



DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2009 and 2008

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KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Directors and Stockholder
Discount Bancorp, Inc.:

We have audited the accompanying consolidated balance sheets of Discount Bancorp, Inc. and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in stockholder's equity and comprehensive income, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statement based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 audits provide 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 Discount Bancorp, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 11, 2010

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2009 and 2008

(Dollars in thousands)

Assets	2009	2008
Cash	\$ 36,700	152,480
Due from banks	124,173	484,615
Cash and cash equivalents	<u>160,873</u>	<u>637,095</u>
Interest-bearing deposits with banks	685,864	387,434
Trading account assets, at fair value	6,176	42,834
Available-for-sale securities, at fair value	4,245,280	3,517,077
Held-to-maturity securities (fair value of \$498,657 and \$464,541, respectively)	492,652	480,954
Federal Home Loan Bank of New York stock, at cost	39,402	43,028
Loans, net of unearned income and deferred fees	3,556,121	4,002,028
Less allowance for loan losses	<u>(65,150)</u>	<u>(64,587)</u>
Loans, net	<u>3,490,971</u>	<u>3,937,441</u>
Unrealized gain on derivatives	22,047	13,373
Premises and equipment, net	32,342	29,080
Accrued interest	38,036	50,413
Accounts receivable	10,676	14,313
Bank-owned life insurance, net	161,911	155,558
Customers' liability under acceptances	10,133	16,497
Deferred tax asset, net	50,550	99,139
Other assets	<u>72,681</u>	<u>25,864</u>
Total assets	<u>\$ 9,519,594</u>	<u>9,450,100</u>

See accompanying notes to the consolidated financial statements.

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2009 and 2008

(Dollars in thousands, except par value)

Liabilities and Stockholder's Equity	2009	2008
	<hr/>	<hr/>
Deposits:		
Domestic offices:		
Noninterest-bearing	\$ 489,072	312,423
Interest bearing	4,243,174	3,948,126
Foreign offices:		
Noninterest bearing	35,055	24,732
Interest bearing	1,440,769	1,920,037
Total deposits	<hr/>	<hr/>
	6,208,070	6,205,318
Securities sold under repurchase agreements	2,019,767	1,885,866
Federal Home Loan Bank of New York (FHLB) and other borrowed funds	266,319	523,685
Unrealized loss on derivatives	21,838	16,873
Acceptances outstanding	10,133	16,497
Accounts payable, accrued expenses, and other liabilities	208,580	102,392
Subordinated capital note payable to Parent	75,000	75,000
Total liabilities	<hr/>	<hr/>
	8,809,707	8,825,631
Commitments and contingencies (note 19)		
Stockholder's equity:		
Common stock, par value \$100. Authorized 100,000 shares; issued and outstanding 50,000 shares	5,000	5,000
Surplus	94,652	94,652
Retained earnings	633,716	589,881
Accumulated other comprehensive loss, net of tax	(23,481)	(65,064)
Total stockholder's equity	<hr/>	<hr/>
	709,887	624,469
Total liabilities and stockholder's equity	<hr/>	<hr/>
	\$ 9,519,594	9,450,100

See accompanying notes to the consolidated financial statements.

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2009 and 2008

(Dollars in thousands)

	<u>2009</u>	<u>2008</u>
Interest and dividend income:		
Loans	\$ 167,175	227,728
Trading and other securities	203,261	207,380
Deposits with banks	2,800	10,038
Dividends on securities	2,573	3,089
Federal funds sold	—	1,289
Total interest and dividend income	<u>375,809</u>	<u>449,524</u>
Interest expense:		
Deposits	63,550	141,279
Securities sold under repurchase agreements and borrowed funds	95,937	98,345
Total interest expense	<u>159,487</u>	<u>239,624</u>
Net interest and dividend income	216,322	209,900
Less provision for loan losses	40,521	17,683
Net interest income, after provision for loan losses	<u>175,801</u>	<u>192,217</u>
Noninterest income (loss):		
Commissions and service fees	19,133	14,895
Loan and deposit fees	18,814	21,235
Trust and safekeeping fees	3,183	3,634
Gains on securities, net	32,569	20,988
Loss on other-than temporary impairment (OTTI) write-down of securities (all credit related)	(31,458)	(59,746)
Gains on foreign exchange, net	5,685	3,818
Losses from trading account assets, net	(1,174)	(1,111)
Other	6,020	9,689
Total noninterest income	<u>52,772</u>	<u>13,402</u>
Noninterest expense:		
Salaries and employee benefits	88,686	90,960
Occupancy and equipment	23,867	25,795
Professional fees	9,696	6,815
Compliance costs	—	3,562
Operating costs for representative offices	6,858	5,696
Other	37,533	27,897
Total noninterest expense	<u>166,640</u>	<u>160,725</u>
Income before income tax expense	61,933	44,894
Income tax expense	18,098	9,865
Net income	<u>\$ 43,835</u>	<u>35,029</u>

See accompanying notes to the consolidated financial statements.

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholder's Equity and Comprehensive Income

Years ended December 31, 2009 and 2008

(Dollars in thousands)

	Number of common shares issued and outstanding	Common stock	Surplus	Retained earnings	Accumulated other comprehensive loss	Comprehensive loss/income	Total
Balance, December 31, 2007	50,000	\$ 5,000	94,652	555,800	(24,222)		631,230
Adjustment to retained earnings, net of taxes upon adoption of amendments to fair value accounting standards as of January 1, 2008	—	—	—	780	—		780
Adjustment to retained earnings, net of taxes upon adoption of amendments to postretirement benefit accounting standards as of January 1, 2008	—	—	—	(1,728)	—		(1,728)
Comprehensive loss:							
Net unrealized loss on securities, net of taxes					(61,680)	\$ (61,680)	(61,680)
Other-than-temporary impairments (OTTI) on available-for-sale securities, net of taxes					31,097	31,097	31,097
Realized gains, net of taxes					(8,236)	(8,236)	(8,236)
Funded status of pension and post retirement benefits, net of taxes					(2,023)	(2,023)	(2,023)
Net income				35,029	—	35,029	35,029
Comprehensive loss						\$ (5,813)	
Balance, December 31, 2008	50,000	5,000	94,652	589,881	(65,064)		624,469
Comprehensive income:							
Net unrealized gain on securities, net of taxes					36,626	\$ 36,626	36,626
Other-than-temporary impairments (OTTI) on available-for-sale securities, net of taxes					17,367	17,367	17,367
Realized gains, net of taxes					(13,552)	(13,552)	(13,552)
Funded status of pension and post retirement benefits, net of taxes					1,142	1,142	1,142
Net income				43,835	—	43,835	43,835
Comprehensive income						\$ 85,418	
Balance, December 31, 2009	50,000	\$ 5,000	94,652	633,716	(23,481)		709,887

See accompanying notes to the consolidated financial statements.

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008

(Dollars in thousands)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Net income	\$ 43,835	35,029
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	40,521	17,683
Depreciation and amortization of premises and equipment	6,500	5,473
Gains on securities, net	(32,569)	(17,664)
Other-than-temporary impairment write-down of securities	31,458	59,746
Gain on sale of lease portfolio	—	(1,686)
Income from bank-owned and corporate-owned life insurance, net	(6,357)	(3,378)
Deferred income tax provision (benefit)	17,691	(23,110)
Amortization (accretion) of securities, net	9,935	(7,587)
Changes in:		
Accrued interest receivable	12,377	11,140
Accounts receivable	3,637	(3,223)
Accrued interest payable	(14,511)	(26,328)
Trading account assets	36,658	107,558
Other	81,281	(17,105)
Net cash provided by operating activities	<u>230,456</u>	<u>136,548</u>
Cash flows from investing activities:		
Purchases of held-to-maturity securities	(250,633)	(180,408)
Proceeds from the maturities of held-to-maturity securities	242,125	513,323
Purchases of available-for-sale securities	(3,540,842)	(3,089,758)
Proceeds from the sales of available-for-sale securities	1,459,487	1,228,116
Proceeds from the maturities of available-for-sale securities	1,402,515	1,536,563
Proceeds from bank-owned and corporate-owned life insurance	—	7,432
Proceeds from sale of lease portfolio	—	90,812
Purchase of premises and equipment	(9,762)	(7,250)
Changes in:		
Interest-bearing deposits with banks	(298,430)	76,862
Loans	405,949	(286,605)
Federal Home Loan Bank Stock	3,626	12,673
Net cash used in investing activities	<u>(585,965)</u>	<u>(98,240)</u>
Cash flows from financing activities:		
Changes in:		
Deposits	2,752	(36,503)
Securities sold under repurchase agreements	133,901	360,487
Other funds borrowed	(1,076)	(8,671)
Proceeds from FHLB advances	—	94,730
Repayments of FHLB advances	(256,290)	(106,663)
Subordinated capital note issued from Parent	—	75,000
Net cash (used) provided by financing activities	<u>(120,713)</u>	<u>378,380</u>
Net (decrease) increase in cash and cash equivalents	(476,222)	416,688
Cash and cash equivalents at beginning of year	637,095	220,407
Cash and cash equivalents at end of year	\$ <u>160,873</u>	<u>637,095</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 173,998	265,952
Income taxes	20,315	41,754
Supplemental schedule of noncash investing activity:		
Transfer of securities from held-to-maturity to trading	\$ —	41,400

See accompanying notes to the consolidated financial statements.

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(1) General

Discount Bancorp, Inc. (Discount), a wholly owned subsidiary of Israel Discount Bank Limited, Tel Aviv (IDBL), is a Delaware bank holding company. The consolidated financial statements of Discount include the following wholly owned bank subsidiaries: Israel Discount Bank of New York (the Bank), a New York State chartered bank, and Discount Bank (Latin America), Montevideo, Uruguay (DBLA), a bank regulated in Uruguay, and the following principal nonbank subsidiaries: IDBNY Realty LLC, IDBNY Realty (Delaware), Inc., IDB Leasing, Inc., IDB Capital Corp. (formerly known as Alexandra & James, Co.), a broker-dealer regulated by the Financial Industry Regulatory Authority (FINRA) and the U.S. Securities and Exchange Commission, IDB Mortgage Corp., regulated by the New York State Banking Department, and DB Properties, Inc. (collectively, the Company).

(2) Regulatory Action, Settlement, and Continuing Requirements

On December 15, 2005, the Bank entered into two Orders of Cease and Desist (collectively, the C&D) with the Federal Deposit Insurance Corporation (FDIC) and the Superintendent of Banks of the State of New York, respectively, (collectively, the Regulators). The C&D required the Bank to strengthen its Bank Secrecy Act and Anti-Money Laundering Controls and Procedures.

In June 2009, the regulators terminated the C&D, and during the twelve months ended December 31, 2009, the Bank did not incur any extraordinary compliance costs specific to it. For the year ended December 31, 2008, the Bank incurred \$3.6 million of compliance costs in connection with the C&D.

(3) Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements include the accounts of Discount Bancorp, Inc. and subsidiaries after elimination of intercompany balances and transactions. The Company translates its foreign-currency-denominated assets, liabilities, and off-balance sheet foreign currency transactions at the U.S. dollar spot rate of exchange at the balance sheet date. Certain reclassifications and adjustments have been made to the prior year amounts to conform to the current year presentation.

The consolidated financial statements have been prepared by management and in the opinion of management, include all adjustments consisting of normal recurring accruals, necessary for a fair presentation of the Company's financial position and results of operations as of the date and period presented.

In June 2009, the Financial Accounting Standards Board (FASB) established the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The Codification is not intended to change GAAP but rather to make it easier to review and research GAAP applicable to a particular transaction or specific accounting issue. As a result, these Notes to Consolidated Financial Statements no longer include specific references to GAAP pronouncements, but rather a detailed description of the applicable accounting principles.

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(b) Cash and Cash Equivalents

For presentation in the Consolidated Balance Sheets and Consolidated Statements of Cash Flows, cash and cash equivalents include cash, investments in money market funds, and deposits with banks, and Federal funds sold.

(c) Securities – Trading Account, Available-for-Sale, and Held-to-Maturity Assets

The Company designates an investment in securities as trading, available-for-sale, or held-to-maturity at the time of acquisition.

Trading securities are debt and equity securities held principally for the purpose of selling them in the near term. These securities are recorded at fair value with unrealized gains and losses being recognized in losses from trading account assets, net in the Consolidated Statements of Income.

Available-for-sale (AFS) securities are investments that the Company intends to hold for an indefinite period of time. Such securities include those which will be used as part of the Company's asset/liability management strategy or securities that may be sold in response to changes in interest rates, changes in prepayment analyses, the need to increase liquidity, or similar factors. Available-for-sale securities are recorded at fair value with unrealized gains and losses excluded from net income and reported as a separate component of Stockholder's equity in accumulated other comprehensive loss, net of deferred income taxes (OCI). Gains or losses on dispositions are recognized by the first-in first-out method and are included in gains on securities, net in the Consolidated Statements of Income.

Held-to-maturity (HTM) securities are investments that the Company has the positive intent and the ability to hold to their scheduled maturity. These securities are carried at cost, adjusted for the amortization of premiums or accretion of discounts.

Purchase premiums and discounts are recognized as interest income using the level yield method over the term of the securities. Amortization of premiums and accretion of discounts on mortgage backed securities are based on the estimated cash flows of the mortgage backed securities, periodically adjusted for changes in estimated lives, on a level yield basis.

Fair value is determined by quoted market prices, where available, or by independent pricing services. If listed prices or quotes are not available or if it is deemed that other methods are more appropriate in light of current market conditions then fair value is based upon pricing models that primarily use market-based or independently sourced market parameters as inputs, including, but not limited to, yield curves, interest rates, equity or debt prices for similar securities, and credit curves. In addition to market information, models also incorporate transaction details, such as maturity and cash flow assumptions.

During the second quarter of 2009, the Company adopted an amendment to the accounting and reporting standards regarding the recognition and disclosure of OTTI issued by the FASB. These accounting pronouncements address recognition and presentation of other-than-temporary impairments and update existing accounting guidance in this regard. In addition, these pronouncements require that an OTTI loss be segregated between credit and noncredit components

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

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December 31, 2009 and 2008

(with the credit component recorded in income and the noncredit component recorded in OCI) unless the Company intends to sell the security or it is more likely than not that it will have to sell the security before recovery of its amortized cost in which case the entire difference between amortized cost and fair value will be recognized in earnings. Also, according to these standards companies are required to record a cumulative effect adjustment to reclassify the noncredit component of previously recognized OTTI between retained earnings and OCI as of the beginning of the period of adoption. Given the fact that the Company considered all losses of securities held that were previously deemed other-than-temporarily impaired to be credit related, it did not record a transition adjustment upon adoption of this pronouncement.

The Company reviews its Available-for-sale and Held-to-maturity investment securities quarterly to determine whether an impairment that is considered to be other-than-temporary (OTTI) has occurred. If a decline in fair value is judged by the Company to be other-than-temporary, and if there are significant credit concerns regarding a particular security and it is expected that the Company will not recover its amortized cost, the security is written down from its original cost basis to reflect the adjusted fair value and a new cost basis is established. Management's assessment also addresses the impact of the length of time an investment has been in an unrealized loss position. In general, the longer the length of time that a security has been in an unrealized loss position and the greater the magnitude of the unrealized loss, the more likely it is that the security is OTTI. Factors that management considers in its reviews for OTTI are the financial condition and near-term prospects of the issuer, recent events specific to the issuer or the issuer's industry, adverse or positive changes in fair value and ratings announced by one or more rating agencies, trends and volatility in earnings, whether the issuer of the debt security has remained current on principal and interest payments, whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market conditions, and current analyst evaluations and other key measures, and if relevant, cash flow models based on the specific structure of the security to determine if there are adverse changes in cash flows.

If at any quarter-end date there is a security that management intends to sell or if a decision to sell has not been made but management concludes that it is more likely than not that it will be required to sell such a security before recovery of the amortized cost basis of the security then an OTTI write-down to fair value would be recorded in earnings. If it is not more likely than not that the Company will have to sell the security prior to recovery of amortized cost then an OTTI loss equal to the credit loss component would be recorded in earnings with the remaining difference to fair value recorded in OCI. A credit loss is deemed to exist when full repayment of principal and interest according to the contractual terms of the security is no longer probable, and it is determined based on one of following measures: the present value of expected future cash flows discounted at the security's effective interest rate; or the fair value of the collateral if the security is collateral dependent.

(d) Loans

Loans are reported at their outstanding principal amounts, net of unearned income and deferred fees. Interest is credited to income, on the accrual method of accounting, based on principal amounts outstanding at agreed-upon interest rates. Unearned income on loans is credited to income by use of

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

the effective-interest method. Deferred fees are amortized to interest income, using a method, which approximates the interest method, over the life of the loan as an adjustment to yield.

A loan is placed on nonaccrual status when management has determined that the borrower may be unable to meet contractual principal or interest obligations, or when payments are 90 days or more past due. Accrual of interest ceases and, in general, uncollected past-due interest (including interest applicable to prior years, if any) is reversed and charged against current interest income. For loans carried on a nonaccrual basis, including impaired loans, interest income is recognized only to the extent it is received in cash, except where there is doubt with regard to the ultimate collection of the loan principal. In those circumstances where the collection of loan principal is in doubt, cash received, whether designated as principal or interest, is applied first to reduce loan principal. A nonaccrual loan may only be returned to current accrual interest status when both the loan principal and interest are current and future principal and interest payments are reasonably assured.

(e) Allowance for Loan Losses

The allowance for loan losses is established through provisions for losses charged to earnings. Losses on loans (including impaired loans and leases) are charged to the allowance for loan losses, when management believes that the collection of principal is unlikely. Recoveries of loans previously charged-off are credited to the allowance when realized.

The allowance for loan losses is an amount that management believes is necessary to absorb probable losses on existing loans that may become uncollectible, based on evaluations of the collectibility of the loans. Management's evaluations, which are subject to review by the regulators, take into consideration such factors as the Company's past loan experience, changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and collateral values, and current economic conditions that may affect the borrowers' ability to pay. Future adjustments to the allowance for loan losses may be necessary based on changes in economic conditions, real estate values, real estate trends, changes in collateral values, further information obtained regarding known problem loans, results of regulatory examinations, the identification of additional problem loans, and other factors.

The Company considers a loan to be impaired when, based on current information and events, it is probable that it will be unable to collect all principal and interest contractually due. Certain loans are individually evaluated for collectibility in accordance with the Company's ongoing loan review procedures. Impaired loans are determined based on one of these measures: the present value of the expected future cash flows discounted at the loan's effective-interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. If the measure of an impaired loan is less than its recorded net investment, an impairment loss is recognized as a charge to the allowance for loan losses.

(f) Derivative Contracts

The Company enters into forward exchange contracts to hedge certain firm commitments denominated in foreign currencies. The purpose of these foreign currency hedging transactions is to protect the Company from the risk that the eventual dollar cash flows from foreign denominated securities will be adversely affected by changes in the currency exchange rate.

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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The Company's derivative contracts are recorded at fair value in the Consolidated Balance Sheets. For derivatives accounted for as fair value hedges, any unrealized gains and losses are recorded in gains on securities, net in the Consolidated Statements of Income. Unrealized gains and losses on derivatives categorized as cash flow hedges are recorded as a component of accumulated other comprehensive loss, net of tax and are reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. There are no derivatives designated as cash flow or fair value hedges in the consolidated financial statements at December 31, 2009 and 2008.

The Company enters into interest rate swap agreements to effectively manage its interest rate risk and cross currency swaps to manage its exposure to foreign exchange positions. The interest rate swap agreements utilized by the Company modify its exposure to fixed interest rate risk by converting fixed-rate available-for-sale securities to a floating rate. The swap agreements provide for the payment of fixed-rate interest payments in exchange for floating rate interest payments, over the life of the agreement, without the notional amounts being exchanged.

In the event of an early termination of an interest rate or cross currency swap agreement, the Company may sell the available-for-sale security being hedged to mitigate the asset exposure to changes in foreign exchange or interest rates. The gain or loss on the sales of derivative contracts and the underlying assets (if sold) would be included, in gains on securities, net, in the Consolidated Statements of Income.

Foreign exchange trading positions, including spot and forward purchase and sale contracts, are revalued monthly at prevailing market rates and all profits or losses are included in gains on foreign exchange, net, in the Consolidated Statements of Income.

In addition, the Company holds derivative instrument contracts that are used as an economic hedge against fixed rate investments and certain deposits. Gains and losses resulting from these contracts are included in gains on securities, net and losses from trading account assets, net, in the Consolidated Statements of Income.

(g) *Repurchase Agreements*

The Company enters into purchases and sales of securities under resale agreements (repurchase/resale agreements) and repurchases and/or resells substantially identical securities. These agreements are classified as either secured loans or secured borrowings, respectively.

(h) *Premises and Equipment, Net*

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed by the straight-line and accelerated methods based upon useful lives from 3 to 30 years. Amortization of leasehold improvements is computed by the straight-line method over the shorter time period of either the useful life of the improvement or the remaining life of the lease. The cost of maintenance and repairs on premises and equipment is charged to occupancy and equipment expense in the Consolidated Statements of Income.

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Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(i) *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*

The Company purchases internal-use computer software from third parties. External costs related to maintenance are expensed, while costs incurred under agreements related to upgrades and enhancements are capitalized and amortized.

(j) *Pension and Other Benefit Plans*

The Bank sponsors a noncontributory defined benefit pension plan covering substantially all of its employees. The Plan is funded annually, as is required, based on computations prepared by an independent actuarial consultant. In addition, the Bank maintains a Supplemental Executive Retirement Plan (SERP), a Restoration Plan and a Deferred Compensation Plan, which are designed to provide payments to its participants upon their retirement or leaving the Bank. The Company recognizes in its balance sheet the funded status of the pension and other postretirement benefits with the offset to accumulated other comprehensive loss. In recognizing the Plan's funded status, the Company recognizes actuarial gains and losses, prior service cost, and any remaining transition amounts.

The Bank maintains a contributory Savings and Investment Plan (401k). Contributions are made by employees on a discretionary basis, subject to the applicable limitations of U.S. tax laws. The Bank matches contributions up to the lesser of 3% of employee compensation or \$7,350 for 2009 and \$6,900 for 2008.

(k) *Use of Estimates*

The preparation of consolidated financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and revenues and expenses for the period covered by the financial statements. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, measurements of other-than-temporary impairment of securities, the valuation of deferred tax assets, the valuation of investment securities, and actuarial determined liabilities.

(l) *Income Tax*

Income tax expense consists of income taxes that are currently payable and deferred income taxes. Deferred income tax expense (benefit) is determined by recognizing deferred tax assets and liabilities for future tax consequences, attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates. The Company assesses the deferred tax assets and establishes a valuation allowance where realization of a deferred asset is not considered to be "more likely than not." In evaluating the need for a future valuation allowance, the Company generally considers the expectation of future taxable income, as well as its ability to carry back net operating losses in accordance with prevailing rules from the Internal Revenue Service.

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

The Company estimates income tax payables based on the amounts it expects to owe the various tax authorities (i.e., federal, state, and local). Income tax represents the net estimated amount due to, or to be received from, such taxing authorities. In estimating income taxes, management assesses the relative merits and risks of the appropriate tax treatments of transactions, taking into account statutory, judicial, and regulatory guidance in the context of the Company's tax position. In this process, management also relies on tax opinions, recent audits, and historical experience. Although the Company uses available information to record income taxes, underlying estimates and assumptions can change over time as a result of unanticipated events or circumstances such as changes in tax laws and judicial guidance influencing its overall tax position.

(m) *Off-Balance Sheet Credit Related Financial Instruments*

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under commercial letters of credit, and standby letters of credit. Such instruments are recorded when they are funded.

(n) *Bank-Owned Life Insurance*

General Account

All of the Bank-owned life insurance contracts at December 31, 2009 and December 31, 2008 are part of the general account liability of the various insurance companies. The market risks associated with the general accounts are recorded by the insurance companies. In accordance with GAAP, the Bank-owned life insurance contracts are carried at their contract value and are classified as noninterest earning assets. Increases in the contract value are recorded as noninterest income in the consolidated statement of income, and insurance proceeds received are recorded as a reduction of the contract value.

Liability for Future Benefits

As of January 1, 2008, the Company adopted the amendment to the accounting and reporting standards of postretirement benefits issued by the FASB, which requires that for an endorsement split-dollar life insurance arrangement, an employer should recognize a liability for future benefits if, in substance, a postretirement benefit plan exists, or if the arrangement is, in substance, an individual deferred compensation contract based on the substantive agreement with the employee. Upon adoption of this pronouncement, the Company reduced equity by \$1.7 million, net of taxes, through a reduction in retained earnings.

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

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(4) Trading Account Assets, at Fair Value

Trading account assets are carried at fair value, and their balances are as follows:

	December 31	
	2009	2008
	(Dollars in thousands)	
Corporate bonds, notes, and debentures	\$ 4,726	17,052
U.S. government sponsored enterprise mortgage-backed securities	1,438	1,754
U.S. government agency mortgage-backed securities	12	14
Mutual funds and equity securities	—	9,762
Foreign corporate securities	—	14,252
	<u>\$ 6,176</u>	<u>42,834</u>

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(5) Securities – Available-for-Sale and Held-to-Maturity

The amortized cost, fair values, and gross unrealized gains and losses of available-for-sale and held-to-maturity securities are as follows:

	December 31, 2009			Fair value
	Amortized cost	Gross unrealized gains	Gross unrealized losses	
	(Dollars in thousands)			
Available-for-sale securities:				
Debt securities:				
U.S. Treasury securities	\$ 105,099	6	3	105,102
U.S. government sponsored enterprise	160,164	2,285	2,066	160,383
Foreign government securities	75,510	402	387	75,525
Mortgage backed securities:				
U.S. government agency	74,353	1,549	245	75,657
U.S. government sponsored enterprise	1,234,941	41,780	546	1,276,175
Other mortgage backed securities:				
U.S. government agency and sponsored enterprise	2,167,936	25,227	9,219	2,183,944
Commercial mortgage backed securities	21,317	—	2,432	18,885
Residential mortgage backed securities	1,000	—	300	700
Structured financial products	5,035	—	392	4,643
Corporate bonds, notes, and debentures:				
U.S. corporate securities	397,306	1,619	80,561	318,364
Foreign corporate securities	22,964	153	3,093	20,024
Total debt securities	4,265,625	73,021	99,244	4,239,402
Mutual funds and equity securities	5,527	467	116	5,878
Total	\$ 4,271,152	73,488	99,360	4,245,280

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	December 31, 2009			Fair value
	Amortized cost	Gross unrealized gains	Gross unrealized losses	
	(Dollars in thousands)			
Held-to-maturity securities:				
U.S. government sponsored enterprise	\$ 1,011	16	—	1,027
Mortgage backed securities:				
U.S. government sponsored enterprise	2,673	145	—	2,818
Other mortgage backed securities:				
Residential mortgage backed securities	66,201	—	6,883	59,318
States and political subdivisions	394,220	11,300	187	405,333
Foreign government securities	13,547	1,644	—	15,191
Corporate bonds, notes, and debentures:				
Foreign corporate securities	15,000	—	30	14,970
Total	<u>\$ 492,652</u>	<u>13,105</u>	<u>7,100</u>	<u>498,657</u>

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	December 31, 2008			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(Dollars in thousands)			
Available-for-sale securities:				
Debt securities:				
U.S. Treasury securities	\$ 20,237	64	—	20,301
U.S. government agency	37,589	758	125	38,222
U.S. government sponsored enterprise	50,765	757	—	51,522
Foreign government securities	94,500	420	1,268	93,652
Mortgage backed securities:				
U.S. government agency	44,387	1,037	98	45,326
U.S. government sponsored enterprise	1,655,394	14,496	6,208	1,663,682
Other mortgage backed securities:				
U.S. government agency and sponsored enterprise	1,195,036	14,037	2,221	1,206,852
Commercial mortgage backed securities	26,209	—	6,409	19,800
Residential mortgage backed securities	1,000	—	290	710
Structured financial products	13,235	—	512	12,723
Corporate bonds, notes, and debentures:				
U.S. corporate securities	396,213	820	102,327	294,706
Foreign corporate securities	73,776	3	10,041	63,738
Total debt securities	3,608,341	32,392	129,499	3,511,234
Mutual funds and equity securities	5,527	454	138	5,843
Total	\$ 3,613,868	32,846	129,637	3,517,077

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	December 31, 2008			Fair value
	Amortized cost	Gross unrealized gains	Gross unrealized losses	
		(Dollars in thousands)		
Held-to-maturity securities:				
U.S. government sponsored enterprise	\$ 137,323	1,789	3,295	135,817
Mortgage backed securities:				
U.S. government sponsored enterprise	2,715	76	—	2,791
Residential mortgage backed securities	83,600	—	11,460	72,140
States and political subdivisions	198,942	2,247	7,255	193,934
Foreign government securities	16,223	790	134	16,879
Corporate bonds, notes, and debentures:				
U.S. corporate securities	23,651	530	—	24,181
Foreign corporate securities	18,500	299	—	18,799
Total	\$ <u>480,954</u>	<u>5,731</u>	<u>22,144</u>	<u>464,541</u>

Effective January 1, 2008, the Company adopted certain amendments to the accounting and reporting standards issued by the FASB, which provides companies with the option of electing fair value as an alternative measurement for most financial assets and liabilities. As a result, the Company transferred its entire portfolio of pre-refunded municipal securities with a carrying value of \$41.4 million and a fair value of \$42.8 million, from held-to-maturity securities to the trading portfolio, which were sold at a loss later that year. The cumulative effect adjustment for adopting this amendment totaled \$780,000 after taxes and was reflected as an increase to retained earnings.

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The maturity table of mortgage-backed securities reflects the contractual final maturity date of principal balances outstanding at December 31, 2009 and 2008. Actual maturities of debt securities may differ, since certain obligations provide the issuer with the right to prepay or call the obligation prior to maturity.

December 31, 2009						
Contractual maturities of available-for-sale securities						
	U.S. Treasury securities		U.S. government agency and U.S. government sponsored enterprise securities		Foreign government securities	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
(Dollars in thousands)						
Available-for-sale:						
Due within 1 year	\$ 105,099	105,102	—	—	57,926	57,875
After 1 year but within 5 years	—	—	51,957	54,039	9,930	9,838
After 5 years but within 10 years	—	—	20,699	20,510	7,375	7,519
After 10 years	—	—	87,508	85,834	279	293
Total	<u>\$ 105,099</u>	<u>105,102</u>	<u>160,164</u>	<u>160,383</u>	<u>75,510</u>	<u>75,525</u>
	Mortgage backed securities		Corporate bonds, notes, and debentures		Total	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
(Dollars in thousands)						
Available-for-sale:						
Due within 1 year	\$ —	—	23,242	23,498	186,267	186,475
After 1 year but within 5 years	5,116	5,263	112,126	111,055	179,129	180,195
After 5 years but within 10 years	101,663	105,007	26,320	24,931	156,057	157,967
After 10 years	3,392,768	3,445,091	263,617	183,547	3,744,172	3,714,765
Total debt securities	3,499,547	3,555,361	425,305	343,031	4,265,625	4,239,402
Mutual funds and equity securities	—	—	—	—	5,527	5,878
Total securities	<u>\$ 3,499,547</u>	<u>3,555,361</u>	<u>425,305</u>	<u>343,031</u>	<u>4,271,152</u>	<u>4,245,280</u>

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December 31, 2008						
Contractual maturities of available-for-sale securities						
	U.S. Treasury securities		U.S. government agency and U.S. government sponsored enterprise securities		Foreign government securities	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
(Dollars in thousands)						
Available-for-sale:						
Due within 1 year	\$ 20,237	20,301	—	—	21,129	20,728
After 1 year but within 5 years	—	—	565	574	62,125	61,406
After 5 years but within 10 years	—	—	18,186	18,533	11,012	11,281
After 10 years	—	—	69,603	70,637	234	237
Total	\$ 20,237	20,301	88,354	89,744	94,500	93,652
	Mortgage backed securities		Corporate bonds, notes, and debentures		Total	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
(Dollars in thousands)						
Available-for-sale:						
Due within 1 year	\$ —	—	40,891	38,729	82,257	79,758
After 1 year but within 5 years	14,098	14,330	66,939	55,828	143,727	132,138
After 5 years but within 10 years	151,856	154,153	84,873	80,590	265,927	264,557
After 10 years	2,769,307	2,780,610	277,286	183,297	3,116,430	3,034,781
Total debt securities	2,935,261	2,949,093	469,989	358,444	3,608,341	3,511,234
Mutual funds and equity securities	—	—	—	—	5,527	5,843
Total securities	\$ 2,935,261	2,949,093	469,989	358,444	3,613,868	3,517,077

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December 31, 2009						
Contractual maturities of held-to-maturity securities						
	U.S. government sponsored enterprise securities		Mortgage backed securities		States and political subdivisions	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
(Dollars in thousands)						
Held-to-maturity:						
Due within 1 year	\$ 1,011	1,027	—	—	7,089	7,104
After 1 year but within 5 years	—	—	—	—	45,489	45,697
After 5 years but within 10 years	—	—	—	—	18,383	18,936
After 10 years	—	—	68,874	62,136	323,259	333,596
Total	\$ 1,011	1,027	68,874	62,136	394,220	405,333
	Foreign government securities		Corporate bonds, notes, and debentures		Total debt securities	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
(Dollars in thousands)						
Held-to-maturity:						
Due within 1 year	\$ 1,868	1,904	—	—	9,968	10,035
After 1 year but within 5 years	10,066	11,357	—	—	55,555	57,054
After 5 years but within 10 years	1,350	1,607	—	—	19,733	20,543
After 10 years	263	323	15,000	14,970	407,396	411,025
Total	\$ 13,547	15,191	15,000	14,970	492,652	498,657
December 31, 2008						
Contractual maturities of held-to-maturity securities						
	U.S. Government sponsored enterprise securities		Mortgage backed securities		States and political subdivisions	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
(Dollars in thousands)						
Held-to-maturity:						
Due within 1 year	\$ 4,090	4,182	—	—	4,904	4,959
After 1 year but within 5 years	1,041	1,092	—	—	59,839	60,059
After 5 years but within 10 years	49,725	50,584	—	—	35,973	35,644
After 10 years	82,467	79,959	86,315	74,931	98,226	93,272
Total	\$ 137,323	135,817	86,315	74,931	198,942	193,934
	Foreign government securities		Corporate bonds, notes, and debentures		Total debt securities	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
(Dollars in thousands)						
Held-to-maturity:						
Due within 1 year	\$ 2,713	2,695	—	—	11,707	11,836
After 1 year but within 5 years	11,740	12,456	—	—	72,620	73,607
After 5 years but within 10 years	1,200	1,141	—	—	86,898	87,369
After 10 years	570	587	42,151	42,980	309,729	291,729
Total	\$ 16,223	16,879	42,151	42,980	480,954	464,541

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Gross realized gains and losses on available-for-sale securities are presented in gains on securities, net in the Consolidated Statements of Income for the years ended December 31, 2009 and 2008 as follows:

	<u>2009</u>	<u>2008</u>
	(Dollars in thousands)	
Gross gains	\$ 27,613	15,680
Gross losses	(4,566)	(829)
Gains on derivatives	<u>9,522</u>	<u>6,137</u>
Gains on securities, net	<u>\$ 32,569</u>	<u>20,988</u>

Included in gains on derivatives for the years ended December 31, 2009 and 2008, are \$9.5 million and \$3.3 million, respectively, of MBS option premium income related to available-for-sale securities. Also included in gains on derivatives for the year ended December 31, 2008 are \$2.8 million of gains related to embedded derivatives in available for sale investments and derivatives on structured products.

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For securities where fair value is less than amortized cost, the aggregate fair value and unrealized losses are as follows:

	December 31, 2009			
	Less than one year		Over one year	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	(Dollars in thousands)			
Available-for-sale securities:				
Debt securities:				
U.S. Treasury securities	\$ 39,965	3	—	—
U.S. government agency				
U.S. government sponsored enterprise	98,403	2,066	—	—
Foreign government securities	19,517	387	—	—
Mortgage backed securities:				
U.S. government agency	16,994	245	—	—
U.S. government sponsored enterprise	110,308	546	—	—
Other mortgage backed securities:				
U.S. government agency and sponsored enterprise	598,835	9,072	17,606	147
Commercial mortgage backed securities	—	—	18,885	2,432
Residential mortgage backed securities	—	—	700	300
Structured financial products	—	—	4,643	392
Corporate bonds, notes, and debentures:				
U.S. corporate securities	34,866	1,136	190,221	79,425
Foreign corporate securities	—	—	11,868	3,093
Mutual funds and equity securities	—	—	2,384	116
	<u>\$ 918,888</u>	<u>13,455</u>	<u>246,307</u>	<u>85,905</u>
Held-to-maturity:				
Other mortgage backed securities:				
Residential mortgage backed securities	\$ 7,000	793	52,318	6,090
States and political subdivisions	36,189	174	926	13
Foreign corporate securities	14,970	30	—	—
	<u>\$ 58,159</u>	<u>997</u>	<u>53,244</u>	<u>6,103</u>

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December 31, 2008				
Less than one year				
Over one year				
Fair value	Unrealized losses	Fair value	Unrealized losses	
(Dollars in thousands)				
Available-for-sale securities:				
Debt securities:				
U.S. government agency	\$ 5,118	125	—	—
U.S. government sponsored enterprise				
Foreign government securities	54,998	1	25,012	1,267
Mortgage backed securities:				
U.S. government agency	—	—	11,167	98
U.S. government sponsored enterprise	341,494	1,455	243,802	4,753
Other mortgage backed securities:				
U.S. government agency and sponsored enterprise	261,902	1,891	9,404	330
Commercial mortgage backed securities	16,425	4,892	3,375	1,517
Residential mortgage backed securities	—	—	710	290
Structured financial products	—	—	6,043	512
Corporate bonds, notes, and debentures:				
U.S. corporate securities	125,550	37,881	141,706	64,446
Foreign corporate securities	51,556	8,216	10,138	1,825
Mutual funds and equity securities	1,998	2	2,363	136
	<u>\$ 859,041</u>	<u>54,463</u>	<u>453,720</u>	<u>75,174</u>
Held-to-maturity:				
U.S. government sponsored enterprise	\$ 12,368	700	21,804	2,595
Foreign government securities	—	—	5,270	134
Mortgage backed securities:				
Residential mortgage backed securities	72,140	11,460	—	—
States and political subdivisions	89,423	7,250	1,300	5
	<u>\$ 173,931</u>	<u>19,410</u>	<u>28,374</u>	<u>2,734</u>

The majority of the unrealized losses at December 31, 2009 and December 31, 2008 relate to investment grade securities and are attributable to several factors, including changes in market interest rates subsequent to purchase, widening in market credit spreads for similar type securities, the impacts of

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inactive and illiquid markets, and changes in security ratings. As of December 31, 2009, a total of 173 securities were in a continuous unrealized loss position for less than 12 months, and 155 securities for 12 months or longer.

The Company reviews investment securities on an ongoing basis according to our policy described in note 3 to determine if any impairment is other than temporary. AFS and HTM securities in an unrealized loss position are analyzed in detail as part of the Company's ongoing assessment of OTTI. When the Company intends to sell any of these AFS securities, an impairment loss is recognized equal to the difference between the amortized cost basis and fair value of the securities. There were no securities that the Company intended to sell at December 31, 2009.

As a result of the Company's ongoing review of its investment securities portfolio, for the year ended December 31, 2009, the Company recorded \$31.5 million in OTTI write-downs, all related to available-for-sale securities. For the year ended December 31, 2008 the Company recorded \$59.7 million in OTTI write-downs, all of which also related to available-for-sale securities.

A total of \$21.4 million in 2009 impairment write-downs were related to six corporate bond issuers. One bond was issued by a Russian bank and was sold by the Company in April 2009 in order to reduce its emerging market exposure. An OTTI write-down of \$300,000 was recorded which was equal to the loss on sale. The second bond is a subordinated bond issued by an unrated U.S. bank. This bank was acquired during 2009 in an FDIC assisted transaction. The Company had deemed this security to be OTTI prior to the FDIC arranged acquisition and recorded write-downs of \$4.5 million. This security was sold in September with a very small loss recorded on sale. The third corporate bond was issued by a bank in Kazakhstan, an emerging market country. The bank recently announced a moratorium on principal payments pending resolution and agreement with its creditors. The bank's debt has been downgraded to default by two rating agencies and therefore, the Company recorded an OTTI write-down of \$4.7 million. This security was sold in December 2009 with a realized gain on sale of \$151,000. The fourth issue relates to holdings of two separate subordinated bonds issued by a privately held U.S. bank rated below investment grade by the one rating agency that rates the bank. One of the bonds is also rated below investment grade while the other is unrated. The bank had a first quarter loss and its asset quality continues to deteriorate and therefore, the Company recorded an OTTI write-down of \$7.6 million. These two bonds were sold in December 2009 with a realized gain on sale of \$760,000. The fifth bond is a subordinated note maturing in 2065 issued by an aircraft finance company. The bond was rated below investment grade by two rating agencies. The finance company has been deemed nonstrategic by its parent and has been marketed for sale. The company has significant debt maturities and liquidity constraints and as such we have doubts about the ability of the Company to meet contractual obligations on our debt which matures in 2065 and therefore, we recorded an OTTI write-down of \$950,000. This security was sold in September 2009 with a gain recorded on sale of \$114,000. The sixth issuer is a financial institution that declared bankruptcy in the 3rd quarter of 2008. The Company recorded \$3.3 million in OTTI write-downs in 2009 after recording \$16.5 million in OTTI write-downs during 2008. The issuer's securities were sold in July and August 2009 with an additional loss of approximately \$40,000 recorded on sale.

A total of \$7.2 million in impairment write-downs were recorded in 2009 for three holdings of trust preferred CDO securities which are classified as structured financial products. This was the result of management's internal valuation models indicating adverse expected cash flows. These holdings represent mezzanine tranches of the CDO capital structures. The Company considered these to be OTTI in 2008 and

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recorded write-downs in the 4th quarter of 2008 related to these securities totaling \$19.6 million. All three securities were rated below investment grade by the two rating agencies that rate the securities. The Company sold two of these securities in September 2009 with no additional gain or loss recorded on sale. The third security was sold in December 2009 with an additional loss of \$25,000 recorded at the time of sale. The Company holds two other bank trust preferred CDO's in AFS with a carrying value of \$4.6 million that the Company did not deem to be OTTI. Both of these notes represent the most senior tranche of the capital structure and benefit from significant credit enhancement. In addition, we continue to receive all contractual payments on these two securities and we have determined that there have not been adverse changes in future cash flows. A total of \$2.9 million in impairment write-downs were recorded in 2009 for two commercial mortgage backed securities. These two securities are both mezzanine tranches of the capital structure of the issuing trusts where there is less credit protection to absorb losses relative to the senior notes. On September 30, 2009, the Company decided to sell these securities and the \$2.9 million in OTTI write-downs were taken to reflect the securities at fair value. One security was sold in October, 2009, with no additional gain or loss recorded on sale. The second security was sold in the same month with an additional loss realized on sale of approximately \$273,000. The Company holds nine other commercial mortgage backed securities in AFS with a total carrying value of \$19 million that the Company did not deem to be OTTI. These nine securities are all senior notes in the capital structure and benefit from significant credit protection.

Of the \$59.7 million in OTTI write-downs recorded for the year ended December 31, 2008, \$40.0 million related to five corporate bond issues, \$0.1 million related to the equity tranche of a CDO and \$19.6 million related to three trust preferred CDO's. As noted above, an additional \$7.2 million in OTTI write downs were recorded in 2009 for the trust preferred CDO's prior to their eventual sale in 2009. The equity tranche of the CDO and three of the five impaired corporate securities were sold before year end 2008. The other two corporate securities were sold in 2009, one in January with a realized gain on sale of \$256,000 and the other in July and August with a realized gain on sale of \$40,000 (after recording \$3.3 million of additional OTTI write-downs in 2009 as noted above).

The unrealized losses on the Company's mortgage backed securities, which are primarily U.S. government agency or U.S. government sponsored enterprise issued securities were primarily caused by movements in market interest rates and spread volatility, rather than credit risk. The Company purchased these investments either at a premium, par or at a discount relative to their face amount, and the contractual cash flows of these investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price that is less than the amortized cost of the Company's investment. The Company did not consider these investments to be other than-temporarily impaired at December 31, 2009 and December 31, 2008.

The Company's unrealized losses in corporate bonds, which include single issuer trust preferred securities, relate primarily to investments in various financial institutions. The unrealized losses were primarily caused by market interest rate volatility and a significant widening of interest rate spreads across market sectors relating to the continued illiquidity and uncertainty in the financial markets. These securities were purchased based on an individual assessment of the institutions issuing such securities. This assessment included, but was not limited to, a review of credit ratings (if any), as well as an underwriting process.

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The Company has sold all securities deemed OTTI and the Company does not intend to sell and does not expect it will have to sell other securities with unrealized losses until a market price recovery (which for debt securities may not be until maturity). All securities in the portfolio at December 31, 2009 are current with respect to contractual payments. Future reviews for OTTI will consider the particular facts and circumstances during the respective reporting period. There remain significant market and economic uncertainties that could result in further declines in the fair value of securities in our portfolio in the future. There are considerable challenges facing the U.S. and global economies and a prolonged economic downturn could have implications and impact on any recovery in security valuations. In spite of numerous market interventions and programs implemented by U.S. and global governments and regulators there continues to be a lack of liquidity and capital market flows to facilitate an improvement in many securities markets. Therefore, there is still a risk that there may be additional other-than-temporary impairment write-downs in the future.

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The carrying value of pledged assets at December 31, 2009 and 2008 is shown in the following tables:

Pledged assets	December 31, 2009			Total
	Loans	Held-to-maturity securities	Available-for-sale securities	
	(Dollars in thousands)			
Federal Reserve Bank:				
Loans	\$ 1,500,100	—	—	1,500,100
U.S. government agency MBS	—	—	25,782	25,782
States and political subdivisions	—	69,685	—	69,685
Corporate Bonds	—	—	142,981	142,981
Total pledged to Federal Reserve Bank	1,500,100	69,685	168,763	1,738,548
Federal Home Loan Bank:				
Loans	306,353	—	—	306,353
Advances:				
U.S. government agency MBS	—	—	31,273	31,273
U.S. government sponsored enterprise MBS	—	—	81,512	81,512
Total loans and advances	306,353	—	112,785	419,138
Securities sold under repurchase agreements:				
U.S. government agency MBS	—	—	127,290	127,290
U.S. government sponsored enterprise MBS	—	—	342,876	342,876
Commercial MBS	—	—	7,125	7,125
Total repurchase agreements	—	—	477,291	477,291
Total pledged to Federal Home Loan Bank	306,353	—	590,076	896,429

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Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Pledged assets	December 31, 2009			Total
	Loans	Held-to-maturity securities	Available-for-sale securities	
	(Dollars in thousands)			
Securities sold under repurchase agreements-brokers:				
Barclays	\$ —	911	394,516	395,427
BNP	—	937	50,381	51,318
J.P. Morgan Chase	—	825	508,173	508,998
Citibank	—	—	647,136	647,136
Credit Suisse	—	—	203,868	203,868
Bank of America (Merrill Lynch)	—	—	47,446	47,446
Total pledged to brokers	—	2,673	1,851,520	1,854,193
Total pledged assets	\$ 1,806,453	72,358	2,610,359	4,489,170

Pledged assets	December 31, 2008			Total
	Loans	Held-to-maturity securities	Available-for-sale securities	
	(Dollars in thousands)			
Federal Reserve Bank:				
U.S. government agencies	\$ —	—	4,255	4,255
U.S. government sponsored enterprise securities	—	20,700	—	20,700
Corporate Bonds	—	3,500	208,198	211,698
Total pledged to Federal Reserve Bank	—	24,200	212,453	236,653
Federal Home Loan Bank:				
Loans	375,359	—	—	375,359
Advances:				
U.S. government agencies	—	—	4,268	4,268
U.S. government sponsored enterprise securities	—	—	1,875	1,875
U.S. government agency MBS	—	—	424	424
U.S. government sponsored enterprise MBS	—	—	192,101	192,101
Residential MBS	—	8,251	—	8,251
Total loans and advances	375,359	8,251	198,668	582,278

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<u>Pledged assets</u>	December 31, 2008			Total
	Loans	Held-to-maturity securities	Available-for-sale securities	
		(Dollars in thousands)		
Securities sold under repurchase agreements:				
U.S. government agencies	\$ —	550	32,536	33,086
U.S. government sponsored enterprise securities	—	—	16,300	16,300
U.S. government agencies and MBS	—	—	4,175	4,175
U.S. government sponsored enterprise MBS	—	—	463,621	463,621
Commercial MBS	—	31,422	—	31,422
Total repurchase agreements	—	31,972	516,632	548,604
Total pledged to Federal Home Loan Bank	375,359	40,223	715,300	1,130,882
Securities sold under repurchase agreements-brokers:				
Barclays	—	4,923	392,704	397,627
BNP	—	954	50,800	51,754
J.P. Morgan Chase	—	13,738	503,794	517,532
Citibank	—	35,304	516,303	551,607
Credit Suisse	—	—	206,749	206,749
Merrill Lynch	—	—	47,336	47,336
Salomon Brothers	—	45,000	—	45,000
Total pledged to brokers	—	99,919	1,717,686	1,817,605
Total pledged assets	\$ 375,359	164,342	2,645,439	3,185,140

As of December 31, 2009, the carrying value of securities sold under repurchase agreements over the repurchase liability exceeded 10% of stockholder's equity with the following counterparties:

	Amount at risk	Weighted average maturity of repurchase agreements
	(Dollars in thousands)	
Citibank	\$ 95,136	6 years

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In addition, loans and securities have been pledged pursuant to a blanket security agreement with the Federal Home Loan Bank (FHLB) (see note 11).

(6) Loans, Net of Unearned Income

(a) Loans

Loans are summarized below:

	December 31	
	2009	2008
	(Dollars in thousands)	
Domestic:		
Commercial and industrial	\$ 1,967,865	2,401,558
Loans secured by real estate	853,387	828,676
Nonbank financial	236,245	176,191
Lease receivable	45,016	64,007
Consumer	72,314	75,935
Nonprofit associations	7,412	8,257
Other	61,755	63,163
Total domestic, gross	3,243,994	3,617,787
Less unearned income and deferred fees	5,087	6,598
Total domestic	3,238,907	3,611,189
Foreign:		
Commercial and industrial	205,036	210,872
Loans to depository institutions	55,936	133,598
Consumer	19,201	24,173
Nonbank financial	—	2,350
Other	37,333	20,493
Total foreign, gross	317,506	391,486
Less unearned income and deferred fees	292	647
Total foreign	317,214	390,839
Total loans, net of unearned income and deferred fees	\$ 3,556,121	4,002,028

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December 31, 2009 and 2008

	December 31	
	2009	2008
	(Dollars in thousands)	
Nonaccrual loans	\$ 95,501	22,566
Interest foregone on nonaccrual loans	3,111	935
Restructured loans	14,837	12,682
Interest foregone on restructured loans	611	4
Impaired loans	78,189	2,923
Valuation allowances for impaired loans	16,582	875
Average quarterly balance of impaired loans for the past four quarters	41,138	3,110

The total number of nonaccrual loans was 65 and 44, at December 31, 2009 and December 31, 2008, respectively. In addition, during the year ended December 31, 2009, the balance of nonaccrual loans increased \$73.1 million to \$95.7 million, from \$22.6 million as of December 31, 2008, mainly caused by five borrowers that represent 77% of the net increase. In one of these cases, the Company financed the acquisition of three apartment buildings in the Dallas, Texas area in 2007. The total outstanding loan balance after charge-offs as of December 31, 2009 was \$11.9 million. The borrower is currently in negotiations to sell the apartment buildings for an amount at least equal to the Company's carrying value. This borrower has another loan with a \$3.3 million balance as of December 31, 2009 after partial charge-offs, which relates to a conglomeration of six low end commercial properties that became nonaccrual as of the end of the second quarter of 2009. The second case relates to a loan with an \$8.5 million balance as of December 31, 2009, where the Company holds a leasehold first mortgage on a parking lot in the New York City area. The borrower has defaulted on payments of the ground lease, as well as on payments of interest on the loan with the Company, and has filed for bankruptcy protection. This loan is personally guaranteed and although outside management has been recently put in place resulting in increased cash flows, and an exit from bankruptcy seems likely, the Company continues its evaluation for a potential write-down in the future should this not occur. Another borrower, whose loan was originated in May of 2008 after the refinancing of a previous loan made for the purchase of a multi-family property in California, was placed on nonaccrual status in the fourth quarter. The balance of this loan after a partial charge-off was \$4.4 million as of December 31, 2009.

As part of its evaluation of subsequent events, in February 2010 management decided to place two additional loans on nonaccrual status, which were also deemed to be impaired, effective as of December 31, 2009. The first loan was downgraded to a Special Mention category during the fourth quarter of 2009 reflective of extremely disappointing sales from both the TV production and library sales units. A follow-up bank meeting and turnaround consultants report received in January 2010, together with a close monitoring of this loan, have indicated more adverse information leading to a downgrade in January 2010 to a Substandard classification. As a result, management decided to place the loan's balance, which as of December 31, 2009 amounted to \$24.7 million, on nonaccrual status as of the same date. The second loan was made to a borrower with a recent start-up operation with two principals with successful past experiences. However, after two years of sizable losses, and failed attempts to attract outside investors, the borrower is currently seeking to downsize to achieve a

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paydown of the debt through a materially reduced overhead. The Company is currently undersecured and relies on the personal guarantees from the two founders to ultimately insure full repayment. During January 2010, the borrower missed a planned reduction in the loan per a recent forbearance; as a result, management decided to place the loan on nonaccrual status. The loan balance as of December 31, 2009 was \$6.7 million.

Three other loans, which combined balance represents 10% of the total nonperforming loans as of December 31, 2009, have been on nonaccrual status since December 31, 2008. In one of them, the Company financed the acquisition of approximately 33 apartment units located in Hollywood, Florida. This loan was restructured as a troubled loan in 2008, and \$1.8 million and \$1.4 million in charge-offs were taken in 2009 and 2008, respectively, to bring the balance down to its estimated fair value. The loan's outstanding balance as of December 31, 2009 is \$4.0 million and the Company is negotiating terms with the guarantor and borrower to reinstate the loan as a troubled debt restructure, but foreclosure seems likely. The other two loans were made to the same borrower to finance the acquisition of warehouse units that were converted into condominiums and also for the purchase of vacant land in Doral, Florida. The loans have outstanding balances as of December 31, 2009 of \$3.8 million and \$1.8 million after charge-offs of \$1.3 million and \$0.5 million, respectively, recorded in 2009 to bring the loans to the appraised value of the properties. The principal owner was incarcerated in 2009 for bank fraud and the Company is pursuing foreclosure of the properties.

There were no unused lines of credit to borrowers with impaired loans at December 31, 2009 and 2008.

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(b) Foreign Loans

Foreign loans outstanding by country at December 31, 2009 and 2008 are as follows:

	December 31	
	2009	2008
	(Dollars in thousands)	
Europe/Asia:		
Turkey	\$ 15,000	19,500
Romania	1,146	2,277
Kazakhstan	462	4,615
Russia	—	11,286
Iceland	—	2,250
All other European and Asian countries	351	1,530
Total Europe/Asia	16,959	41,458
Latin America/Caribbean:		
Uruguay	78,994	81,758
Peru	56,764	52,414
Mexico	49,227	54,498
Brazil	49,082	53,559
British West Indies	16,468	14,928
Argentina	13,017	19,640
Panama	10,012	17,002
Colombia	9,229	27,042
Costa Rica	3,305	3,305
El Salvador	3,250	4,500
Guatemala	3,200	9,150
Chile	3,032	4,120
Venezuela	1,160	1,310
All other Latin American countries	1,174	1,276
Total Latin America/Caribbean	297,914	344,502
Canada	2,580	2,590
Israel	53	2,936
Total foreign loans, gross	\$ 317,506	391,486

The Company is subject to numerous risks inherent in its portfolio of foreign loans. These risks include, among others, risk of loss from various unfavorable political, economic, legal or other developments, including social or political instability, changes in governmental policies or policies of central banks, expropriation, nationalization, confiscation of assets, price controls, capital controls and changes in legislation. Further, various countries in which the Company has extended these loans have experienced severe economic disruptions, including extreme currency fluctuations, high inflation, or low or negative growth, among other negative conditions. Thus, there can be no

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assurance that the Company will not suffer losses in the future arising from unfavorable economic, political, legal or other international events.

At December 31, 2009 and 2008, the Company believes that it has properly accounted for these risks in its allowance for loan losses.

(c) Allowance for Loan Losses

Changes in the allowance for loan losses are shown below:

	Year ended December 31	
	2009	2008
	(Dollars in thousands)	
Balance at beginning of year	\$ 64,587	57,331
Additions:		
Provision for loan losses	40,521	17,683
Charge-offs and recoveries:		
Charge-offs	(42,796)	(13,941)
Recoveries	2,838	3,514
Net charge-offs	(39,958)	(10,427)
Balance at end of year	\$ 65,150	64,587

(d) Transfers and Servicing of Financial Assets

As of December 31, 2009 and 2008, the Company has sold loans for which it continues to provide servicing totaling approximately \$46 million and \$45 million, respectively. Included in these amounts are loans sold to IDBL, which the Company is servicing in the amount of \$16 million and \$17 million, respectively. The fair value of the servicing asset was not material at December 31, 2009 or 2008.

(e) Sale of Lease Portfolio

During the fourth quarter of 2008, the Company sold approximately \$89.1 million of its IDB Leasing portfolio to other financial institutions. These transactions generated a total gain of \$1.7 million.

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

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(7) Premises and Equipment, Net

Premises and equipment, net, was as follows:

	December 31	
	2009	2008
	(Dollars in thousands)	
Furniture, fixtures, and equipment	\$ 30,678	65,790
Leasehold improvements	7,216	17,932
Land and buildings	8,373	8,726
Total	46,267	92,448
Less accumulated depreciation and amortization	13,925	63,368
Premises and equipment, net	\$ 32,342	29,080

Depreciation and amortization expense which is included in occupancy and equipment, in the Consolidated Statements of Income, amounted to \$6.5 million and \$5.5 million, respectively, for the years ended December 31, 2009 and 2008. As part of the conversion process to the Oracle General Ledger, fully depreciated assets with a total balance of \$37.3 million were written-off as of October 31, 2009.

(8) Accounts Receivable and Other Assets

Included in the accounts receivable balance are due from brokers from sales of investment securities of \$1.2 million and \$7.6 million at December 31, 2009 and 2008, respectively.

Following is a break down of the items included in other assets:

	December 31	
	2009	2008
	(Dollars in thousands)	
Prepaid expenses	\$ 33,008	6,357
Income taxes	27,498	7,665
Investments in limited partnerships	5,622	6,325
Premiums paid on options	3,291	2,786
Funded status – SERP	1,586	1,529
Other	1,676	1,202
Total other assets	\$ 72,681	25,864

During the fourth quarter of 2009, the FDIC required insured institutions to prepay estimated quarterly risk-based assessments for the fourth quarter of 2009 through the fourth quarter of 2012. The estimated assessments, which include an assumed annual assessment base increase of 5%, were recorded in prepaid expenses as of December 31, 2009 in the amount of \$28.1 million.

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(9) Deposits

		December 31, 2009			
		Demand	Savings	Time	Total
		(Dollars in thousands)			
Domestic offices:					
Noninterest-bearing	\$	489,072	—	—	489,072
Interest-bearing		473,695	1,144,280	2,625,199	4,243,174
Total domestic offices		962,767	1,144,280	2,625,199	4,732,246
Foreign offices:					
Noninterest-bearing		35,055	—	—	35,055
Interest-bearing		440,075	387,291	613,403	1,440,769
Total foreign offices		475,130	387,291	613,403	1,475,824
Total deposits	\$	1,437,897	1,531,571	3,238,602	6,208,070
		December 31, 2008			
		Demand	Savings	Time	Total
		(Dollars in thousands)			
Domestic offices:					
Noninterest-bearing	\$	312,423	—	—	312,423
Interest-bearing		—	888,978	3,059,148	3,948,126
Total domestic offices		312,423	888,978	3,059,148	4,260,549
Foreign offices:					
Noninterest-bearing		24,732	—	—	24,732
Interest-bearing		280,929	311,726	1,327,382	1,920,037
Total foreign offices		305,661	311,726	1,327,382	1,944,769
Total deposits	\$	618,084	1,200,704	4,386,530	6,205,318

Time deposits in domestic and foreign offices with balances of \$100,000 or more amounted to approximately \$3.0 billion and \$3.4 billion, as of December 31, 2009 and 2008, respectively. The majority of these deposits were from foreign sources.

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

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Scheduled maturities of time deposits are as follows:

	December 31	
	2009	2008
	(Dollars in thousands)	
Less than one year	\$ 2,845,869	3,966,273
Over one year but less than three	283,971	181,659
Over three years	108,762	238,598
Total	\$ <u>3,238,602</u>	<u>4,386,530</u>

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Deposits by customer home country/region were as follows:

	December 31	
	2009	2008
	(Dollars in thousands)	
Latin America:		
Argentina	\$ 1,520,580	1,427,913
Uruguay	646,408	554,358
Venezuela	331,227	342,896
Brazil	292,422	311,318
Mexico	253,759	210,739
Chile	185,555	184,356
Peru	176,876	109,382
Colombia	36,645	33,275
Bolivia	24,755	25,227
Panama	23,023	44,208
Guatemala	11,348	14,177
Paraguay	9,893	9,699
Ecuador	7,442	7,803
Costa Rica	7,263	7,921
Bahamas	2,815	5,050
Netherlands Antilles	2,171	8,248
Other	255,658	255,931
Total Latin America	3,787,840	3,552,501
Israel	165,647	160,047
Europe	102,322	170,486
Canada	11,741	58,192
Australia	9,076	8,966
Africa	2,151	5,021
Asia	1,973	8,511
Total foreign customers	4,080,750	3,963,724
Domestic customers	1,537,698	1,060,152
Broker deposits	275,747	873,315
Affiliates	313,875	308,127
Total deposits	\$ 6,208,070	6,205,318

(10) Securities Sold Under Repurchase Agreements

The carrying values of securities sold under repurchase agreements as of December 31, 2009 and 2008 were \$2.0 billion and \$1.9 billion, respectively. As of December 31, 2009 and 2008, the range in maturity of these repurchase agreements is from 53 days to 9.2 years, and from 55 days to 9.2 years, respectively. All of the outstanding repurchase agreements were secured by collateralized mortgage obligations or U.S. Government and U.S. Government sponsored enterprise securities, with fair value of \$2.3 billion and \$2.4 billion as of December 31, 2009 and 2008, respectively (see note 5).

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The estimated maturity and average rate on repurchase agreements are as follows:

		December 31, 2009				
		Less than 1 year	1 year to 3 years	Greater than 3 years, less than 5 years	Greater than 5 years	Grand total
		(Dollars in thousands)				
Repurchase agreements	\$	100,714	460,741	646,297	812,015	2,019,767
Average rate		4.424%	4.395%	3.342%	3.400%	3.660%

		December 31, 2008				
		Less than 1 year	1 year to 3 years	Greater than 3 years, less than 5 years	Greater than 5 years	Grand total
		(Dollars in thousands)				
Repurchase agreements	\$	27,083	209,241	759,717	889,825	1,885,866
Average rate		4.510%	4.100%	3.720%	3.850%	3.830%

(11) FHLB and Other Borrowed Funds

FHLB and other borrowed funds are as follows:

		December 31	
		2009	2008
		(Dollars in thousands)	
Federal Home Loan Bank (FHLB)	\$	259,141	515,431
Borrowings from customers		4,726	5,808
Demand notes – U.S. Treasury		1,226	934
Other Borrowed Funds		1,226	1,512
Total	\$	<u>266,319</u>	<u>523,685</u>

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Borrowings from the FHLB are at fixed rates, ranging from 2.92% to 7.03%, with maturities ranging from 2010 to 2018 and are summarized below:

	December 31	
	2009	2008
	(Dollars in thousands)	
FHLB borrowings at fixed rates:		
Within six months	\$ 21,761	38,692
Seven to twelve months	26,165	37,179
Thirteen to thirty-six months	104,382	214,596
Thirty-seven to sixty months	45,005	103,883
Over five years	61,828	121,081
Total	\$ 259,141	515,431
Average balance for the period	\$ 331,528	543,192
Maximum balance at any month end	512,986	595,006
Weighted average rate during the period	4.63%	4.58%
Weighted average rate at period end	4.73	4.52

As a member of the FHLB of New York, the Bank may borrow in the form of term and overnight FHLB advances up to 30% of its total assets, or approximately \$2.9 billion at December 31, 2009 and \$2.8 billion at December 31, 2008, respectively. As such, the Bank's unused FHLB borrowing capacity was approximately \$2.6 billion and \$2.3 billion at December 31, 2009 and 2008, respectively. FHLB advances are secured by the Bank's investments in FHLB stock and by a blanket security agreement. This agreement requires the Bank to maintain as collateral certain qualifying assets (such as securities and qualifying loans) not otherwise pledged. The Bank satisfied this collateral requirement at December 31, 2009 and 2008. As of December 31, 2009, the collateral pledged to the FHLB was \$419 million and as such, the Bank had additional capacity to borrow \$160 million. As of December 31, 2008, the collateral pledged to the FHLB was \$582 million and as such, the Bank had additional capacity to borrow \$67 million.

The Bank has also pledged various loans and corporate bond securities with the Federal Reserve Bank of New York (FRBNY). These pledged loans and securities are available to secure borrowings from the FRBNY discount window and for borrowings under the FRB Term Auction Facility (TAF). As of December 31, 2009 and 2008, there were no outstanding advances. At December 31, 2009 and 2008, the carrying value of the loans and securities pledged for FRBNY borrowings amounted to \$1,739 million and \$237 million, respectively, and the Bank had the capacity to borrow \$1,076 million and \$203 million, respectively, against the collateral based on FRBNY advance rates.

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(12) Accounts Payable, Accrued Expenses, and Other Liabilities

	December 31	
	2009	2008
	(Dollars in thousands)	
Due to brokers	\$ 128,607	2,026
Payroll and employee benefits	40,506	24,637
Accounts payable	9,022	28,342
Accrued interest payable – deposit accounts	8,720	22,359
Accrued interest payable – securities sold and repo	6,946	6,346
Accrued expenses	6,365	6,065
Funded status – other than SERP	6,174	8,195
Accrued interest payable – borrowings	511	1,983
Other liabilities – unused commitments	436	435
Other liabilities	1,293	2,004
Total	\$ 208,580	102,392

(13) Subordinated Capital Note Payable to Parent

On December 31, 2008, Israel Discount Bank of New York issued a subordinated capital note in the amount of \$75,000,000 to Israel Discount Bank Limited. The note has an eight year final maturity of December 15, 2016 with principal repayments in three installments on March 15, 2015, March 15, 2016 and December 15, 2016, respectively. The Subordinated Capital Note carries no repayment call option at either the Borrower's or the Lender's discretion. Interest on the note was 3.93% until October 29, 2009 and 7.30% for the remainder of the term. At December 31, 2009 and 2008, the Bank recorded interest expense of \$3.4 million and \$8,000, respectively, which is included in interest expense on securities sold under repurchase agreements and borrowed funds in the Consolidated Statements of Income. This capital note contributes to the Banks' Tier 2 capital.

(14) Stockholder's Equity

(a) Risk Based and Leverage Capital Ratios

Discount and the Bank are subject to various regulatory capital requirements administered by the various federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on the consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Discount and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators with regard to the capital components, risk-weighting, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation, to ensure capital adequacy, require Discount and the Bank to maintain minimum capital amounts and Total and Tier I capital ratios to risk-weighted

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assets and Tier I to average assets (as defined in the regulations). Management believes, as of December 31, 2009 and 2008, Discount and the Bank have met all capital adequacy requirements to which they are subject. Further, the most recent notification categorized the Bank as a well-capitalized institution under the prompt corrective action regulations. There have been no conditions or events since the notification that management believes have changed the Bank's capital classification.

To be classified as well-capitalized, an institution must maintain minimum Total risk-based, Tier I risk-based, and Tier I capital leverage ratios as disclosed in the following table.

The consolidated risk-based and leverage capital ratios for Discount and the Bank as of December 31, 2009 and 2008 are as follows:

		December 31, 2009					
		Actual		For capital adequacy purposes		To be well-capitalized under prompt corrective action provisions	
		Amount	Ratio	Amount	Ratio	Amount	Ratio
		(Dollars in thousands)					
Total risk-based capital (to risk-weighted assets):							
Discount	\$	867,235	14.87%	\$ 466,552	8.00%	\$ N/A	N/A
Bank		858,512	14.73	466,203	8.00	582,754	10.00%
Tier I capital (to risk-weighted assets):							
Discount	\$	726,492	12.46%	\$ 233,276	4.00%	\$ N/A	N/A
Bank		717,769	12.32	233,102	4.00	349,652	6.00%
Tier I capital/leverage (to adjusted average assets):							
Discount	\$	726,492	7.76%	\$ 374,312	4.00%	\$ N/A	N/A
Bank		717,769	7.72	372,109	4.00	465,137	5.00%

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December 31, 2008							
		Actual		For capital adequacy purposes		To be well-capitalized under prompt corrective action provisions	
		Amount	Ratio	Amount	Ratio	Amount	Ratio
		(Dollars in thousands)					
Total risk-based capital (to risk-weighted assets):							
Discount	\$	796,284	12.07%	\$ 527,941	8.00%	\$ N/A	N/A
Bank		788,730	11.96	527,602	8.00	659,502	10.00%
Tier I capital (to risk-weighted assets):							
Discount	\$	656,120	9.94%	\$ 263,970	4.00%	\$ N/A	N/A
Bank		648,566	9.83	263,801	4.00	395,701	6.00%
Tier I capital/leverage (to adjusted average assets):							
Discount	\$	656,120	7.04%	\$ 372,830	4.00%	\$ N/A	N/A
Bank		648,566	6.96	372,640	4.00	465,800	5.00%

Tangible and Tier 1 capital amounts represent total stockholder's equity, adjusted to reverse net unrealized gains (losses) on available-for-sale securities, less intangible assets and any disallowed deferred tax asset. Total risk-based capital represents Tier 1 capital plus the allowance for loan losses up to an amount equal to 1.25% of risk-weighted assets and qualifying subordinated debt.

(b) Dividend Payments

Under FDIC and New York Banking Department regulations, the Bank generally may declare annual cash dividends up to an amount equal to the sum of net income for the current year and net income retained for the two preceding years. Dividend payments in excess of this amount require regulatory approval. The Bank has not paid cash dividends to Discount Bancorp, Inc. during the years ended December 31, 2009 and 2008.

Although unlike the Bank, Discount Bancorp, Inc. is not subject to regulatory limitations on the payment of dividends to its shareholder, its ability to pay dividends is dependent upon the receipt of dividends from the Bank. The board of directors of Discount Bancorp, Inc. may, on an annual, semi-annual, or quarterly basis, but not more frequently, declare dividends to be paid from net profits as the board of directors deems judicious and as is permitted by law.

In addition, DBLA does not have specific dividend restrictions. However, their ability to pay dividends is limited to the amount they must maintain to meet the minimum capital requirement in compliance with the regulations of the Central Bank of Uruguay. As of December 31, 2009 and 2008, the minimum capital requirement was \$13 million and \$10 million, respectively, as compared to the capital reported in their December 31, 2009 and 2008 Balance Sheets of \$54.2 million and \$49.0 million, respectively.

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(15) Noninterest Income – Other

	December 31	
	2009	2008
	(Dollars in thousands)	
Bank-owned life insurance	\$ 6,357	6,536
Company-owned life insurance	—	(3,158)
Rental income	—	2,495
(Loss) income from partnerships	(555)	(1,833)
Other	218	5,649
	<hr/>	<hr/>
Total other noninterest income	\$ 6,020	9,689
	<hr/> <hr/>	<hr/> <hr/>

(16) Noninterest Expense – Other

Included in representative office expenses are salaries of foreign representatives and staff of \$3.6 million and \$3.7 million for the years ended December 31, 2009 and 2008, respectively.

Other noninterest expense comprises of:

	December 31	
	2009	2008
	(Dollars in thousands)	
Bank assessments	\$ 13,967	5,741
Communications	4,612	2,065
Taxes other than on income and premises	3,026	2,199
Advertising and promotions	2,257	2,181
Insurance	1,789	1,732
Travel and entertainment	1,817	1,996
Service fees	1,233	1,083
Security	1,174	982
Credit cards	964	710
ATM network charges – NYCE system	909	813
Credit information	765	626
Stationery and supplies	936	1,097
Charitable contributions	475	340
Other postage and freight	359	393
Employment fees	305	337
Brokers' commissions	289	467
Other operating	2,656	5,135
	<hr/>	<hr/>
Total other noninterest expense	\$ 37,533	27,897
	<hr/> <hr/>	<hr/> <hr/>

Included in Bank assessments as of December 31, 2009 there is a one-time special emergency assessment imposed by the FDIC to cover losses of the Deposit Insurance Fund (DIF), which was equal to five basis

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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points of total assets minus Tier 1 capital capped at ten basis points of the Company's deposit assessment base as of June 30, 2009. This assessment resulted in \$4.1 million of additional expenses.

The deposits of the Company are insured up to applicable limits by the DIF. Under the FDIC's risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital level, and certain other factors; therefore, an institution's assessment rate depends upon the category to which it is assigned. For calendar year 2008, assessments ranged from five to 43 basis points of each institution's deposit assessment base. Due to losses incurred by the DIF in 2008 from failed institutions, and anticipated future losses, the FDIC adopted an across the board seven-basis point increase in the assessment range for the first quarter of 2009. In April 2009, the FDIC made further refinements to its risk-based assessment system that effectively made the assessment range 7 to 77.5 basis points.

(17) Income Tax

The following is a summary of the components of income tax expense (benefit) for the years ended December 31, 2009 and 2008, respectively:

	December 31	
	2009	2008
	(Dollars in thousands)	
Current:		
Federal	\$ (3,565)	23,346
State and local	2,039	9,472
Foreign	1,933	157
Subtotal	407	32,975
Deferred:		
Federal	11,672	(15,467)
State and local	5,513	(7,706)
Foreign	506	63
Subtotal	17,691	(23,110)
Total	\$ 18,098	9,865

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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Deferred tax assets, net consist of the following temporary differences:

	December 31	
	2009	2008
	(Dollars in thousands)	
Assets:		
Allowance for loan losses	\$ 26,428	25,877
Unrealized loss on securities available-for-sale, net	11,291	41,275
Deferred compensation	4,377	3,770
Post retirement benefits	3,605	3,377
Interest on nonaccrual and restructured loans	2,743	1,491
Hedge premiums	2,103	3,321
Funded status of pension and post retirement benefits	2,055	2,969
Pension	1,702	974
Supplemental executive retirement plan	1,100	1,141
Severance	814	1,124
Foreign deferred taxes	554	1,060
Other-than-temporary impairment write-down of securities	514	16,635
Other	434	1,341
	<u>57,720</u>	<u>104,355</u>
Liabilities:		
Unrealized interest expense	735	2,413
Unrealized gain on derivatives, net	1,100	1,775
Investments in limited partnerships	1,083	1,010
Unrealized gain on securities transferred to trading	184	18
Other	4,068	—
	<u>7,170</u>	<u>5,216</u>
Total deferred tax liabilities	<u>7,170</u>	<u>5,216</u>
Deferred tax assets, net	<u>\$ 50,550</u>	<u>99,139</u>

Based on management's consideration of historical and anticipated future pre-tax income, as well as the reversal period for the items giving rise to the deferred tax assets and liabilities, a valuation allowance for deferred assets was not considered necessary at December 31, 2009 and 2008. The Company 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.

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

The provision for federal income taxes differs from that computed by applying federal statutory rate to income before federal income tax expense, as indicated in the following analysis.

	December 31	
	2009	2008
	(Dollars in thousands)	
Federal statutory income tax at 35%	\$ 21,676	15,713
Effect of state and local income taxes	4,909	3,245
Tax exempt interest	(5,247)	(1,735)
Effect of foreign subsidiary	294	(2,467)
Bank owned life insurance	(2,225)	(2,561)
Return to provision reconciliation	130	(700)
Release of tax reserves	(320)	(1,827)
Other	(1,119)	197
	<u>\$ 18,098</u>	<u>9,865</u>

As of December 31, 2009 and 2008, the Company has not provided for U.S. income tax on approximately \$48.7 million and \$45.4 million, respectively, of the undistributed earnings of its subsidiary in Uruguay. Those earnings are considered to be permanently reinvested and, accordingly, no U.S. federal, state, or local income tax has been provided thereon. In the event these earnings are distributed, U.S. income taxes would be provided.

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued guidance which prescribes a recognition threshold and measurement attribute for use in connection with the obligation of a Company to recognize, measure, present, and disclose in its financial statements uncertain tax positions that the Company has taken or expects to take on a tax return. Upon adoption of this guidance, only tax positions that meet a “more likely than not” threshold at the effective date may be recognized or may continue to be recognized. The Company adopted this guidance effective January 1, 2007. The balance of unrecognized tax benefits as of December 31, 2009 and 2008 is approximately \$0.8 million and \$1.1 million, respectively, which if recognized, would affect the effective tax rate.

The following table shows the reconciliation of unrecognized tax benefits at the beginning and end of the period:

	December 31	
	2009	2008
	(Dollars in thousands)	
Change in unrecognized tax benefits:		
Balance at beginning of the year	\$ 1,106	2,729
Interest	39	204
Reductions resulting from lapse of statute of limitations	(320)	(1,827)
Balance at end of the year	<u>\$ 825</u>	<u>1,106</u>

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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The Company is no longer subject to U.S. federal, state and local tax examinations by tax authorities for years before 2005. The NYS Department of Taxation and Finance is currently auditing the consolidated income tax returns for the years ended December 31, 2003 to 2005. It is anticipated that this examination will be completed within the next 12 months. Management believes that it has made adequate provisions for all income tax uncertainties, such that the outcome of any unresolved issues or claims will not result in a material change to the Company's financial position or results of operations.

The Company recognizes interest accrued and penalties related to unrecognized tax benefits as a component of income tax expense. The Company's liability for accrued interest amounted to approximately \$119,000 and \$109,000 at December 31, 2009 and 2008, respectively. In addition, the Company released \$85,000 and \$150,000 of accrued interest relating to the reductions resulting from lapse of statute of limitations, through a reduction of income tax expense in the Consolidated Statements of Income for the years ended December 31, 2009 and 2008, respectively.

As a result of lapse of applicable statute of limitations, the Company believes that it is reasonably possible that the total balance of unrecognized tax benefits will decrease by \$825,000 during the next 12 months.

(18) Pension and Other Post Retirement Plans

The Bank has a noncontributory defined benefit pension plan covering substantially all full time U.S. employees of the Bank. Employees who are twenty-one years of age or older and who have worked for the Bank for one year are eligible to participate in the plan. The Bank's funding policy is to contribute annually an amount sufficient to meet statutory minimum funding requirements, but not in excess of the maximum amount deductible for federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date, but also for benefits expected to be earned in the future. Benefits are based on years of service and employees' compensation. The Bank's funding policy is to contribute annually an amount necessary to satisfy the Employee Retirement Income Security Act (ERISA) funding standards.

Other benefits include post-retirement medical, dental, and life insurance coverages as well as Supplemental Executive Retirement Plan and Benefits Restoration Plan.

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

The funding status and reconciliation are as follows:

	December 31, 2009	
	Pension	Other benefits
	(Dollars in thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 24,817	9,309
Service cost	2,861	532
Interest cost	1,492	518
Curtailments	(1,273)	(375)
Settlements	—	(183)
Actuarial gain	1,563	(219)
Benefits paid	(2,543)	(422)
Benefit obligation at end of year	<u>26,917</u>	<u>9,160</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	14,743	—
Actual return on plan assets	2,585	—
Employer contribution	2,250	605
Benefits paid	(2,543)	(422)
Settlements	—	(183)
Fair value of plan assets at end of year	<u>17,035</u>	<u>—</u>
Funded status	(9,882)	(9,160)
Unrecognized actuarial loss/(gain)	3,911	(659)
Unrecognized transition assets	—	387
Unrecognized prior service cost	2,155	(1,208)
Liability	<u>\$ (3,816)</u>	<u>(10,640)</u>

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

	December 31, 2008	
	Pension	Other benefits
	(Dollars in thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 26,836	8,975
Service cost	2,911	596
Interest cost	1,621	541
Settlements	(5,778)	(113)
Actuarial gain	(495)	(54)
Benefits paid	(278)	(636)
	<u>24,817</u>	<u>9,309</u>
Benefit obligation at end of year		
Change in plan assets:		
Fair value of plan assets at beginning of year	21,906	—
Actual return on plan assets	(4,107)	—
Employer contribution	3,000	749
Benefits paid	(278)	(636)
Settlements	(5,778)	(113)
	<u>14,743</u>	<u>—</u>
Fair value of plan assets at end of year		
Funded status	(10,074)	(9,309)
Unrecognized actuarial loss/(gain)	5,082	(437)
Unrecognized transition assets	—	611
Unrecognized prior service cost	2,806	(1,397)
	<u>(2,186)</u>	<u>(10,532)</u>
Liability	\$	(10,532)

The discount rate with respect to the Plan's funding was 5.80% and 6.26% for plan years 2009 and 2008, respectively. The discount rate is based upon an analysis of projected benefit cash flows against the spot yield of corporate bonds that would be available to pay the benefits.

The above actuarial valuations are based on weighted average assumptions used to determine benefit obligations as follows:

	2009		2008	
	Pension	Other benefits	Pension	Other benefits
Discount rate	6.26%	6.26%	6.37%	6.37%
Expected return on plan assets	8.50	—	8.50	—
Rate of compensation increase	4.25	—	4.25	—

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next 10 years:

	2009	
	Pension	Other benefits
	(Dollars in thousands)	
2010	\$ 955	615
2011	933	876
2012	1,461	642
2013	1,555	521
2014	2,403	506
2015 – 2019	16,783	3,405

	December 31			
	2009		2008	
	Pension	Other benefits	Pension	Other benefits
	(Dollars in thousands)			
Components of net periodic benefit cost:				
Service cost	\$ 2,861	532	2,911	596
Interest cost	1,492	518	1,621	541
Expected return on plan assets	(1,283)	—	(1,817)	—
Amortization of prior services cost	355	(256)	416	(256)
Amortization of net (gain)/loss	158	(43)	—	33
Amortization of transition asset	—	153	—	153
Net periodic benefit cost	3,583	904	3,131	1,067
Nonperiodic benefit cost (Curtailment/Settlement)	297	(192)	1,248	35
Net benefit cost	\$ 3,880	712	4,379	1,102

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Amounts recognized in the consolidated balance sheets consist:

	December 31			
	2009		2008	
	Pension	Other benefits	Pension	Other benefits
	(Dollars in thousands)			
Prepaid benefit cost	\$ —	—	—	—
Accrued benefit cost	(9,882)	(9,160)	(10,074)	(9,309)
Net amount recognized	\$ (9,882)	(9,160)	(10,074)	(9,309)

The accumulated benefit obligation for the defined benefit pension plan was \$19.3 million and \$17.7 million at December 31, 2009 and 2008, respectively.

The expected long-term return on plan assets is determined based on the asset composition of the pension portfolio. The actuary then prepares a financial model that calculates an appropriate range of rates which is reviewed and approved by Bank management.

Assumed health care cost trend rates have an effect on the amounts reported for the health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects:

	One- percentage- point increase	One- percentage- point decrease
	(Dollars in thousands)	
Effect on postretirement benefit obligation	\$ 8	(8)
Effect on total of service and interest cost	—	—

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(a) Plan Assets

Plan investments are intended to provide for the Plan a positive rate of return over a full market cycle (generally three to five years) and provide a consistent amount of cash flow. Also, plan assets should provide a long term rate of return that meets or exceeds the assumed actuarial rate. The Bank's overall investment strategy is to achieve a mix of approximately 65% of investments for long-term growth and 35% for near-term benefit payments with a well diversified large and medium cap equity portfolio and investment grade securities and government debt instruments. The target allocations for plan assets, as well as actual weighted average asset allocations as of December 31, 2009 and 2008 are as follows:

	Target allocation 2010	December 31		Weighted average expected long-term rate of return
		2009 Plan assets percentage	2008 Plan assets percentage	
Assets:				
Equity securities	40-60%	44%	32%	9.2%
Mutual fund – bond portfolio	40-60	55	66	4.5
Cash liquidity funds	0-20	1	2	—
		<u>100%</u>	<u>100%</u>	

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

The following table presents, by FASB's valuation hierarchy as further described in note (21), the Bank's plan assets as of December 31, 2009:

Fair value measurements at December 31, 2009 using				
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	(Dollars in thousands)			
Cash equivalents:				
Short term investment fund	\$ 206	—	—	206
Debt securities:				
U.S. government agency mortgage backed securities	—	4	—	4
Other bonds, notes and debentures	—	115	—	115
Mutual funds:				
PIMCO Funds	—	9,227	—	9,227
Equity securities	7,483	—	—	7,483
Total plan assets	<u>\$ 7,689</u>	<u>9,346</u>	<u>—</u>	<u>17,035</u>

Equity securities primarily include investments in energy, finance, technology and consumer goods companies, primarily located in the United States. The mutual funds invest primarily in fixed income securities under a strategy that seeks maximum current income and price appreciation consistent with the preservation of capital and prudent risk taking.

The Bank completed cash contributions to the pension plan of \$2.3 million and \$3 million for 2009 and 2008, respectively. The postretirement medical health care plan has no assets and therefore related costs, which are not material, have been recognized in the Consolidated Statements of Income.

The Bank's benefits plans are all on a calendar year plan basis.

(b) Savings and Investment Plan (401k)

The Bank maintains a contributory Savings and Investment Plan (401k). Contributions are made by employees on a discretionary basis, subject to the applicable limitations of U.S. tax laws.

The Bank matches contributions up to the lesser of 3% of employee compensation or \$7,350 for 2009 and \$6,900 for 2008. The expense related to the Bank match, included in Salaries and employee benefits in the Consolidated Statements of Income is approximately \$0.9 million and \$1.1 million for the years ended December 31, 2009 and 2008, respectively.

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(c) Restoration Plan

The Bank maintains a Restoration Plan (RP) that provides its participants with the benefit of having their base annual salary, before the deduction of the annual deferred compensation election amount, considered as pensionable salary for computation purposes for their annual accrued pension calculation performed by the Bank's actuary. The RP cost included in Salary and employee benefits expense in the Consolidated Statements of Income is \$300,000 and \$133,000 for December 31, 2009 and 2008, respectively.

(d) Supplemental Executive Retirement Plan (SERP)

The Bank maintains a Supplemental Executive Retirement Plan that provides for payments to certain officers upon retirement, disability, death, and other circumstances under which their employment is ended. The annual benefit to be paid, as computed actuarially, is based upon their annual compensation. The expense related to the SERP, included in Salaries and employee benefits in the Consolidated Statements of Income is approximately \$1,600 and \$(92,000) for the years ended December 31, 2009 and 2008, respectively.

(e) Deferred Compensation Plan

The Bank has a deferred compensation plan, whose participation is open to First Vice Presidents and above and permits the participant to defer up to 10% of their base annual salary. The deferred compensation plan document describes methods by which the participants can receive a Bank match amount, as well as a return on their investment. The expense related to the deferred compensation plan, included in salaries and employee benefits in the Consolidated Statements of Income is \$0.7 million and \$0.8 million for the years ended December 31, 2009 and 2008, respectively.

(19) Commitments and Contingencies

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities, which are not reflected in its consolidated financial statements. Management does not anticipate any material adverse effect on the consolidated financial statements as a result of these commitments and contingent liabilities.

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(a) Leases

The Company leases certain premises under noncancelable operating leases all of which expire by the year 2022. The following is a summary of future minimum rental payments under such leases (dollars in thousands):

Year ending December 31:		
2010	\$	5,057
2011		4,828
2012		4,486
2013		2,937
2014		2,724
Thereafter		14,043
	\$	<u>34,075</u>

Rent expense, including real estate taxes, insurance and other related expenses, amounted to \$8.7 million, for the years ended December 31, 2009 and 2008, respectively.

Income in the amount of \$0.7 million and \$1.3 million for amounts charged to third parties for sub-leases of premises has been recorded as a reduction of occupancy costs for the years ended December 31, 2009 and 2008, respectively.

(b) Legal Proceedings

Various legal actions and proceedings are pending against or involve the Company. While the outcome cannot be predicted at this time, management, after reviewing these actions and proceedings with counsel, believes it has meritorious defenses to all such actions and intends to defend each of these actions vigorously.

Philip Little v. Arab Bank, PLC, et al., United States District Court, Eastern District of New York

Arab Bank filed seven third-party complaints against various banks, including IDBNY (the Third-Party Defendants) seeking contribution. Arab Bank has been sued by families of almost 5,200 individual plaintiffs allegedly harmed or killed by terrorist organizations. The complaints allege that Arab Bank processed transactions for terrorist organizations, and seek relief under the Anti-Terrorism Act (for American plaintiffs) and the Alien Tort Claims Act (for foreign plaintiffs). In its attempt to shift the responsibility onto third parties, Arab Bank alleges that the Third-Party Defendants participated in the transactions. Arab Bank does not specify a dollar amount or apportion liability among the Third-Party Defendants. Instead, it seeks contribution from the Third-Party Defendants if damages are awarded to the plaintiffs for the loss of life and crimes against humanity caused by the alleged activity in the underlying action. IDBNY moved to dismiss the third-party claims on the grounds that Arab Bank has no right to contribution under the Anti-Terrorism Act or Alien Tort Claims Act, and has failed to establish a claim for relief in its pleadings. IDBNY's motion to dismiss was granted in its entirety on April 3, 2009.

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(20) Related Party Transactions

On September 28, 2008, Israel Discount Bank of New York and IDBL entered into a Put Option Agreement involving the Bank's consolidated holdings of \$60 million of Wachovia Corporation securities. Under the terms of the Agreement, IDBL sold the Bank a put option regarding the Wachovia position, giving the Bank the right to exercise the option, in whole or part, at any time, until September 29, 2009. The Bank paid IDBL a commission of \$450,000. The terms of the agreement effectively provide that the securities could be sold to IDBL at any time at a price of \$0.75 per \$1.00 for each bond, the estimated market value of the securities at the time the agreement was executed. The agreement was terminated in November 2008. Except for the premium, this agreement had no impact on the results of operations for the year ended December 31, 2009 and 2008.

By a Sublease Agreement dated April 16, 2008, the Bank sublet the twelfth floor of its office located at 511 Fifth Avenue, New York, to 511 Fifth Avenue Tenant, L.L.C. one hundred percent (100%) of which is owned by the former Chairman of Discount. During the years ended December 31, 2009 and 2008, the tenant paid \$324,000 and \$317,000, for rent, respectively.

A former nonexecutive chairman of Israel Discount Bank of New York is a senior partner of a Law Firm which, from time to time, performs certain immigration related legal services for the Company. Total fees earned by the Law Firm during the years ended December 31, 2009 and 2008 amounted to \$32,000 and \$55,000, respectively.

The former Chairman of Discount Bancorp, Inc. is a twenty percent (20%) limited partner in Earnest Partners, which used to provide certain investment management services to the Bank; however, during the first quarter of 2009 this relationship was terminated. During the years ended December 31, 2009 and 2008, Earnest Partners earned management fees of \$89,000 and \$273,000, respectively.

Israel Discount Bank of New York has issued a Standby Letter of Credit to an IDBL investor, which balance as of December 31, 2009 and 2008, was \$750,000, respectively.

During 2006, the Company, serving as an intermediary for IDBL, entered into a pair of matched interest rate swaps (Swaps), each with a notional amount of 50,000,000 Israeli Shekels (Shekel), with certain U.S. investment banks in order to make a market in interest rate swaps in the Shekel. As of December 31, 2009 and 2008, the equivalent in U.S. dollars of the total notional amount of the remaining Swaps were approximately \$13.2 million and \$13.0 million, respectively.

As described in note 13, on December 31, 2008, Israel Discount Bank of New York issued a subordinated capital note in the amount of \$75.0 million to Israel Discount Bank Limited. Interest expense on this note for the year ended December 31, 2009 was \$3.4 million and \$8,000 for the one-day period ended December 31, 2008.

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Inter-company balances and financial transactions with the Company's affiliates, included in the consolidated financial statements are as follows:

	December 31	
	2009	2008
	(Dollars in thousands)	
Assets:		
Cash and due from banks	\$ 80,035	136
Accrued interest receivable	143	—
Liabilities:		
Deposits:		
Domestic offices:		
Noninterest-bearing	\$ 4,095	3,087
Interest-bearing	822	125,000
Foreign offices:		
Noninterest-bearing	50	50
Interest-bearing	308,920	179,990
Accrued interest payable	1,248	1,573
Subordinated capital note	75,000	75,000

	Years ended December 31	
	2009	2008
	(Dollars in thousands)	
Income:		
Interest on deposits with banks	\$ 143	3
Interest and fees on loans	—	9
Rent	324	317
Expense:		
Interest on deposits	\$ 4,454	13,975
Interest on subordinated capital note	3,438	8
Professional fees	121	365
Put option premium	—	38
Contingent liabilities:		
Standby letters of credit	\$ 750	750

(21) Fair-Value Measurement

On January 1, 2008, the Company adopted the amendment to the accounting and reporting standards regarding the fair value of assets and liabilities issued by the FASB, which among other things, defines fair value; establishes a consistent framework for measuring fair value; and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. The Company's adoption of this guidance did not have a material impact on its financial condition or results of operations. This guidance clarifies that fair value is an "exit" price, representing; the amount that would be

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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received when selling an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value is thus a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a fair value hierarchy was established, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices in markets that are not considered to be active or significant inputs to the methodology that are observable, either directly or indirectly.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within this valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

DISCOUNT BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

The following tables present, by valuation hierarchy, assets and liabilities that are measured at fair value on a recurring basis and that are included in the Company's Consolidated Balance Sheets as of December 31, 2009 and 2008:

Fair value measurements at December 31, 2009 using				
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
(Dollars in thousands)				
Assets:				
Trading account assets, at fair value:				
Corporate bonds, notes, and debentures	\$ —	4,726	—	4,726
U.S. government sponsored enterprise mortgage-backed securities	—	1,438	—	1,438
U.S. government agency mortgage backed securities	—	12	—	12
Total trading assets	\$ —	6,176	—	6,176
Available-for-sale securities, at fair value:				
Debt securities:				
U.S. Treasury securities	\$ —	105,102	—	105,102
U.S. government sponsored enterprise	—	160,383	—	160,383
Foreign government securities	—	75,525	—	75,525
Mortgage backed securities:				
U.S. government agency	—	75,657	—	75,657
U.S. government sponsored enterprise	—	1,276,175	—	1,276,175
Other mortgage backed securities:				
U.S. government agency and sponsored enterprise	—	2,183,944	—	2,183,944
Commercial mortgage backed securities	—	—	18,885	18,885
Residential mortgage backed securities	—	—	700	700
Structured financial products	—	—	4,643	4,643
Corporate bonds, notes, and debenture:				
U.S. corporate securities	—	318,364	—	318,364
Foreign corporate securities	—	20,024	—	20,024
Mutual funds and equity securities	5,498	380	—	5,878
Total available-for-sale securities	\$ 5,498	4,215,554	24,228	4,245,280
Unrealized gain on derivatives	\$ 7,228	14,819	—	22,047
Liabilities:				
Unrealized loss on derivatives	7,060	14,778	—	21,838

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Fair value measurements at December 31, 2008 using				
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	(Dollars in thousands)			
Assets:				
Trading account assets, at fair value:				
Corporate bonds, notes, and debentures	\$ —	17,052	—	17,052
U.S. government sponsored enterprise mortgage-backed securities	—	1,754	—	1,754
U.S. government agency mortgage backed securities	—	14	—	14
Mutual funds and equity securities	9,762	—	—	9,762
Foreign corporate securities	—	14,252	—	14,252
Total trading assets	<u>\$ 9,762</u>	<u>33,072</u>	<u>—</u>	<u>42,834</u>
Available-for-sale securities, at fair value:				
Debt securities:				
U.S. Treasury securities	\$ —	20,301	—	20,301
U.S. government agency	—	38,222	—	38,222
U.S. government sponsored enterprise	—	51,522	—	51,522
Foreign government securities	—	93,652	—	93,652
Mortgage backed securities:				
U.S. government agency	—	45,326	—	45,326
U.S. government sponsored enterprise	—	1,663,682	—	1,663,682
Other mortgage backed securities:				
U.S. government agency and sponsored enterprise	—	1,206,852	—	1,206,852
Commercial mortgage backed securities	—	—	19,800	19,800
Residential mortgage backed securities	—	710	—	710
Structured financial products	—	—	12,723	12,723
Corporate bonds, notes, and debenture:				
U.S. corporate securities	—	294,706	—	294,706
Foreign corporate securities	—	63,738	—	63,738
Mutual funds and equity securities	5,398	445	—	5,843
Total available-for-sale securities	<u>\$ 5,398</u>	<u>3,479,156</u>	<u>32,523</u>	<u>3,517,077</u>
Unrealized gain on derivatives	\$ 344	13,029	—	13,373
Liabilities:				
Unrealized loss on derivatives	371	16,502	—	16,873

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The following table presents information for recurring assets classified by the Company within Level 3 of the valuation hierarchy for the twelve months ended December 31, 2009 (dollars in thousands):

	<u>Fair value January 1, 2009</u>	<u>Total realized/unrealized gains (losses) recorded in Income</u>	<u>Comprehensive Income</u>	<u>Purchases, issuances, and settlements, net</u>	<u>Transfers in/out of Level 3</u>	<u>Fair value December 31, 2009</u>	<u>Change in unrealized gains (losses) related to instruments held at December 31, 2009</u>
	(Dollars in thousands)						
Available-for-sale debt securities:							
Other mortgage backed securities:							
Commercial mortgage backed securities	\$ 19,800	(3,189)	3,977	(1,703)	—	18,885	3,977
Residential mortgage backed securities	—	—	—	—	700	700	(10)
Structured financial products	<u>12,723</u>	<u>(7,213)</u>	<u>120</u>	<u>(987)</u>	<u>—</u>	<u>4,643</u>	<u>120</u>
Total securities available-for-sale	<u>\$ 32,523</u>	<u>(10,402)</u>	<u>4,097</u>	<u>(2,690)</u>	<u>700</u>	<u>24,228</u>	<u>4,087</u>

Fair value is based upon quoted market prices when available. If listed prices or quotes are not available fair value is based upon broker quotes or pricing models that primarily use market-based or independently sourced market parameters as inputs, including, but not limited to, yield curves, interest rates, equity or debt prices for similar securities, and credit curves. In addition to market information, models also incorporate transaction details, such as maturity and cash flow assumptions.

The Company reviews and updates the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next that are related to the observability of inputs to a fair value measurement may result in a reclassification from one hierarchy level to another.

A description of the methods and significant assumptions utilized in estimating the fair value of available-for-sale securities follows:

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities, exchange-traded equities and mutual funds.

If quoted market prices are not available for the specific security, then fair values are determined by using third party pricing services or quotes from brokers. The pricing services utilize various sources to determine fair value including pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Securities valued by using such pricing services or broker quotes are classified within Level 2 of the valuation hierarchy, and include instruments such as mortgage-related securities, corporate debt, preferred stock, and municipal securities.

In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. In valuing certain collateralized mortgage and debt obligations, the determination of fair value may require benchmarking to similar instruments or analyzing

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default and recovery rates. For CDOs and private label mortgages, external price information is very limited or not available and there is very little trading activity in these markets. Therefore these securities are valued using market-standard models which consider the specific collateral composition and cash flow structure of each deal and are included within Level 3 of the hierarchy. Key inputs to the model consist of market spread data for each relevant credit rating and tenor, yield curves, and other relevant data.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Beginning in the second quarter of 2008, the Bank began writing short dated Mortgage Backed Securities (MBS) option transactions including covered calls and puts. In exchange for a fee paid to the Bank, the put gives the respective counterparty the right, but not the obligation, to sell MBS to the Bank. The covered calls give the respective counterparty the right, but not the obligation, to buy MBS from the Bank. The underlying MBS that the calls are written against are securities held in the available-for-sale portfolio. The exercise of the option by the counterparty is contingent upon the relationship between the option strike price and the then current market price of the underlying at expiry. The fee paid to the Bank for selling the option is initially recorded as a liability, to the extent the options are not exercised at maturity the fee paid is recorded as other income. If the option is exercised the fee is recorded as an adjustment to the basis of the security purchased (for puts exercised) and as other income (for covered calls exercised). As of December 31, 2009, the notional value of outstanding written option contracts was \$200 million. These options will expire in February 2010.

Non-Recurring Fair Value Measurements

Loan impairment is deemed to exist when full repayment of principal and interest according to the contractual terms of the loan is no longer probable. Impaired loans are reported based on one of three measures: the present value of expected future cash flows discounted at the loan's effective interest rate; the loan's observable market price; or the fair value of the collateral if the loan is collateral dependent. Accordingly, certain impaired loans may be subject to measurement at fair value on a nonrecurring basis. The Company has estimated the fair values of these assets using Level 3 inputs, such as the fair value of collateral based on independent third-party appraisals for collateral-dependent loans.

(22) Fair Value of Financial Instruments

Fair values of financial instruments are generally determined by the quoted prices on trading exchanges. However, fair values are not readily available for financial instruments such as, certain investment securities, loans, and deposits, since there are no trading markets for these instruments. Furthermore, there is no prescribed procedure for valuing these instruments. Such a valuation is, therefore, subjective and may not be a true measure of the real worth of these instruments.

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The following methods and assumptions were used by the Company in determining the fair value of financial instruments:

Cash and due from banks – The carrying amount reported in the consolidated balance sheets for cash and due from banks is comprised of cash and demand deposits with banks, all of which approximate fair value.

Interest-bearing deposits with banks and federal funds sold – For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities purchased under resale agreement – For these short-term, secured loans, the carrying amount is determined using values obtained from a third party valuation consultant.

Available-for-sale securities, Held-to-maturity securities and Trading account assets – The fair values of investment securities are based on quoted market prices, or if unavailable, obtained from other sources, such as brokers, and valuation models (see note 21).

Loans – Where there is no significant change in credit risk, the carrying value of variable-rate loans approximates their fair values, as these loans are repriced on the basis of rate changes in prime, LIBOR, or other indexed interest rates. Loans deemed to have a higher than normal credit risk have been valued at management's estimate based on the sale value of the loan to a third party. Fixed rate loan values where there is no significant change in credit risk are obtained from a third party valuation consultant.

Unrealized gain or loss on derivatives – the total carrying amount approximates fair value.

Deposits – The fair value of demand deposits and money market deposit accounts is the amount payable on demand at the reporting date. All other time deposit liabilities are placed with Discount for short maturity periods, primarily three months or less; the rates currently offered approximate the existing rates on these deposits. Fair value has been calculated based on the difference between the weighted average yield on the existing portfolio and year end interest rates.

Federal funds purchased and securities sold under repurchase agreements – The total carrying amount is determined using values obtained from a third party valuation consultant.

Other borrowings – Fair value has been calculated based on the difference between the weighted average yield on the existing portfolio and year end interest rates.

Off-balance sheet instruments – The fair values of credit-related instruments were evaluated using fees currently charged to enter into similar agreements, taking into account the risk characteristics of the borrower. Discount has reviewed the unfunded portion of commitments to extend credit as well as standby and other letters of credit and has determined that the fair values of such financial instruments are not material.

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The estimated fair values and related carrying values of Discount's financial instruments are as follows:

	December 31			
	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
	(Dollars in thousands)			
Financial assets:				
Cash and cash equivalents	\$ 160,873	160,873	637,095	637,095
Interest-bearing deposits with banks	685,864	686,155	387,434	387,434
Trading account assets	6,176	6,176	42,834	42,834
Available-for-sale securities	4,245,280	4,245,280	3,517,077	3,517,077
Held-to-maturity securities	492,652	498,657	480,954	464,541
Federal Home Loan Bank of New York stock	39,402	39,402	43,028	43,028
Loans, net	3,490,971	3,510,027	3,937,441	3,945,926
Unrealized gain on derivatives	22,047	22,047	13,373	13,373
Bank-owned life insurance	161,911	161,911	155,558	155,558
Financial liabilities:				
Deposits	6,208,070	6,225,838	6,205,318	6,270,264
Securities sold under repurchase agreements	2,019,767	2,165,892	1,885,866	1,953,347
FHLB and other borrowed funds	266,319	287,152	523,685	544,504
Unrealized loss on derivatives	21,838	21,838	16,873	16,873
Subordinated capital debt	75,000	75,154	75,000	75,000

(23) Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, the Company becomes a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheet. The contract or notional amounts of these instruments reflect the extent of involvement of the Company in particular classes of financial instruments.

The Company's exposure to credit loss, in the event of nonperformance by the party to the financial instrument, for commitments to extend credit and standby letters of credit, is represented by the contractual notional amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company does not require collateral or other security to support financial instruments with credit risk, unless otherwise noted for a specific transaction.

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(a) Credit Related Instruments

Commitments to extend credit are agreements to lend funds to a customer, as long as there is no violation of any condition established in the contract. Generally, commitments have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since some of the Company's commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash funding requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, by the Company upon extension of credit is based on management's credit evaluation of the borrower. Collateral held by the Company varies but may include time deposits, marketable securities, accounts receivable, inventory, property, plant, equipment, and income-producing commercial properties.

In order to meet the financing needs of its customers, the Company makes commitments to issue financial and performance standby letters of credit. Financial standby letters of credit are issued by the Company to guarantee payment of a specified financial obligation; performance standby letters of credit require the Company to make payments in the event a specified third party fails to perform under a nonfinancial contractual obligation.

In certain cases, the Company holds assignments of time deposits and marketable securities as collateral supporting many of the standby letters of credit for which collateral is deemed necessary.

A summary of the contractual amounts of credit related instruments is as follows:

	December 31	
	2009	2008
	(Dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
Commercial letters of credit	\$ 153,069	167,976
Loan commitments	1,845,029	1,452,480
Standby letters of credit and foreign office guarantees:		
Financial standby letters of credit	149,283	169,181
Performance standby letters of credit	2,399	1,395
Foreign office guarantees	4,576	3,832
Participation agreements in acceptances, loans, and letters of credit of other banks	169,891	194,561

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Contractual commitments by industry sectors are as follows:

	December 31	
	2009	2008
	(Dollars in thousands)	
Commercial industries (except real estate)	\$ 873,666	580,900
Textile, clothing, and leather industries	549,328	418,505
Construction (real estate)	97,257	95,656
Financial services	170,390	200,979
All other industries	633,606	693,385

(b) Concentrations of Credit Risk

In the normal course of its business, the Company's activities include significant amounts of credit risk to financial institutions. These concentrations may exist when the Company's assets are being held by financial institutions and these institutions may be impacted by economic or other conditions. These concentrations pertain to the Company's assets such as Cash and due from banks, Interest-bearing deposits with banks, loans to banks, available for sale securities (bank notes and debentures). Such concentrations aggregate approximately 13% and 15% of the Company's on-balance sheet financial instruments at December 31, 2009 and 2008.

(24) Accumulated Other Comprehensive Loss, Net of Tax

Comprehensive income represents the sum of net income and items of other comprehensive income or loss that are reported directly in Stockholder's equity, such as the change during the period in after-tax net unrealized gain and loss on available-for-sale securities. The Company has reported its comprehensive loss in the Consolidated Statement of Changes in Stockholder's Equity and Comprehensive Loss.

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Changes in each component of accumulated other comprehensive (loss) income for the years ended December 31, 2009 and 2008 is as follows:

	Net unrealized (loss) gain on securities	Foreign currency translation adjustment	Funding of pension and other retirement benefits	Accumulated other comprehensive loss
	(Dollars in thousands)			
Balance, December 31, 2007	\$ (15,671)	(6,877)	(1,674)	(24,222)
Net unrealized losses arising during the period, net of \$49,610 taxes	(61,680)	—	—	(61,680)
OTTI, net of \$24,974 taxes	31,097	—	—	31,097
Realized gains, net of \$6,615 taxes	(8,236)	—	—	(8,236)
Funded status of pension and post retirement benefits, net of \$1,550 taxes	—	—	(2,023)	(2,023)
Balance, December 31, 2008	(54,490)	(6,877)	(3,697)	(65,064)
Net unrealized gains arising during the period, net of \$25,388 taxes	36,626	—	—	36,626
OTTI, net of \$14,091 taxes	17,367	—	—	17,367
Realized gains, net of \$9,495 taxes	(13,552)	—	—	(13,552)
Funded status of pension and post retirement benefits, net of \$914 taxes	—	—	1,142	1,142
Balance, December 31, 2009	\$ (14,049)	(6,877)	(2,555)	(23,481)

(25) Derivative Instruments

According to GAAP, Companies are required to recognize all derivative instruments as either assets or liabilities in the Consolidated Balance Sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of the derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Company designates the hedging instrument, based upon the exposure being hedged, as a fair value or cash flow hedge.

For derivative instruments that are designated and qualify as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings during the period of the change in fair values. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other

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comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in other income/expense in current earnings during the period of change. For derivatives that do not qualify as hedging instruments, the change in fair value is recognized in income.

The fair value of the Company's derivative instruments portfolio is as shown below:

	December 31, 2009			December 31, 2008		
	Notional	Asset	Liability	Notional	Asset	Liability
	(Dollars in thousands)			(Dollars in thousands)		
Indexed linked derivatives	\$ 283,022	8,191	6,557	278,830	8,017	6,695
Interest rate swaps	34,103	2,443	1,840	59,103	3,189	8,441
FX Derivatives	1,027,507	8,657	10,912	188,445	615	371
Commodities-Linked	61,952	2,756	2,529	108,865	1,552	1,366
	<u>\$ 1,406,584</u>	<u>22,047</u>	<u>21,838</u>	<u>635,243</u>	<u>13,373</u>	<u>16,873</u>

The Company utilizes interest rate swaps to economically hedge against interest rate risk associated with fixed rate investment securities. The net unrealized liability above is mitigated by an increase in the fair value of the underlying securities, which amounted to \$5.6 million as of December 31, 2008. The interest rate swap used as the economic hedge matured on March 1, 2009. There were no hedging relationships at December 31, 2009 and December 31, 2008 designated as either cash flow or fair value hedges.

(26) Asset Restrictions

IDB Capital Corp. is required to maintain collateral with their clearing agent. Cash collateral maintained with the clearing agent was \$162,159 and \$161,456 at December 31, 2009 and 2008, respectively. Securities owned may be pledged to the Clearing Broker on terms which permit the Clearing Broker to sell or re-pledge the securities to others subject to certain limitations. At December 31, 2009 and 2008, mortgage-backed securities with a total market value of \$3,195 and \$3,504, respectively, were pledged as collateral to the Clearing Broker.

(27) New Accounting Pronouncements

In June 2009 the FASB issued a standard related to subsequent events, which is intended to establish general standards of accounting for and disclosing of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It also requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date—that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the financial statements being presented. The Company has evaluated subsequent events through March 11, 2010.

On April 9, 2009, the FASB issued an amendment to the accounting and reporting standards regarding the recognition and disclosure of OTTI. This pronouncement provides greater clarity to investors about the credit and noncredit component of an OTTI event and is intended to communicate more effectively when an OTTI event has occurred. As a result, separate disclosures are now required related to credit related

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losses and losses related to market and other factors. Market related losses are to be recorded in other comprehensive income (OCI) if the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before a recovery occurs. Credit related losses need to be recorded in income. When adopting the new standards companies are required to record a cumulative effect adjustment to reclassify the noncredit component of previously recognized OTTI between retained earnings and OCI as of the beginning of the period of adoption. The new pronouncements are effective and should be applied prospectively for financial statements issued after June 15, 2009 with early adoption permitted. The Company adopted these pronouncements on April 1, 2009.

Also, on April 9, 2009 the FASB issued an amendment to the accounting and reporting standards regarding fair value of assets and liabilities, which provides guidelines for making fair value measurements more consistent with previously issued standards, and addresses the determination of fair values when there is no active market or where the price inputs being used represent distressed sales. Also, it reaffirms the objective of fair value measurement to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements and under current market conditions. It specifically reaffirms the need to use judgment in ascertaining if a formerly active market has become inactive and in determining fair values in such market conditions. This pronouncement is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted this pronouncement on April 1, 2009.

Another pronouncement was amended on April 9, 2009, to require publicly traded companies to disclose the fair value of financial instruments in interim financial statements, adding to the current requirement to make those disclosures in annual financial statements. Companies are not required to provide in interim periods the disclosures about the concentration of credit risk of all financial instruments that are currently required in annual financial statements. According to this guidance, companies need to disclose the method or methods and significant assumptions used to estimate the fair value of financial instruments and a discussion of changes, if any, in the method or methods and significant assumptions during the period. These pronouncements are effective for interim and annual reporting periods ending after June 15, 2009, and the Company adopted them on June 30, 2009.

On December 30, 2008, the FASB issued a pronouncement that requires employers to make additional disclosures about plan assets for defined benefit pension and other postretirement benefit plans beginning with annual periods ending after December 15, 2009. The objective of this pronouncement is to provide financial statement readers with an understanding of how investment allocation decisions are made, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair-value measurements using significant unobservable inputs on changes in plan assets for the period, and significant concentrations of risk within plan assets. The Company adopted this pronouncement as of December 31, 2009.

In March 2008, the FASB issued an amendment to the accounting and reporting standards regarding the disclosures about derivative instruments and hedging activities, which requires enhanced disclosures. This guidance is effective for interim and annual financial statements for periods beginning after November 15, 2008 with early adoption permitted. The adoption of this pronouncement was not deemed to have a material impact on the Company's financial condition or results of operations.

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In December 31, 2007, the FASB issued a new standard on accounting for noncontrolling interests in a subsidiary, which improves the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way, i.e., as equity in the consolidated financial statements. In addition, it eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring that they be treated as equity transactions. This standard is effective for fiscal years beginning after December 15, 2008 and was not deemed to have a material impact on the Company's financial condition or results of operations.

(28) Israel Discount Bank of New York Condensed Statement of Financial Condition

Set forth below are the condensed statements of financial condition of Israel Discount Bank of New York:

	December 31	
	2009	2008
	(Dollars in thousands)	
Assets:		
Cash and cash equivalents	\$ 159,761	637,084
Interest-bearing deposits with banks	685,864	386,320
Investments	4,780,576	4,081,505
Loans, net	3,490,971	3,937,440
Other assets	396,949	402,957
Total assets	\$ 9,514,121	9,445,306
Liabilities:		
Deposits	\$ 6,212,711	6,208,802
Securities sold under repurchase agreements	2,019,767	1,885,866
FHLB and other borrowed funds	266,319	523,685
Other liabilities	314,403	209,931
Total liabilities	8,813,200	8,828,284
Stockholder's equity	700,921	617,022
Total liabilities and stockholder's equity	\$ 9,514,121	9,445,306