gap position which suggests that the Banks' net yield on interest earning assets may increase during periods of declining interest rates. Correspondingly, the Bank could be expected to suffer a decline of net yield on interest earning assets during a rise in interest rates. Management believes that its current asset/liability strategy reduces the Bank's risk exposure to significant net yield impact during periods of interest rate fluctuation. However, there can be no assurance that the Bank's asset/liability strategy will be successful.

Increased competition with other financial institutions with greater reserves and product offerings may negatively affect our profitability.

The Bank competes with other commercial banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Furthermore, due to recent changes in the law that has increased competition among financial institutions, out-of-state financial institutions have entered the Florida market. Many of these competitors have substantially greater resources and lending limits than the Bank and may offer certain services, such as trust services that the Bank does not provide at this time. The profitability of the Company depends upon the Bank's ability to remain competitive given this increased competition.

Incorporating on-going technological advances into our business may increase costs while failure to incorporate technology may subject us to a competitive disadvantage.

Our ability to use technology to provide products and services that will satisfy customer demands for convenience, as well as to enhance efficiencies in our operations, may influence our success. While we seek to improve our capacity to use technological innovations, our strategy is based on the belief that customer demand for personal contact and

strategically placed branch offices will continue for the foreseeable future. To the extent we fail to incorporate technological advances into our business may result in the loss of customers to our competitors who have incorporated such technology.

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An economic downturn adversely affecting Southeast Florida or a material decline in the value of real estate in our core Southeast Florida market will likely have an adverse affect on the Company.

The success of the Company and the Bank is dependent to a large extent upon the general economic conditions of the geographic markets served by the Bank which focuses on Miami-Dade County and Broward County, Florida and the immediate surrounding areas. Although the Bank expects economic conditions will continue to improve in these market areas, there is no assurance that favorable economic development will occur or that the Bank's expectation of corresponding growth will be achieved. Adverse changes in its geographic markets would likely impair the Bank's ability to collect loans and could otherwise have a negative effect on the financial condition of the Company.

In addition to the financial strength and cash flow characteristics of the borrower in each case, the Company often secures its loans with real estate collateral. At December 31, 2006, approximately 91% of the Company's loans have real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected.

The Company's results are solely dependent upon the results of the Bank.

The sole business activity of the Company consists of its ownership of the capital stock of the Bank. As a result, the Company lacks diversification as to business activities and market area, and any event affecting the Bank will have a direct impact on the Company.

We are dependent upon the service of our management team.

Our future success and profitability is substantially dependent upon the management and banking abilities of our senior executives. We believe that our future results will also depend in part upon our attracting and retaining highly skilled and qualified management and sales and marketing personnel. Competition for such personnel is intense, and we cannot assure you that the Company will be successful in retaining such personnel. We also cannot guarantee that members of our executive management team will remain with us. Changes in key personnel and their responsibilities may be disruptive to the Company's business and could have a material adverse effect on our business, financial condition and results of operations.

Our common stock may fluctuate due to our performance and factors beyond our control and the trading market in our stock has less liquidity than the average trading market for stock quoted on the Nasdaq Global Market.

Our common stock is publicly traded and the market price of our stock has fluctuated and continues to fluctuate depending upon our performance and factors beyond our control. If interest rates and monetary policy change or if the amount of deposits change, among other factors, our performance will be altered and the market price of our stock may fluctuate in response to these and other factors.

Additionally, our common stock is thinly traded. The average trading volume of our shares on the Nasdaq Global Market during 2006 was approximately 8,729 shares. Thinly traded stock can be more volatile than stock trading in an active public market. In recent years, the stock market has experienced a high level of price and volume volatility, and market prices for the stock of many companies have experienced wide price fluctuations that have not necessarily been related to their operating performance. Therefore, our shareholders may not be able to sell their shares at the volumes, prices or times that they desire.

Our Merger with Colonial has various conditions to closing which may terminate the merger agreement.

Our merger with Colonial has various conditions to closing which must be satisfied by us or by Colonial prior to the completion of the merger. If these conditions are not satisfied or waived, we or Colonial may terminate the merger agreement. The termination of the merger agreement could have a material adverse affect on us.

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The merger agreement with Colonial contains various conditions to closing, including obtaining stockholder approval, obtaining all governmental and regulatory approval, and compliance with the other terms and conditions of the merger agreement. If these conditions are not satisfied by us, we or Colonial may terminate the merger agreement. In addition, we have incurred material expenses in connections with the merger agreement, which would be recognized in fiscal 2007 in the event the merger agreement was terminated. As a result of the termination of the merger agreement, our financial condition, results of operations, liquidity and stock price could be materially, adversely affected.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

The Company owns and occupies offices in a building located at 1550 S.W. 57th Avenue, Miami, Florida. This building serves as the Bank's main office. The Bank's and the Company's offices occupy the entire building. Management believes that this location provides sufficient parking for its customers as well as visibility from S.W. 57th Avenue, a major thoroughfare.

The Bank owns ten of its fourteen full-service branches and leases the remaining four offices, all of which branches are located in Miami-Dade County or Broward County, Florida. Additional information relating to the Company's lease commitments is set forth in Note 5 in the Company's 2006 Annual Report and is incorporated herein by reference. The condition of all properties is considered good. In the opinion of management, owned properties are adequately covered by insurance.

Item 3. Legal Proceedings.

The Company and the Bank are periodically parties to or otherwise involved in legal proceedings arising in the normal course of business, such as claims to enforce liens, claims involving the making and servicing of real property loans, and other issues incident to the Bank's business. Management does not believe that there is any pending or threatened proceeding against the Company or the Bank which, if determined adversely, would have a material effect on the business, results of operations, or financial position of the Company or the Bank.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Information required to be reported under this item is set forth on pages 12 and 13 of the Company's 2006 Annual Report and is incorporated herein by reference.

Item 6. Selected Financial Data.

Information required to be reported under this item is set forth on pages 1 and 2 of the Company's 2006 Annual Report and is incorporated herein by reference.

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PART II

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Information required to be reported under this item is set forth on pages 3 through 19 of the Company's 2006 Annual Report and is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Information required to be reported under this item is set forth on pages 15 and 16 of the Company's 2006 Annual Report under the section entitled "Asset/Liability Management and Interest Rate Risk", and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

The information required to be reported under this item is set forth on pages 20 through 43 of the Company's 2006 Annual Report and is incorporated herein by reference.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Not applicable

Item 9A. Report of Management on Internal Control Over Financial Reporting.

a) Evaluation of Disclosure Controls and Procedures

Within the 75-day period prior to the filing of this report, an evaluation was carried out under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

b) Management's Annual Report on Internal Control Over Financial Reporting

Refer to page 20 of the Company's 2006 Annual Report for "Management's Report on Internal Control Over Financial Reporting", with respect to management's assessment of internal control over financial reporting. There was no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that occurred during the fourth quarter of 2006 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

c) Audit Report of the Registered Public Accounting Firm

Refer to page 21 of the Company's 2006 Annual Report for the "Report of the Company's Independent Registered Public Accounting Firm".

ITEM 9B. Other Information.

Not applicable.
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PART III

Item 10. Directors and Executive Officers of the Registrant.

Directors of the Company

Joseph W. Armaly, age 70, is Chairman of the Board of Directors and Chief Executive Officer of the Company and of Commercial Bank of Florida ("Bank"), the Company's wholly-owned subsidiary. Mr. Armaly served as President of Merchants Bank of Miami ("Merchants") from 1965 through 1988 and also served as Chairman of Merchants' Board of Directors from 1980 through 1988. Mr. Armaly was also President and Chairman of the Board of Florida Commercial Banks, Inc. ("Florida Commercial") from 1980 through 1988. Mr. Armaly has been Chairman of the Board of the Company and the Bank since its formation in 1988.

Cromwell A. Anderson, age 81, is a Director of the Company and the Bank. Mr. Anderson has been in the private practice of law since 1954. Mr. Anderson retired from the law firm of Fowler, White, Burnett, Hurley, Banick & Strickroot, P.A. in 1999. Mr. Anderson has been a Director of the Company and the Bank since 1988.

Robert Namoff, age 54, is a Director of the Company and the Bank. Mr. Namoff is the Chairman of the Board of Allied Universal Corporation, a chemical manufacturer. Mr. Namoff serves on the Board of Directors of the Chlorine Institute in Washington, D.C. Mr. Namoff has been a Director of the Company and the Bank since 1990.

Sherman Simon, age 88, is a Director of the Company and the Bank. Mr. Simon has been a private real estate investor for over 30 years. Mr. Simon has been a Director of the Company and the Bank since 1988.

Michael W. Sontag, age 61, is a Director of the Company and the Bank. Mr. Sontag is an Architectural Engineer and a licensed general contractor. Mr. Sontag has been a Director of the Company and the Bank since 1997.

Bruce P. Steinberger, age 53, was elected President, Secretary and Director of the Company and the Bank in October, 2006. Mr. Steinberger previously served the Company and the Bank as Executive Vice President and Chief Lending Officer. Mr. Steinberger was previously Executive Vice President of Intercontinental Bank from 1987-1995.

Martin Yelen, age 79, is a Director of the Company and the Bank and was formerly a director of Florida Commercial. Mr. Yelen is a retired attorney who engaged in private practice for 45 years with the firm of Yelen & Yelen, P.A. Mr. Yelen has served on the Miami-Dade and Monroe County chapters of the National Safety Council and was a councilman and Mayor of the City of West Miami. Mr. Yelen has been a Director of the Company and the Bank since 1988.

Executive Officers of the Company

The executive officers of the Company are elected to their offices for one-year terms at the meeting of the Board of Directors in April of each year. The terms of any executive officers elected after such date expire at the same time as the terms of the executive officers elected at such date.

Joseph W. Armaly, age 70, is Chairman of the Board of Directors and Chief Executive Officer of the Company and the Bank. Mr. Armaly served as President of Merchants from 1965 through 1988 and also served as Chairman of Merchants' Board of Directors from 1980 through 1988. Mr. Armaly was also President and Chairman of the Board of Florida Commercial from 1980 through 1988. Mr. Armaly has been Chairman of the Board of the Company and the Bank since its formation in 1988.

Bruce P. Steinberger, age 53, was elected President, Secretary and Director of the Company and the Bank in October, 2006. Mr. Steinberger previously served the Company and the Bank as Executive Vice President and Chief Lending Officer. Mr. Steinberger was previously Executive Vice President of Intercontinental Bank from 1987-1995.

Barbara E. Reed, age 43, was elected Executive Vice President and Chief Financial Officer of the Company and the Bank in October, 2006. Ms. Reed previously served as Senior Vice President and Chief Financial Officer of the Company and the Bank since 1995 and as Vice President and Controller and as Auditor. Ms. Reed is a Certified Public Accountant and prior to 1991, was employed by Coopers & Lybrand LLP.

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The Company has adopted a Code of Ethics that applies to the Company's Chairman and Chief Executive Officer, the Chief Financial Officer and Controller. The Code of Ethics is available on the Company's website at www.commercialbankfl.com. Reference to the Company's website in this Annual Report on 10K does not in any way incorporate information contained in such website into this report.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers (as defined in Rule 16a-1(f)), directors, and persons owning more than ten percent of a registered class of the Company's equity securities to file reports of ownership and changes of ownership with the SEC. Such persons are required by SEC regulations to furnish the Company with all Section 16(a) forms they file. Based solely upon a review of the copies of forms furnished to the Company, the Company believes that during the 2006 fiscal year, all filing requirements applicable to its officers and directors and 10% shareholders were met.

Item 11. Executive Compensation.

Executive Compensation

The individuals who served as our Chief Executive Officer and Chief Financial Officer during 2006 as well as one other highly compensated executive officer during such year, shall be referred to as the "named executive officers" throughout the executive compensation discussion. These individuals are listed in the Summary Compensation Table below. The following compensation discussion and analysis, executive compensation tables and related narrative describe the compensation awarded to, earned by or paid to the named executive officers for services provided to the Company and the Bank in 2006 and their compensatory arrangements.

Compensation Discussion and Analysis

Overview, Philosophy and Objectives of Executive Compensation

The Compensation Committee has authority to establish the salaries, bonuses and equity plan participation levels for the named executive officers. The Compensation Committee also has the authority to review and approve employment agreements, severance arrangements and retirement plans for the named executive officers and otherwise to review and approve our compensation plans. The Compensation Committee evaluates the performance of the Chief Executive Officer and, with input from the Chief Executive Officer, evaluates the performance of the other named executive officers.

We compensate our named executive officers primarily through a combination of base salary, bonus and stock option awards. The primary objectives of the Compensation Committee with respect to the compensation of the named executive officers are to attract, motivate and retain talented and dedicated executives and to foster a team orientation toward the achievement of company-wide business objectives. The Compensation Committee's compensation philosophy with respect to the named executive officers includes the following general elements: (1) providing base salaries and bonus targets within a market competitive range and (2) rewarding achievement of company financial performance objectives as well as individual managerial effectiveness.

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Base Salary

The primary component of compensation of our executives is base salary. The base salary levels of our executives in 2006 were established based upon: (i) the individual's particular background and circumstances, including experience and skills, (ii) our knowledge of competitive factors within the industry in which we operate, (iii) the job responsibilities of the individual, (iv) our expectations as to the performance and contribution of the individual and our judgement as to the individual's potential future value to us, (v) prior year salary levels, (vi) length of service (vii) with respect to those executives other than the Chief Executive Officer, the recommendations of the Chief Executive Officer and (viii) prior year performance measures such as net income, return on assets, return on equity, earnings per share and loan and deposit growth. Specifically, net income increased 7% during 2005, return on average assets and equity were 1.27% and 15.53%, respectively, credit performance remained strong; diluted earnings per common share increased from \$1.82 in 2004 to \$1.93 in 2005; average loans increased by 10% from 2004 to 2005; and average total deposits increased by 14% from 2004 to 2005. In establishing the current base salary levels, we did not engage in any formal benchmarking activities or engage any outside compensation advisors.

The base salary of the named executive officers is intended to provide a competitive base level of pay for the services they provide. We believe the fixed base annual salary levels of the named executive officers help us to retain qualified executives and provide a measure of income stability for the named executive officers that may lessen potential pressures to take possibly excessive risks to achieve performance measures under incentive compensation arrangements.

Bonus

All of the named executive officers are eligible for a bonus. In addition, certain officers who are viewed as having an opportunity to directly and substantially contribute to achievement of our short-term objectives are eligible to receive bonus compensation. Our bonuses reward the named executive officers for achieving company financial performance objectives and for demonstrating individual leadership. We believe that by providing a positive incentive and cash rewards, the bonus plays an integral role in motivating and retaining qualified executives. We also believe that the allocation of base salary and incentive compensation opportunity for named executive officers generally represents a reasonable combination of fixed salary compared to variable incentive pay opportunity and reflects our goal of retaining and motivating our named executive officers. For purposes of determining the level of the annual cash incentive awards to be paid to senior executives for 2006, it was the Compensation Committee's view that the Company's 2006 results represented a strong performance. The Compensation Committee noted the following factors in support of its findings: net income increased 4% during 2006; return on average assets and equity were 1.20% and 14.77%; credit performance remained excellent; diluted earnings per common share increased from \$1.93 in 2005 to \$2.00 in 2006; the senior executive officers were successful in implementing the growth strategy of the Bank, as average loans increased by 19% from 2005 to 2006; and average total deposits increased 7% from 2005 to 2006.

Stock Option Awards

The Compensation Committee also uses stock options to reward management and to link them to the long-term results and stockholder interests of the Company. Option grants are usually determined in the spring of each fiscal year. The levels of option grants are determined at the discretion of the Compensation Committee on a subjective basis. Previous grants of stock options are reviewed but are not considered the most important factor in determining the size of any executive's stock option award in a particular year. In determining the levels of option grants for 2006, the Compensation Committee considered the performance of the Company for fiscal year 2005, the performance of the Company for the beginning of 2006, and efforts and initiatives by the executive officers to implement and support the strategic objectives of the Bank.

All Other Compensation

Other compensation to the named executive officers in 2006 included eligibility to participate in our employee benefit plans, including medical, dental, life insurance and 401(k) plans, which are available to employees generally. These payments and other benefits, the amounts of which are not material to us, provide additional compensation and benefits to the named executive officers.

Table of Contents**Summary Compensation Table**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Compensation (\$)	Change in Pension Value and Non-Equity Incentive Deferred Compensation (\$)	All Other Compensation (\$)	Total (\$)
							(H)		
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
Joseph W. Armaly Chairman and Chief Executive Officer	2006	405,000	200,000	0	20,500	0	0	10,991 (1)	636,491
Jack J. Partagas * President, Chief Operating Officer and Secretary	2006	474,000	136,000	0	20,500	0	0	5,593	636,093
Bruce P. Steinberger President and Secretary	2006	255,000	88,000	0	16,400	0	0	14,800 (2)	374,200
Barbara E. Reed Executive Vice President and Chief Financial Officer	2006	180,000	50,000	0	16,400	0	0	7,650	254,050

(1) Includes \$3,328 of personal use of business auto and \$7,663 of group term life.

(2) Includes \$4,800 of auto allowance and \$10,000 of employer 401K match.

*Deceased as of September 30, 2006. Salary includes payout of employment contract.

Table of Contents**Grants of Plan-Based Awards Table**

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: All Other Number of Shares of Stock or Underlying Options or Awards Exercise or Base Price of Option Awards (S/Sh)		
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	Units (#)	Options (#)	Awards (S/Sh)
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
Joseph W. Armaly	6/1/2006	-	-	-	-	-	-	-	2,500	35.18
Jack J. Partagas	6/1/2006	-	-	-	-	-	-	-	2,500	35.18
Bruce P. Steinberger	6/1/2006	-	-	-	-	-	-	-	2,000	35.18
Barbara E. Reed	6/1/2006	-	-	-	-	-	-	-	2,000	35.18

Table of Contents**Outstanding Equity Awards At Fiscal Year-end**

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Market or Payout Number of Shares, Units or Other Rights That Have Not Vested (#)	Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
Joseph W. Armaly	61,114	2,500 (3)	-	35.18	6/1/2016	-	-	-	-
Jack J. Partagas	61,114	2,500 (3)	-	35.18	9/30/2007	-	-	-	-