

GRAND BANKSHARES, INC.

GRAND  
BANK & TRUST  
*of Florida*<sup>®</sup>

*10<sup>th</sup> Anniversary  
1999 - 2009*

2009 ANNUAL REPORT

# February 1, 2009, marks the Tenth Anniversary of Grand Bank & Trust of Florida!

## A BRIEF HISTORY

- **February 1, 1999**  
Grand Bank of Florida commenced operations
- **February 4, 2000**  
Lantana Banking Center opened
- **August 27, 2001**  
Grand Bank & Trust of Florida is approved for trust powers, and Trust and Investment Services Division is operational
- **January 1, 2002**  
Grand Bankshares, Inc., a bank holding company, is formed
- **February 25, 2002**  
Palm Beach Gardens Banking Center opened
- **February 18, 2003**  
Jupiter Banking Center opened
- **May 15, 2006**  
St. Lucie West Banking Center opened
- **March 15, 2007**  
Fort Pierce Banking Center opened
- **January 22, 2008**  
Vero Beach Banking Center opened
- **February 1, 2009**  
Our Tenth Anniversary!

**C**learly, the first decade of the 21st century was tumultuous with horrific tragedies and extreme euphoria, shocking terrorism and gratifying altruism along with financial progress for some and financial ruin for many. Some refer to this period as the “Lost Decade,” and the “Bubble Decade.” Whatever it will finally be named, it was certainly a decade of transformation for virtually all aspects of life, especially the economy which skyrocketed to dazzling heights and plummeted to what is called the “Great Recession” from which the world appears to be slowly and painfully exiting.



Due to economic conditions and its severe impact on the nation’s financial system, including community banks, the asset size of the bank was reduced so as to maintain required regulatory capital ratios. The years 2008 and 2009 were unlike any in the company’s history or in the memory of our bankers.

Total assets on December 31, 2009, are \$481.1 million compared to the previous year at \$523.1 million, an 8.0% decrease. Reducing our asset size is a planned strategy and will continue during 2010. Asset reduction is centered primarily on the loan portfolio which went from \$408.9 million to \$358.6 million, a 12.3% drop of more than \$50 million. This reduction in lending has generally been confined to non-owner occupied commercial real estate for which the federal regulators issued guidance in late 2006 setting forth limitations on commercial real estate lending. It was imperative for the bank to reduce its exposure to concentrations in commercial real estate in order to be in compliance with regulatory guidance as well as manage the bank prudently.

As is expected in a troubled economy, Grand Bank's deposits decreased year over year more than 4%, from \$421.1 million to \$403.4 million. During the year, the composition of deposits changed dramatically from wholesale sources such as brokered deposits to local deposits, primarily consumer certificates of deposit. This was also a necessary strategic goal so as to be judicious and cautious in the volatile economy.

Loan quality deterioration continued its 2008 course through 2009. In 2008, net loan charge-offs amounted to \$4.2 million requiring the addition of nearly \$5 million to the Allowance for Loan and Lease Losses ("ALLL") which is the reserve for loan losses. Operations for 2009 were such that net loan charge-offs totaled \$8.6 million necessitating the allocation of \$13.6 million to the ALLL. In addition, expenses associated with defaulted loans and foreclosures, including legal fees, maintenance, taxes and insurance, were substantial, amounting to approximately \$1.3 million. The resultant after tax loss for 2009 was \$7.8 million compared to the after tax profit of \$215,000 reported for 2008. Management implemented numerous actions during 2008 and 2009 to minimize the loss. For example, a significant expense in the operation of a bank is that relating to personnel. During the year, attrition and other steps resulted in the number of full-time equivalent employees going from 87 on December 31, 2008, to 82 on December 31, 2009. Contracts such as those relating to technology and data processing were renegotiated during the year to bring about cost reductions on a long-term basis. However, there is a limit to reductions of operating expenses without adversely affecting customer service.

The level of non performing assets (non accrual loans and foreclosed and surrendered real estate) is directly attributable to economic conditions. On

December 31, 2009, non accrual loans totaled \$19.7 million. The foreclosed and surrendered real estate on hand (“Other Real Estate Owned” or “OREO”) on December 31, 2009, amounted to \$4.7 million. During the third quarter of 2009, OREO hit \$16.7 million, but management action during the fourth quarter enabled the reduction of \$12 million through sale. On December 31, 2009, the total of non performing assets was \$24.4 million compared to \$32.3 million on September 30, 2009. Management will continue its process of dealing prudently and aggressively with these assets.

There is considerable challenge associated with our non accrual loans, all of which are in various stages of legal and foreclosure actions. As was detailed in our letter reporting on operations for the period ending September 30, 2009, the Palm Beach County judicial system is flooded with foreclosure actions. It was recently reported that presently there are more than 50,000 foreclosures in process in Palm Beach County. Because nearly all non accrual loans carried by us involve commercial property, the processing of foreclosures is taking a back seat to residential foreclosures which have been judicially mandated priority. Therefore, it is taking months, at least 12 to 18 or even more, to go through the mechanics of foreclosure, even where there is no borrower resistance. During the months of legal action, we can do nothing but wait. A financial institution cannot sell a property it does not yet own even though it is inevitable that it will come into ownership. In the meantime, non accruing loans are carried on the bank’s books and with the local foreclosure process severely delayed, such assets are accumulating.

We are challenged to maintain adequate capital in the wake of the funds allocated to the ALLL. As of December 31, 2009, Tier 1 Leverage Capital was

## P R E S I D E N T ' S   M E S S A G E

8.70% of total assets with Risk Based Capital equal to 12.25% at the bank level. While these ratios demonstrate we are well capitalized by regulatory standards, the Board of Directors will focus its attention on the company's capital requirements during the first quarter of 2010.

This has been an extremely difficult year. While the recession officially began in August 2007, its effects were being felt in Florida months before then. Although there are reports that it is over and recovery in process, the pain has not subsided. We expect 2010 to be as challenging as the past three years. The Board of Directors and management pledge to continue their long-standing practice of operating Grand Bankshares, Inc., and Grand Bank & Trust of Florida prudently with you, the shareholders, in mind. We thank you for your continued support.



J. Russell Greene

President and CEO

# FINANCIAL STATEMENTS (UNAUDITED)

## ASSETS

	December 31, 2008	December 31, 2009
Cash and due from banks	\$13,900,524	\$32,002,029
Federal funds sold	0	0
Total cash and cash equivalents	13,900,524	32,002,029
Securities available for sale	75,031,366	61,731,848
Securities held to maturity	8,825,000	8,825,000
Loans	408,875,281	358,485,160
Less: Allowance for loan losses	(5,600,000)	(10,631,500)
Unearned loan fees	(533,957)	(360,448)
<b>Net Loans</b>	<b>402,741,324</b>	<b>347,493,212</b>
Property and equipment	7,241,142	6,695,904
Bank-owned life insurance	6,394,315	6,603,071
Deferred income tax	2,207,124	4,225,244
Other real estate owned	3,178,595	4,730,536
Other assets	1,480	7,366
<b>Total Assets</b>	<b>\$523,067</b>	<b>\$481,116</b>

## LIABILITIES & SHAREHOLDERS' EQUITY

Deposits:		
Non interest-bearing demand	49,902,731	50,325,341
Savings, NOW and Money Market	168,741,877	162,319,451
Time deposits	202,486,820	190,738,191
<b>Total Deposits</b>	<b>421,131,428</b>	<b>403,382,983</b>
Short-term borrowings	5,430,284	8,744,122
FHLB Borrowings	41,000,000	21,000,000
Long-term debt	7,217,000	7,217,000
Other liabilities	2,937,509	2,188,754
<b>Total Liabilities</b>	<b>477,716,221</b>	<b>442,532,859</b>
Preferred Stock - Series A	2,354	2,354
Preferred Stock - Series B	0	12
Preferred Stock - Series B Surplus	0	1,230,988
Common stock	18,639	18,639
Additional paid in capital	33,667,179	33,702,656
Retained earnings	11,224,637	3,431,999
Accumulated other comprehensive income	437,888	196,641
<b>Total Shareholders' Equity</b>	<b>45,350,697</b>	<b>38,583,289</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$523,066,918</b>	<b>\$481,116,148</b>

## INTEREST INCOME

	December 31, 2008	December 31, 2009
Interest and fees on loans	\$25,021,227	\$20,384,794
Interest and dividends on securities	3,982,694	2,936,026
Interest on federal funds sold	142,481	63,419
<b>Total Interest Income</b>	<b>29,146,402</b>	<b>23,384,239</b>

## INTEREST EXPENSE

Interest on deposits	10,518,325	8,123,936
Interest on short-term borrowings	146,691	6,029
Interest on FHLB borrowings	1,517,116	1,179,468
Interest on Long-term debt	424,830	423,668
<b>Total Interest Expense</b>	<b>12,606,962</b>	<b>9,733,101</b>
<b>Net Interest Income</b>	<b>16,539,440</b>	<b>13,651,138</b>

Provision For Loan Losses

(4,974,589) (13,637,394)

**Net Interest Income after Provision for Loan Losses**

**11,564,851 13,744**

## NON INTEREST INCOME

Service charges and fees	937,500	994,602
Income from trust services	1,796,202	1,574,616
Loss on sale of other assets	(390,843)	(2,108,394)
Gain on sale of loans	16,515	16,329
Gain on sale of securities	6,355	827,346
Gain on sale of fixed assets	0	5,143
Other income	286,317	588,161
<b>Total Non Interest Income</b>	<b>2,652,046</b>	<b>1,897,803</b>

## NON INTEREST EXPENSE

Salaries and employee benefits	7,728,624	6,886,335
Occupancy expenses	1,794,493	1,910,177
Equipment expenses	743,644	647,664
Other operating expenses	3,865,970	5,182,885
<b>Total Non Interest Expense</b>	<b>14,132,731</b>	<b>14,627,061</b>
<b>Income (Loss) Before Income Tax</b>	<b>84,166</b>	<b>(12,715,514)</b>
<b>Income Tax Expense (Benefit)</b>	<b>(130,869)</b>	<b>(4,950,655)</b>
<b>Net Income (Loss)</b>	<b>\$215,035</b>	<b>(\$7,764,859)</b>

# DIRECTORS & OFFICERS

## BOARD OF DIRECTORS

Gerard A. Arsenault  
David H. Baker  
Michael W. Bubis

Sandy L. Costello  
Donald H. Cunningham\*  
J. Russell Greene

Leighan R. Rinker  
Daniel J. Shepherd  
Larry E. Wright

\*Director Emeritus

## GRAND BANKSHARES, INC. OFFICERS

### Chairman

David H. Baker

### Vice Chairman

Sandy L. Costello

### Vice President

Gerald F. Martens

### President and Chief Executive Officer

J. Russell Greene

### Secretary and Treasurer

James R. Odza

## GRAND BANK & TRUST OF FLORIDA OFFICERS

### President and Chief Executive Officer

J. Russell Greene

### Executive Vice Presidents

Gerald F. Martens, Chief Operating Officer

James R. Odza, Chief Financial Officer

L. Joseph Covas, Chief Fiduciary Officer

### Senior Vice Presidents

Jack Buell, Jr., Senior Lender

Ari L. Bodner, Director of Operations

Kim Burns-Donnell, Chief Credit Officer

Mark Ciotti, Commercial Loan Officer

Jo-Ann Copeland, Chief Compliance Officer/  
BSA Officer

Keith A. Girten, Commercial Loan Officer

William R. Haines, Chief Information Officer

Mark Silverstein, Director of Marketing and  
Business Development

Warren W. Borsch III, Senior Trust Officer

### Vice Presidents

Dena Felico Perez, Director of Human Resources

Rosemary Harris, Loan Operations Officer

Manfred Liebsch, Controller

Daryl D. Lyon, Commercial Loan Officer

Randy L. Owen, Relationship Development Officer

David Sand, Director of Resources and  
Branch Administration

Phillip A. Woodall, Business Development Officer

Carol Woodard, Senior Trust Officer

### Assistant Vice Presidents

Danielle Brooks, Deposit Operations Manager

Gene Joyce, Credit Analyst

Tara Lester, Credit Analyst

Michelle Pelletier, Commercial Lending  
Portfolio Manager

Anand Persaud, Credit Analyst

Celia Warren, Business Development Officer

Shaun Williams, Commercial Loan  
Portfolio Manager

### Branch Managers

Dave Cummings

Donna Hey

Brenda Keeney

Erin J. Martens

Margarita Ponte

Eva Shaw

**O**ur commitment to the communities we serve is unwavering. We recognize this has never been more important than in these challenging economic times.

From Palm Beach County to the Treasure Coast, we support a broad spectrum of not-for-profit organizations: educational, cultural, and charitable. We are helping to fund medical research; feed and clothe the homeless and underprivileged; bring theatre and music to life; care for the elderly; and so much more.

This commitment to the communities we serve, to our customers who are truly our friends and neighbors, is an essential part of who we are. We live here, we work here, our roots and our headquarters are here. We are proudly a Community Bank, and proud to serve our communities!

A partial listing of the groups and associations supported by Grand Bank & Trust of Florida in 2009:

- Kravis Center
- Autism Speaks
- Big Brothers Big Sisters of SLC
- Boys & Girls Club of St. Lucie County
- Cardinal Newman High School
- Comprehensive Alcoholism Rehabilitation Program
- Chamber of Commerce of the Palm Beaches
- Downtown Business Association of Fort Pierce
- Ducks Unlimited of Vero Beach
- Economic Council of Palm Beach County
- Economic Forum of Palm Beach County
- F. Malcolm Cunningham Sr. Bar Association
- Fern House, Inc.
- Grandview Heights Citizens Association
- Greater Lantana Chamber of Commerce
- Heathcote Botanical Gardens
- Hispanic Chamber of Commerce
- Indian River Chamber of Commerce
- Indian River Estate Planning Council
- Kiwanis of Lake Worth
- Lantana Chamber of Commerce
- Legal Aid Society
- Northern Palm Beach County Chamber of Commerce
- Oakwood Center of the Palm Beaches
- Okeehelie Youth Baseball, Inc.
- Palm Beach County Bar Association
- PGA Corridor Association
- Rally for a Cure
- Rotary Club of Jupiter-Palm Beach Gardens
- St. Lucie County Bar Association
- The Greater Boynton Beach Chamber of Commerce
- United Way of Palm Beach County
- United Way of St. Lucie County
- Women's Chamber of Commerce of Palm Beach County
- WPSL Christmas Kids

**T**he very latest in Banking Services in tandem with superior personal service is the hallmark of Grand Bank & Trust. We invest in technology that enhances your banking experience while strengthening the personal service you expect and deserve.

## **Business Banking Services**

- 24-Hour Telephone Banking
- Business Checking Accounts
- Commercial Loans
- Certificates of Deposit
- Commercial Real Estate Loans
- Credit Cards
- eStatements
- Equipment Leasing
- IOTA Accounts
- Lockbox Services
- Merchant Credit Card Services
- Online Banking and Bill Pay
- Online Cash Management Services
- Remote Deposit Services
- Savings and Money Market Accounts
- Stand-by Letters of Credit
- Totally Free Small Business Checking

## **Personal Banking Services**

- 24-Hour Telephone Banking
- Auto Loans
- Boat Loans
- Certificates of Deposit
- Credit Cards
- eStatements
- Equity Lines of Credit
- Home Mortgages
- Individual Retirement Accounts
- Interest Checking Accounts
- Money Market Accounts
- Savings Accounts
- Online Banking and Bill Pay
- Personal Check Cards
- Professional Lines of Credit
- Totally Free 50+ Interest Checking
- Totally Free Checking

## **Trust and Investment Services**

- Escrow Services
- Estate Settlement
- Securities Custody Service
  - Self Directed IRA's
- Trust Administration
- Trust and Investment Services

# Reasons to Bank with Your Community Bank

- ▶ Community banks focus attention on the needs of local families and businesses. On the other hand, large banks place a priority on serving large corporations and focus on community businesses only when they see quick and easy profit.
- ▶ Community banks make most of their loans where their customers live and work, helping to keep local communities vibrant and growing. Large banks take deposits in one state and lend in others.
- ▶ Community bank owners, directors and officers are generally accessible to their customers in the communities where the bank does business. Senior bank officers at large banks are typically headquartered away from daily customer dealings and the directors and owners are unknown to the customers.
- ▶ Community bank officers and directors are typically deeply involved in local community affairs, while large bank officers and directors are likely to be detached physically and emotionally from the communities where their branches are located.
- ▶ Community banks are willing to consider character, family history and discretionary spending in making loans. Large banks, on the other hand, often apply impersonal qualification criteria, such as credit scoring, to all loan decisions without regard to individual circumstances.
- ▶ Community banks offer nimble decision-making on business loans, because decisions are made locally by people who know you and people you know.
- ▶ Community banks are themselves small businesses; they understand the needs of small business owners. Big banks are after big deals.
- ▶ Community banks didn't cause the crash of 2008 - 2009. Wall Street and large banks did!

Thank you to the customers, shareholders and communities of  
Grand Bank & Trust of Florida.

WE ARE YOUR BANK

**PALM BEACH COUNTY**

**PALM BEACH LAKES**

2055 Palm Beach Lakes Boulevard  
West Palm Beach, Florida 33409  
561.615.5000  
Fax: 561.684.1298

**LANTANA**

2000 Lantana Road  
Lantana, Florida 33462  
561.582.2310  
Fax: 561.582.3023

**PALM BEACH GARDENS**

3601 PGA Boulevard  
Palm Beach Gardens, Florida 33410  
561.207.6700  
Fax: 561.207.6920

**JUPITER**

6736 West Indiantown Road  
Jupiter, Florida 33458  
561.744.4260  
Fax: 561.741.8140

**TRUST AND INVESTMENT SERVICES**

3601 PGA Boulevard  
Palm Beach Gardens, Florida 33410  
561.207.6730  
Fax: 561.207.6929

**ST. LUCIE COUNTY**

**ST. LUCIE WEST**

1722 SW St. Lucie West Boulevard  
Port St. Lucie, Florida 34986  
772.807.7000  
Fax: 772.807.8477

**FORT PIERCE**

200 S. Indian River Drive  
Ft. Pierce, Florida 34950  
772.462.8820  
Fax: 772.464.4374

**INDIAN RIVER COUNTY**

**VERO BEACH**

3240 Cardinal Drive  
Vero Beach, Florida 32963  
772.234.7880  
Fax: 772.234.2379

**TRUST AND INVESTMENT SERVICES**

3240 Cardinal Drive  
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**24-HOUR TELEPHONE BANKING**

561.684.1856 or Toll Free at 866.674.5575

[www.grandbankflorida.com](http://www.grandbankflorida.com)



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