FineMark Holdings, Inc.

2015 Annual Report

FineMark Holdings, Inc.

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Dear Shareholder

In 2015, FineMark National Bank & Trust continued to post double-digit increases in loans, deposits, assets under management and administration and net income. The bank's significant growth rates continue to be a result of maintaining our focus on delivering exceptional client service provided by individuals who truly care. While this growth has been extraordinary, the bank has managed to maintain a superior rating, strong asset quality and satisfactory capital levels.

NEW LOCATIONS

FineMark opened two additional offices in 2015. These offices are located in Bonita Springs, Florida and Scottsdale, Arizona. Both offices complement already existing locations in each of these markets.

The new Bonita Springs office is adjacent to the entrance of the Bonita Bay community. The bank occupies 2,270 square feet of space on the first floor of a 60,000 square-foot, two-story building owned by the Bonita Bay Club. We are pleased to be in the position to serve the Bonita Bay residents in their own backyard. Carrie Reynolds, who joined FineMark in 2012 at our Riverwalk office, is leading the Bonita Bay team as Managing Executive.

The new Scottsdale office is located in the DC Ranch community approximately ten miles north of the bank's existing Gainey Ranch office. The office is 3,580 square feet and opened with four associates. Michael Barnes, a highly respected banker in the area with 20 years of experience, is leading the team as Vice President and Managing Executive.

PEOPLE

To support the bank's new offices and to maintain its commitment to providing high levels of service, the bank hired 24 additional people during 2015. Among those is Harlan Parrish, a seasoned professional with more than 30 years of banking experience. Harlan joined the bank to lead the Bonita Springs and Estero locations and was also appointed to the bank's Board of Directors. Prior to joining FineMark, he spent five years as Aliant Bank's Alabama President. Before moving to Alabama, Harlan was responsible for Colonial Bank's Southwest Florida locations.

CAPITAL

During the third and fourth quarter, $45 million of capital was raised at a per share price of $18.50. The increased capital level will enable FineMark to support continued balance sheet growth, maintain appropriate regulatory capital levels, repay the Small Business Lending Fund and allow for opportunistic expansion. Out of the $45 million raised, $20 million was down-streamed to the bank, providing for a tier 1 leverage ratio of 9.08 percent at year-end 2015. Additionally, $19 million of surplus capital remains at the holding company. Management anticipates current capital levels will be sufficient to provide for the bank's future growth expectations.

GROWTH

As previously mentioned, FineMark continues to experience double-digit increases on its balance sheet and trust and asset management business. As reflected on pages 10 and 11, five-year compounded annual growth rates for total assets, loans, deposits and assets under management and administration were 26 percent, 39 percent, 27 percent, and 31 percent, respectively. Pre-tax income for 2015 totaled $9.5 million compared to $5.4 million for 2014, representing a 76 percent increase. This results in a five-year compound annual growth rate of 49 percent.

Most importantly, the bank has maintained superior asset quality while growing at a significant rate. Loan quality remains high, evidenced by net charge-offs of $236 thousand for 2015. In addition, classified loans total $5.1 million or 4.6 percent of capital and reserves. This is well below the industry average of 19.8 percent. The bank's bond portfolio has an average credit rating of AA and duration of 2.68 years. Management is ever-mindful of maintaining a high quality and short duration

Back row, standing (left to right): Jeffrey Moes, Joseph Catti, Jennifer Stevens, Robert Parimore. **Front row, seated (left to right):** Adria Starkey, Robert Arnall, Brian Eagleston.

bond portfolio. This will guard against the potential of a rising rate environment.

THE FUTURE

As we look to 2016, management will continue to focus on maintaining strong asset quality. We also expect the regulatory environment to continue to be challenging. As the bank continues to grow, increased regulations, combined with documentation and compliance requirements, will become even more demanding. As a result of reaching one billion dollars in assets during 2015, the bank will experience more stringent Federal Deposit Insurance Corporation Improvement Act (FDICIA) requirements. FineMark will be required to document, test and audit all its key controls.

Cybersecurity continues to be a priority. Management has a strong focus on preventing cyber attacks and is continually designing and implementing systems to mitigate our risk to cyber threats.

From an expansion standpoint, we made a decision to enter the Charleston, South Carolina, market in late 2015. We believe Charleston is similar to our markets in Florida and Arizona and are expecting early success.

The key to FineMark's culture has been the unwavering commitment of our colleagues to embrace and execute the company's mission to build extraordinary relationships by going above and beyond. Our associates are sincere and genuine in their caring for our clients. Thank you to our associates, board members, clients and shareholders for your continued support of FineMark National Bank & Trust. We look forward to working with each of you in 2016.

Joe

Joseph R. Catti
President & CEO
FineMark National Bank & Trust

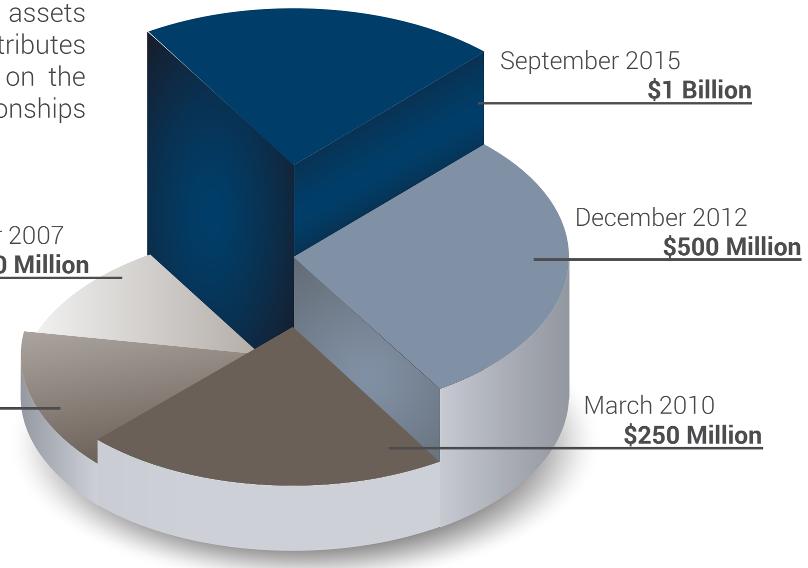
YEAR IN REVIEW

2015

FineMark Reaches $1 Billion in Assets

September 30, 2015

FineMark exceeded $1 billion dollars in total assets during the third quarter of 2015. FineMark attributes the significant growth to a steadfast focus on the bank's core principles of building deep relationships and doing what is right.



FineMark Raises $45 Million in Capital

December 16, 2015

The Board of Directors authorized the sale of up to $45 million of common stock at its June meeting and by mid-December the capital raise was completed. The stock sold for $18.50 per share. The additional capital enables FineMark to support continued balance sheet growth, maintain appropriate regulatory capital levels, repay the Small Business Lending Fund and allow for opportunistic expansion.

Associate Growth Since Inception

Number of Employees at Year-End

New Offices

DC Ranch Office
20909 N 90th Place
Scottsdale, Arizona 85255

In April of 2015, FineMark opened its tenth office in the DC Ranch community in North Scottsdale. This is FineMark's second full-service location in Arizona.

Bonita Bay Office
26800 South Tamiami Trail
Bonita Springs, Florida 34134

FineMark opened its eleventh office in June in Bonita Springs. The office is adjacent to the Bonita Bay community on the first floor of the Bonita Bay Club.

Naples Renovation

July 1, 2015

The second phase of renovations to the Naples office was finalized in July. The office totals more than 10,000 square feet of space, featuring a well-appointed lobby, several conference rooms, a community room and a commercial kitchen.

FineMark Website Redesign

October 26, 2015

In October, FineMark introduced a completely transformed website, www.finemarkbank.com. The update improves usability for clients and online visitors and features updated information on FineMark's services as well as pages dedicated to FineMark's culture and commitment to the community.

GIVING BACK

The FineMark Vision

"To make a positive impact on the individuals, families and communities we serve while being good stewards of FineMark's resources."

FineMark is dedicated to giving back and assisting organizations that work to improve the quality of life in the communities we serve. In 2015, FineMark supported 127 organizations with a focus on Affordable Housing, Arts & Culture, Education and Healthcare. Each of the bank's eleven offices gave generously through sponsorships and donations. FineMark also continued its support of the United Way with 100 percent employee participation in four local United Way capital campaigns, totaling more than $120,000.

Giving to those in need embodies FineMark's core values. In addition to financial support, our associates give their time. More than 6,000 volunteer hours were logged during 2015. FineMark associates consider it a privilege to serve.

"Much of what we do can be trained or learned over time, but we cannot train that feeling and desire to serve others. That is why we hire professionals at FINEMARK who inherently believe in doing the right thing and giving back."

Jennifer Stevens, Executive Vice President & Human Resources Director

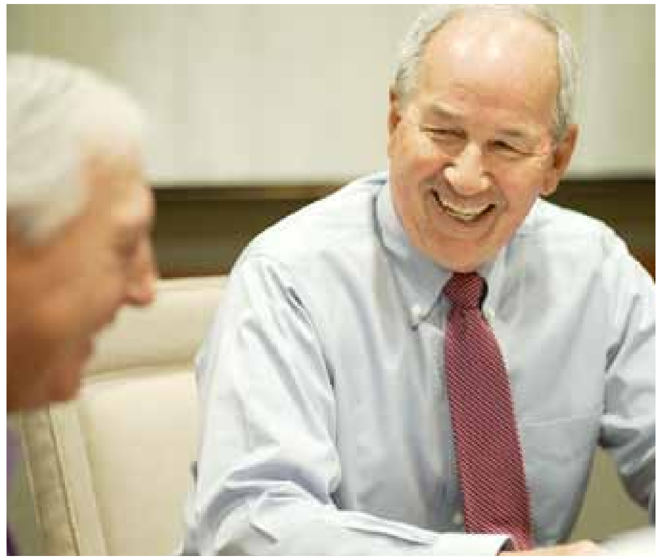
127	$122,644	6,040
Organizations Supported	Total Amount Raised for Local United Way Capital Campaigns	Associate Volunteer Hours

In November, FineMark became the Neighborhood Sponsor of the Harlem Heights Community Investment Project for Habitat for Humanity of Lee and Hendry Counties. FineMark invested $250,000 to fund the infrastructure of eleven new homes to be built in this community. A portion of the donation is funded through a state tax credit community contribution program. FineMark has donated more than $500,000 to the local Habitat affiliate, equating to nearly eleven home sponsorships since 2010.

"The team at FINEMARK is an amazing resource for Habitat for Humanity. They have supported us in a myriad of ways for many years with advice, cash flow, and this year with a very generous donation which has enabled us to build the infrastructure for 11 homes at what is now FINEMARK Village in Harlem Heights. Anytime we need help, they are there for us, and I know that they support many other non-profits as well. FINEMARK truly exemplifies the meaning of community partner!"

Kitty Green, President & CEO, Habitat for Humanity

OUR PEOPLE



"Everyone at FineMark is driven to take care of people — it is in our DNA. Our clients are like family and we do whatever it takes to exceed their expectations. We do this because it is the culture of FineMark and we care."

DAVE HIGHMARK
President & CEO, Arizona &
President, FineMark Sports Management®

"At FineMark, we best serve our clients by working as a team, enabling us to utilize each of our strengths to produce the most innovative solutions that will ultimately benefit the client."

RICHARD RILEY
Executive Vice President &
Private Wealth Advisor

"By truly getting to know our clients and building strong relationships that go beyond financial advising, we can help them whenever and wherever it is needed."

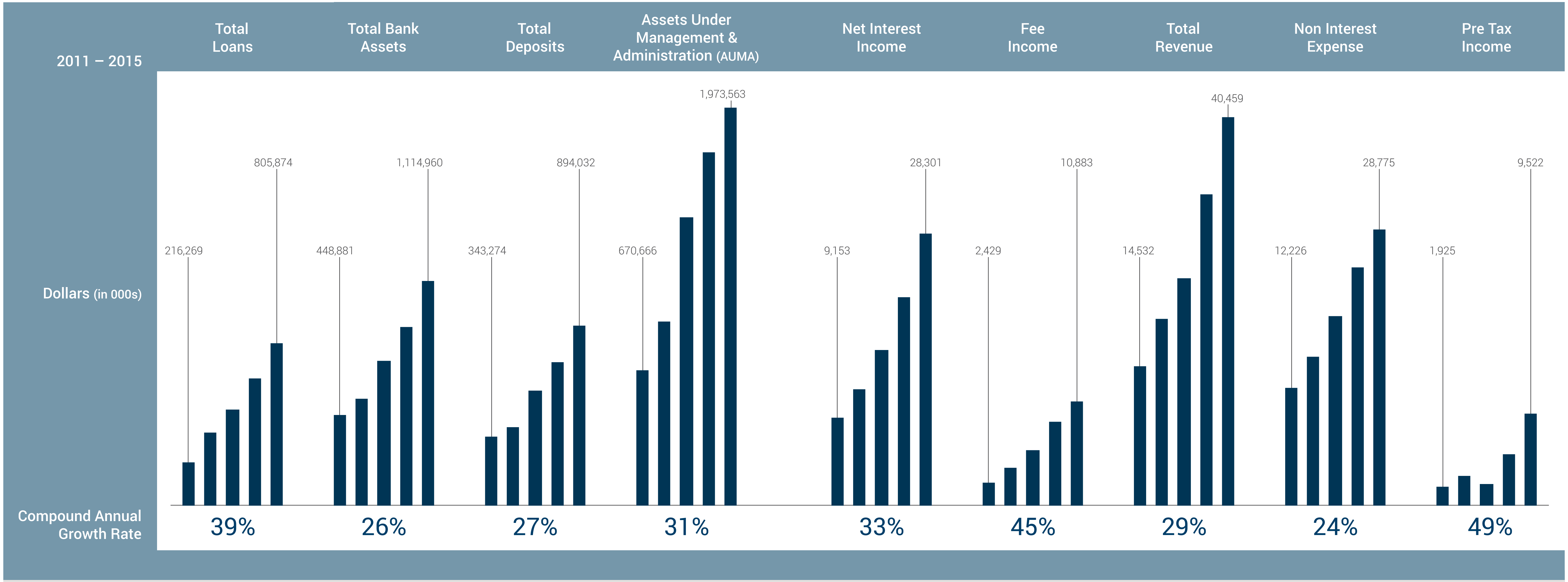
ADRIA STARKEY
Executive Vice President &
President Collier County

"FineMark is founded on the principle of doing what is right. Whether it is for a client or the community, we are committed to making a positive impact."

TIFFANY WILLIAMS
Vice President, Banking

ANNUAL GROWTH

Financial Highlights



$ in 000s	as of December 31, 2011	2012	2013	2014	2015
Total Loans	$ 216,269	$ 364,202	$ 474,938	$ 631,957	$ 805,874
Total Bank Assets	$ 448,881	$ 527,868	$ 720,425	$ 888,325	$ 1,114,960
Total Deposits	$ 343,274	$ 390,419	$ 567,181	$ 708,851	$ 894,032
AUMA	$ 670,666	$ 910,099	$ 1,427,933	$ 1,750,152	$ 1,973,563
Banking Offices	6	8	8	8	11

$ in 000s	as of December 31, 2011	2012	2013	2014	2015
Net Interest Income	$ 9,153	$ 12,079	$ 16,188	$ 21,665	$ 28,301
Fee Income	$ 2,429	$ 3,898	$ 5,754	$ 8,750	$ 10,883
Total Revenue	$ 14,532	$ 19,406	$ 23,675	$ 32,474	$ 40,459
Non Interest Expense	$ 12,226	$ 15,498	$ 19,770	$ 24,875	$ 28,775
Pre Tax Income	$ 1,925	$ 3,129	$ 2,271	$ 5,407	$ 9,522

GOING ABOVE AND BEYOND

Client Testimonials

Bronson Arroyo
Professional Baseball Player

I trust FineMark *with all my needs.*

"I am so happy to have met Dave from FineMark Sports Management® early in my professional career, before any large contracts were signed. He always does what is absolutely best for me. The team at FineMark is available 24/7 for all of my needs, financial and beyond. I trust them completely."

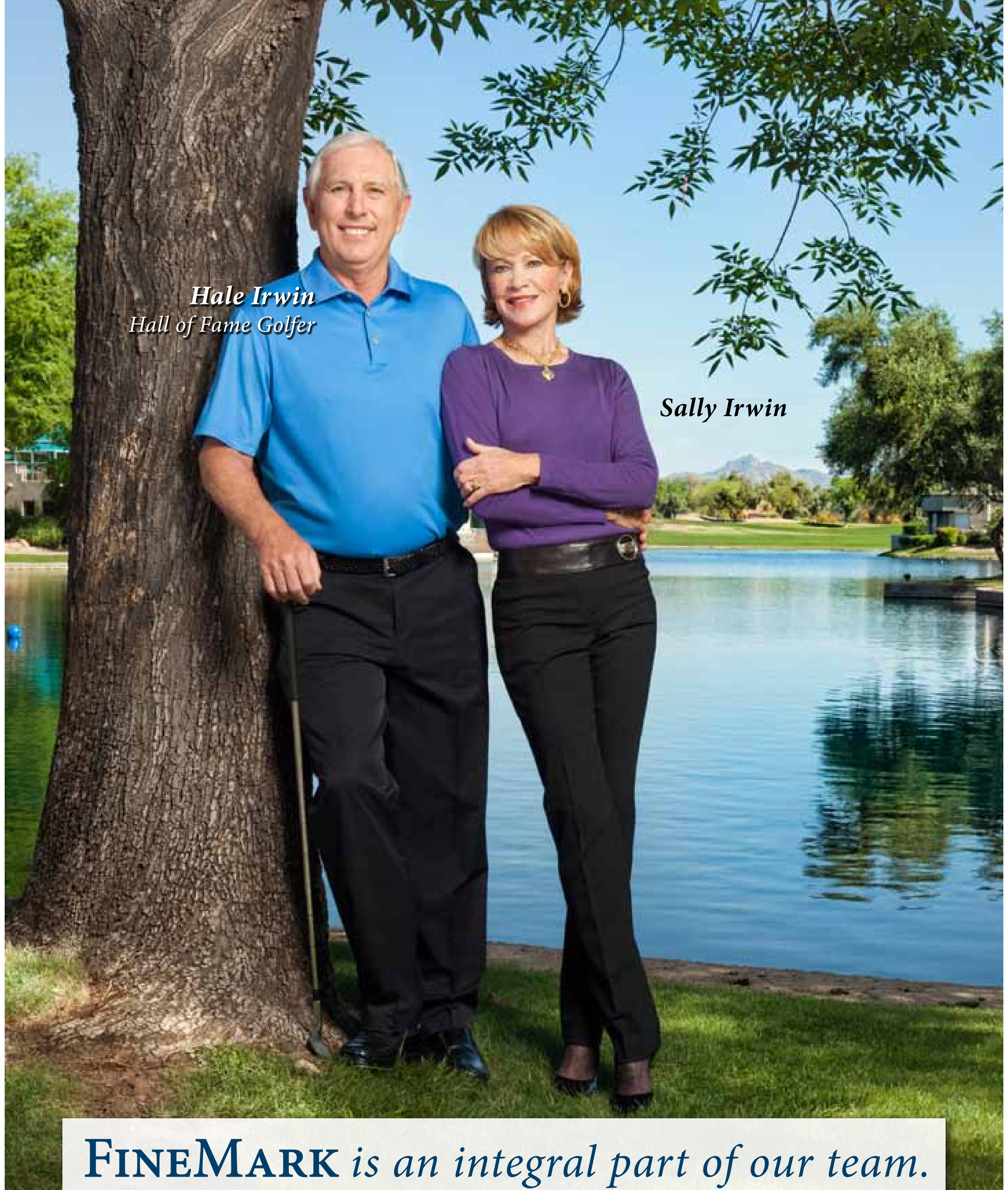
– Bronson Arroyo

Rick Ausick
President of Famous Footwear

FineMark *takes a comprehensive approach.*

"I've worked with other advisors in the past and no one is more thorough than FineMark. They really took the time to understand my needs."

– Rick Ausick



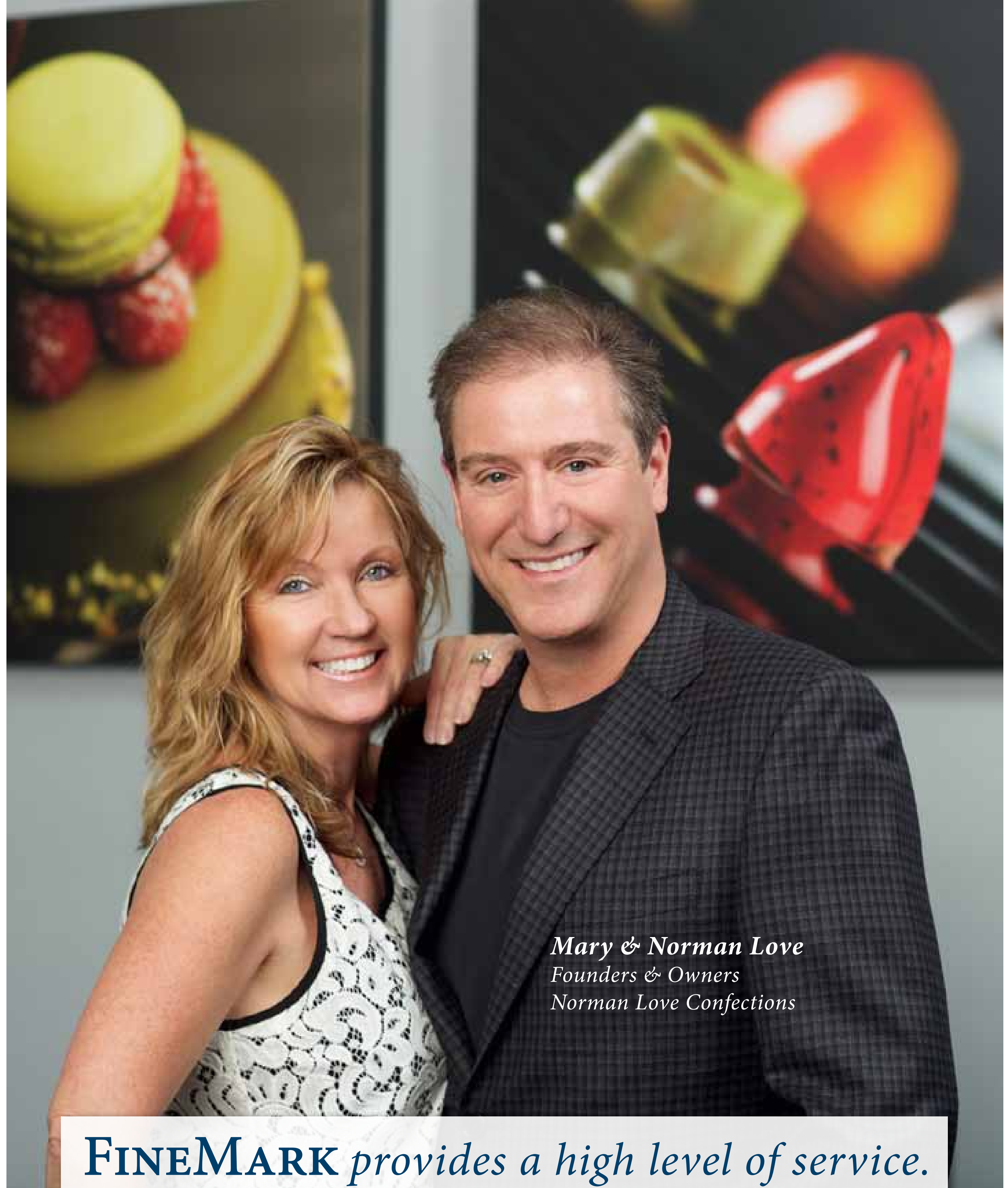
Hale Irwin
Hall of Fame Golfer

Sally Irwin

FINEMARK is an integral part of our team.

"Sally and I have had the good fortune to associate ourselves with a great team of trusted advisors over the years. FINEMARK is an integral part of that team. We are not just clients, we are also shareholders and feel very much part of the FINEMARK family."

– Sally and Hale Irwin

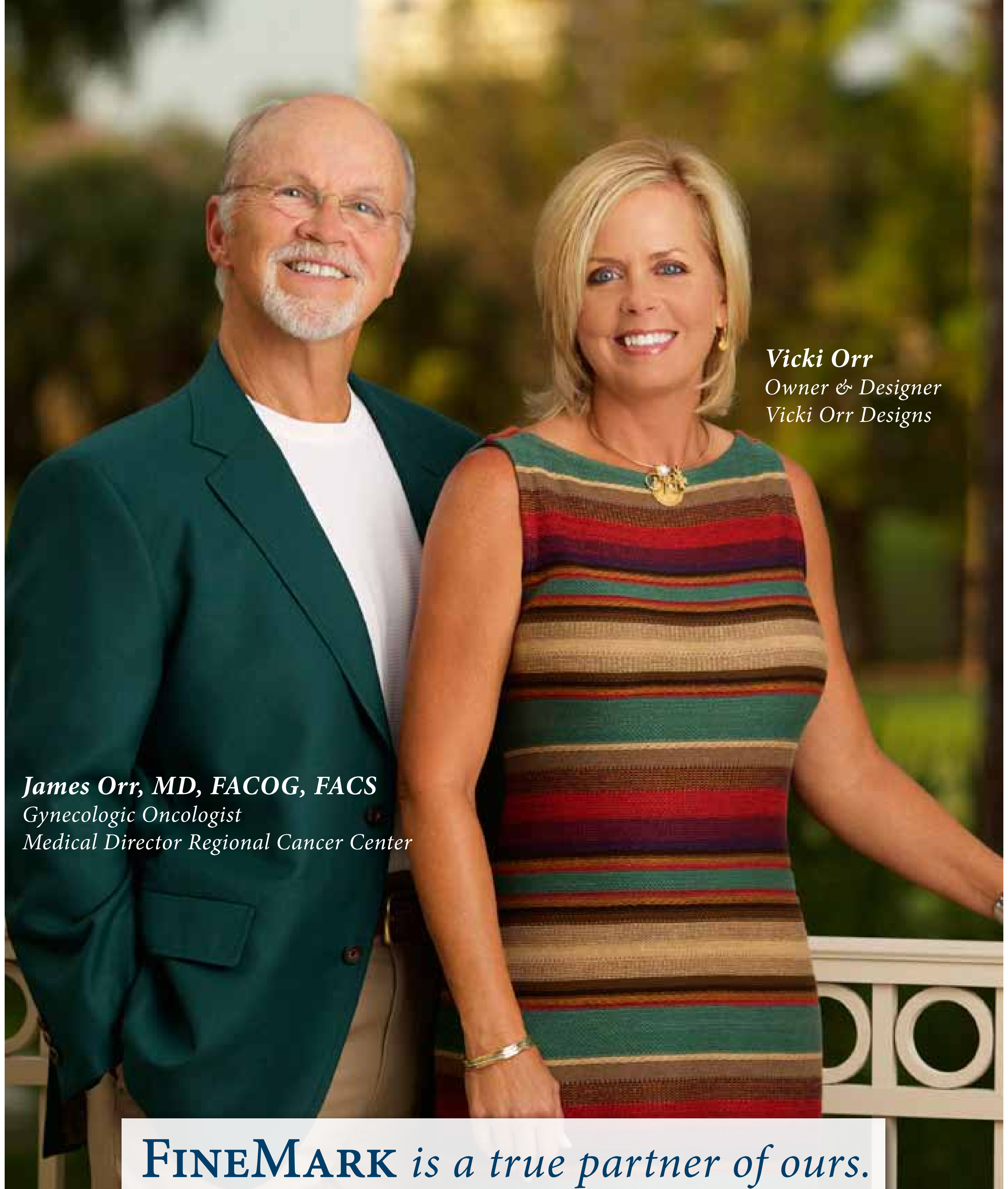


Mary & Norman Love
Founders & Owners
Norman Love Confections

FINEMARK provides a high level of service.

"At Norman Love Confections, we understand the true value of service and desire to provide the highest level of quality to our customers. These values have helped mold our brand. When we first met Joe Catti, it was evident FINEMARK understood and clearly defined banking at another level. FINEMARK has strong core values and a commitment to providing the finest service to all of its clients. We feel fortunate to have FINEMARK in our lives."

– Mary and Norman Love



James Orr, MD, FACOG, FACS
Gynecologic Oncologist
Medical Director Regional Cancer Center

Vicki Orr
Owner & Designer
Vicki Orr Designs

FINEMARK *is a true partner of ours.*

"Integrity and exceptional judgement are essential to our businesses. The people at FINEMARK possess the same qualities. They are also friendly and enthusiastic and are proactive in anticipating our needs. Since its inception, FINEMARK has been a true partner of ours."

– Vicki and Jimmy Orr

Lyle Sendlein

Anna Nordqvist

Bronson Arroyo

Tina Charles

FINEMARK *clients are the best in their sport.*

FINEMARK Sports Management® welcomed 20 new clients in 2015, bringing the total number of client athletes and sports executives to 120. Five golfers won six PGA and LPGA tournaments. Three baseball players were Gold Glove Winners, another won the World Series and a football player won the Super Bowl. FINEMARK is honored to partner with so many athletes who are champions in their sport.

GOLF
70 PGA Wins
55 LPGA Wins
45 Champions Tour Wins
24 Other Tour Wins
17 Solheim Cup Appearances
16 Major Championships
7 Presidents Cup Participants
3 Ryder Cup Participants
2 Hall of Famers

BASEBALL
12 All-Stars
10 World Series Championships
2 Hall of Famers
2 Gold Glove Winners
2 League MVPs
1 Cy Young Winner

OTHER SPORTS
7 All-Stars
6 NCAA Championships
4 WNBA Championships
3 Olympic Gold Medals
1 Super Bowl Champion
1 League MVP
1 Hall of Famer

FINEMARK Sports MANAGEMENT®

Board of Directors

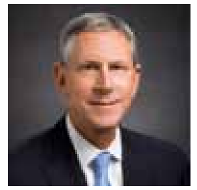
FineMark National Bank & Trust

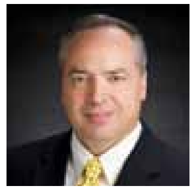

Robert M. Arnall*
Executive Vice President
Senior Lending Officer


Aurelia J. Bell
Arrowhead Partners, Inc.


Michael J. Carron, M.D.
Radiology Regional Center


Thomas D. Case II
Case Pearlman
Corporate Benefits

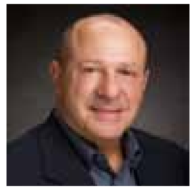

Joseph R. Catti*
President
Chief Executive Officer

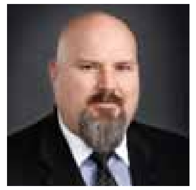

Brian J. Eagleston*
Executive Vice President
Chief Financial Officer

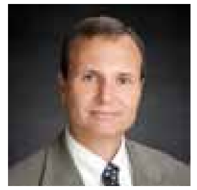

David A. Highmark*
President, Arizona
Operations & FineMark
Sports Management

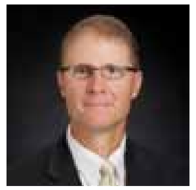

William N. Horowitz
Cummings & Lockwood, LLC

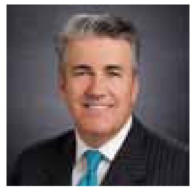

David H. Lucas†
The Bonita Bay Group

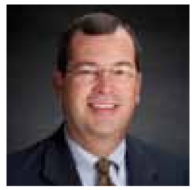

Vito Manone‡
Manone Investments, Inc.


Jason Manwell*
Vice President
Information Technology


Jeffrey B. Moes*
Executive Vice President
Chief Fiduciary Officer


Robert A. Parimore*
Executive Vice President
Chief Risk & Compliance
Officer

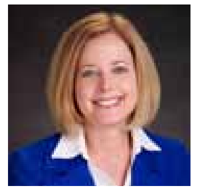

Harlan C. Parrish*
Executive Vice President
Bonita Springs President


Gerald M. Roberts*
Executive Vice President
Private Wealth Advisor

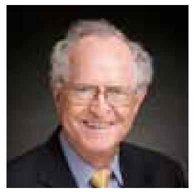

David H. Scaff*
Senior Vice President
President, Palm Beach


Malinda L. Schneider*
Senior Vice President
Loan Administration
Manager

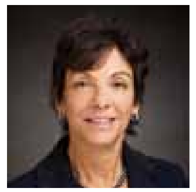

Adria D. Starkey*
Executive Vice President
President, Collier County


Jennifer L. Stevens*
Executive Vice President
Human Resources Director

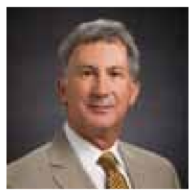
FineMark Holdings, Inc.


Richard E. Beightol
RJB Investment, Inc.
Retired Life Ins. Executive


Edward G. Beimfohr
Windels Marx Lane &
Mittendorf, LLP


Aurelia J. Bell
Arrowhead Partners, Inc.


John F. Blais, Jr.‡
BlaisCo.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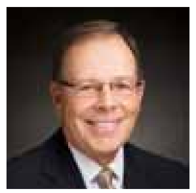
Radiology Regional Center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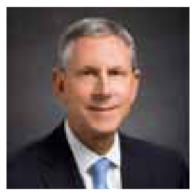
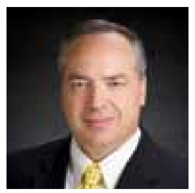
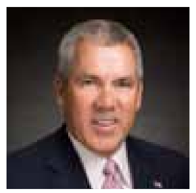
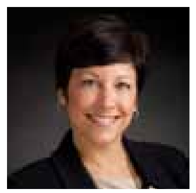
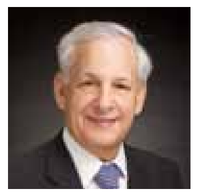
Case Pearlman
Corporate Benefits


Joseph R. Catti*
President
Chief Executive Officer

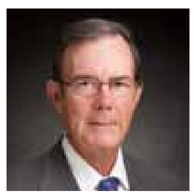

Brian J. Eagleston*
Executive Vice President
Chief Financial Officer

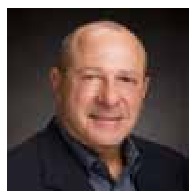

Scott A. Edmonds
Bellfield Investment Partners


Tracey U. Galloway
Community Cooperative
Ministries, Inc.

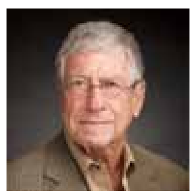

William N. Horowitz
Cummings & Lockwood, LLC

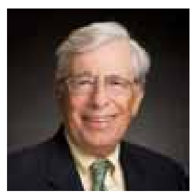

Clive Lubner
Clive Daniel Home

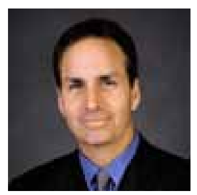

David H. Lucas†
The Bonita Bay Group


Vito Manone
Manone Investments, Inc.


Alan D. Reynolds
Stantec


Lee J. Seidler
Bear, Stearns & Co. (Ret.)
Chairman, Tisch MS
Research Ctr. of New York


William H. Turner
Retired Vice Chairman
Chase Bank


Martin M. Wasmer
Wasmer, Schroeder &
Company

*Bank Employee †Chairman of the Board ‡Vice Chairman of the Board

FineMark Holdings, Inc.

Audited Consolidated Financial Statements

December 31, 2015 and 2014 and the Years then Ended
(Together with Independent Auditor's Report)

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FINEMARK HOLDINGS, INC.

2015 Financial Statements
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HACKER, JOHNSON & SMITH PA

Fort Lauderdale
Orlando
Tampa

Certified Public Accountants

Independent Auditors' Report

The Board of Directors and Stockholders
FineMark Holdings, Inc.
Fort Myers, Florida:

We have audited the accompanying consolidated financial statements of FineMark Holdings, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of earnings, comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Tampa, Florida
February 16, 2016

500 North Westshore Boulevard, Post Office Box 20368, Tampa, Florida 33622-0368, (813) 286-2424
A Registered Public Accounting Firm

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Balance Sheets

($ in thousands, except per share amounts)

	At December 31, 2015	2014
Assets		
Cash and due from banks	$ 11,888	18,980
Securities available for sale	252,090	203,092
Time deposits	1,345	1,245
Loans, net of allowance for loan losses of $8,848 in 2015 and $6,922 in 2014	797,534	625,519
Federal Home Loan Bank stock	4,533	4,868
Federal Reserve Bank stock	2,063	1,831
Premises and equipment, net	12,811	11,747
Accrued interest receivable	3,119	2,440
Deferred tax asset	2,729	1,951
Bank-owned life insurance	22,796	14,377
Other assets	4,052	2,275
Total assets	$ 1,114,960	888,325
Liabilities and Shareholders' Equity		
Liabilities:		
Noninterest-bearing demand deposits	128,286	98,978
Savings, NOW and money-market deposits	609,739	449,103
Time deposits	156,007	160,770
Total deposits	894,032	708,851
Official checks	3,870	2,999
Other borrowings	3,632	3,414
Federal Home Loan Bank advances	87,156	93,677
Other liabilities	4,665	3,595
Total liabilities	993,355	812,536
Commitments (Notes 4 and 10)		
Shareholders' equity:		
Preferred stock, 9,994,335 shares authorized,$.01 par value, none issued or outstanding	-	-
Preferred stock, Series A, $.01 par value; $1,000 liquidation preference; 5,665 shares authorized, issued and outstanding in 2014	-	5,665
Common stock, $.01 par value; 50,000,000 shares authorized, 8,239,811 and 5,743,078 shares issued and outstanding in 2015 and 2014	82	58
Additional paid-in capital	112,205	66,424
Retained earnings	9,965	3,882
Accumulated other comprehensive loss	(647)	(240)
Total shareholders' equity	121,605	75,789
Total liabilities and shareholders' equity	$ 1,114,960	888,325

See Accompanying Notes to Consolidated Financial Statements

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Earnings

(in thousands)

	Year Ended December 31, 2015	2014
Interest income:		
Loans	$ 27,306	21,195
Securities	5,551	4,501
Other	72	51
Total interest income	32,929	25,747
Interest expense:		
Deposits	2,671	2,213
Borrowings	1,957	1,869
Total interest expense	4,628	4,082
Net interest income	28,301	21,665
Provision for loan losses	2,162	2,192
Net interest income after provision for loan losses	26,139	19,473
Noninterest income:		
Trust fees	10,883	8,750
Income from bank-owned life insurance	419	410
Gain on sale of securities available for sale	220	566
Gain on extinguishment of debt	80	609
Other fees and service charges	556	474
Total noninterest income	12,158	10,809
Noninterest expenses:		
Salaries and employee benefits	17,470	14,818
Occupancy and equipment	3,314	3,084
Data processing	1,661	1,245
Telecommunications	398	345
Legal fees	148	135
Accounting and professional Fees	705	703
Marketing	1,227	1,421
Office supplies	531	381
FDIC assessment	546	471
Outside services	589	476
Other	2,186	1,796
Total noninterest expense	28,775	24,875
Earnings before income taxes	9,522	5,407
Income taxes	3,385	1,826
Net earnings	6,137	3,581
Preferred stock dividends	54	57
Earnings available to common shareholders	$ 6,083	3,524
Basic earnings per share	$ 1.04	0.63
Diluted earnings per share	$ 1.00	0.62

See Accompanying Notes to Consolidated Financial Statements

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income
(in thousands)

	Year Ended December 31, 2015	2014
Net Earnings	$ 6,137	3,581
Other comprehensive (loss) income:		
Unrealized holding (loss) gain on available for sale securities	(431)	1,801
Reclassification adjustment for gains realized in earnings	(220)	(566)
Net change in unrealized loss	(651)	1,235
Income tax effect	244	(463)
Total other comprehensive (loss) income	(407)	772
Comprehensive income	$ 5,730	4,353

See Accompanying Notes to Consolidated Financial Statements

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Shareholders' Equity

For the Years Ended December 31, 2015 and December 2014
($ In thousands)

	Preferred Stock		Common Stock		Additional	Retained	Accumulated Other Compre-hensive	Total Shareholders'
	Shares	Amount	Shares	Amount	Paid-In Capital	Earnings	Loss	Equity
Balance at December 31, 2013	5,665	$ 5,665	5,300,871	$ 53	60,101	358	(1,012)	65,165
Stock-based compensation	-	-	-	-	209	-	-	209
Net earnings	-	-	-	-	-	3,581	-	3,581
Change in unrealized loss on securities available for sale, net of tax	-	-	-	-	-	-	772	772
Dividends declared	-	-	-	-	-	(57)	-	(57)
Proceeds from exercise of stock options	-	-	174,950	2	1,763	-	-	1,765
Tax benefit from stock options exercised	-	-	-	-	52	-	-	52
Repurchase of common stock	-	-	(11,615)	-	(151)	-	-	(151)
Proceeds from issuance of common stock	-	-	278,872	3	4,450	-	-	4,453
Balance at December 31, 2014	5,665	5,665	5,743,078	58	66,424	3,882	(240)	75,789
Stock-based compensation	-	-	-	-	258	-	-	258
Net earnings	-	-	-	-	-	6,137	-	6,137
Change in unrealized loss on securities available for sale, net of tax	-	-	-	-	-	-	(407)	(407)
Repurchase of preferred stock	(5,665)	(5,665)	-	-	-	-	-	(5,665)
Dividends declared	-	-	-	-	-	(54)	-	(54)
Proceeds from exercise of stock options	-	-	35,750	-	362	-	-	362
Tax benefit from stock options exercised	-	-	-	-	27	-	-	27
Proceeds from issuance of common stock, net of offering costs of 337	-	-	2,460,983	24	45,134	-	-	45,158
Balance at December 31, 2015	-	$ -	8,239,811	$ 82	112,205	9,965	(647)	121,605

See Accompanying Notes to Consolidated Financial Statements.

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31, 2015	Year Ended December 31, 2014
Cash flows from operating activities:		
Net earnings	$ 6,137	3,581
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,236	1,290
Provision for loan losses	2,162	2,192
Amortization of deferred loan fees and costs	195	237
Amortization of premiums and discounts on securities	3,573	2,857
Gain on sale of securities available for sale	(220)	(566)
Increase in accrued interest receivable	(679)	(479)
Increase in other assets	(1,777)	(333)
Deferred income taxes	(534)	(273)
Income from bank-owned life insurance	(419)	(410)
Increase in other liabilities	1,084	2,132
Increase in official checks	871	904
Stock-based compensation	258	209
Loans held-for-sale:		
Loan originations	(1,379)	(1,019)
Proceeds from loan sales	1,393	1,030
Gain on sale of loans held-for-sale	(14)	(11)
Net cash provided by operating activities	11,887	11,341
Cash flows from investing activities:		
Purchase of Time deposit	(100)	-
Net increase in loans	(174,372)	(157,806)
Purchase of premises and equipment, net	(2,300)	(1,266)
Securities available for sale:		
Purchases	(230,457)	(142,538)
Proceeds from sales	14,287	29,462
Proceeds from maturities and calls	45,888	24,441
Proceeds from principal repayments	117,280	64,293
Purchase of bank owned life insurance	(8,000)	(5,000)
Redemption (purchase) of Federal Home Loan Bank stock	335	(603)
Purchase of Federal Reserve Bank stock	(232)	(206)
Net cash used in investing activities	(237,671)	(189,223)
Cash flows from financing activities:		
Net increase in deposits	185,181	141,670
Net increase (decrease) in other borrowings	218	(616)
Net (repayment) proceeds from Federal Home Loan Bank advances	(6,521)	13,172
Proceeds from sale of common stock, net	45,158	4,453
Repurchase of preferred stock	(5,665)	-
Repurchase of common stock	-	(151)
Proceeds from exercise of stock options	362	1,765
Tax benefit from stock options exercised	27	52
Preferred stock dividends paid	(68)	(43)
Net cash provided by financing activities	218,692	160,302
Net decrease in cash and due from banks	(7,092)	(17,580)
Cash and due from banks at beginning of year	18,980	36,560
Cash and due from banks at end of year	$ 11,888	18,980

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows, Continued
(In thousands)

	Year Ended December 31, 2015	Year Ended December 31, 2014
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 4,615	4,047
Income taxes	$ 3,668	1,468
Noncash transactions:		
Accumulated other comprehensive loss, net change in unrealized loss on securities available for sale, net of tax	$ (407)	772
Dividends payable	$ -	14

See Accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

At December 31, 2015 and 2014 and for the Years then Ended

(1) Summary of Significant Accounting Policies

Organization. FineMark Holdings, Inc. (the "Holding Company") was incorporated on May 31, 2006 and owns 100% of the outstanding common stock of FineMark National Bank & Trust (the "Bank") (collectively, the "Company"). The Holding Company's primary activity is the operation of the Bank. The Bank is a nationally-chartered commercial bank and trust company. The Bank offers a variety of banking and financial services to individual and corporate clients through its eleven banking offices located in Lee, Collier and Palm Beach County, Florida, and Maricopa County, Arizona. The deposit accounts of the Bank are insured up to the applicable limits by the Federal Deposit Insurance Corporation "FDIC." The Bank also has a trust department which offers investment management, trust administration, estate planning and financial planning services. The assets under advice by the trust department, as well as the obligations associated with those assets, are not included as part of the consolidated financial statements of the Company.

Management has evaluated all significant events occurring subsequent to the consolidated balance sheet date through February 16, 2016, which is the date the consolidated financial statements were available to be issued, determining no events require additional disclosure in the consolidated financial statements.

Basis of Presentation. The accompanying consolidated financial statements include the accounts of the Holding Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation. The accounting and reporting practices of the Company conform to accounting principles generally accepted in the United States of America ("GAAP") and to general practices within the banking industry. The following summarizes the more significant of these policies and practices.

Use of Estimates. In preparing consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of the deferred tax asset.

Cash. The Bank is required by law or regulation to maintain cash reserves with the Federal Reserve Bank, in accounts with other banks or cash in the vault. The required reserve is predominately based upon the level of demand deposit accounts average balances. At December 31, 2015 and 2014, the Bank's required reserve balance was $0 and $2,080,000 respectively.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Securities. Securities may be classified as either trading, held-to-maturity or available-for-sale. Trading securities are held principally for resale and recorded at fair value. Unrealized gains and losses on trading securities are included immediately in earnings. Held-to-maturity securities are those which the Company has the positive intent and ability to hold to maturity and are reported at amortized cost. Available-for-sale securities consist of securities not classified as trading securities nor as held-to-maturity securities. Unrealized holding gains and losses on available-for-sale securities, net of tax are excluded from earnings and reported in accumulated other comprehensive loss. Gains and losses on the sale of available-for-sale securities are recorded on the trade date and are determined using the specific-identification method. Premiums and discounts on securities are recognized in interest income using the interest method over the period to maturity.

Loans Held-for-Sale. Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to earnings. As of December 31, 2015 and 2014, the Bank had no loans held-for-sale.

Loans. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs.

Commitment and loan origination fees are deferred and certain direct origination costs are capitalized. Both are recognized as an adjustment of the yield of the related loan.

The accrual of interest for all portfolio classes is discontinued at the time the loan is ninety days delinquent unless the loan is well collateralized and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Past due status is based on contractual terms of the loans. All interest accrued but not collected for loans placed on nonaccrual or charged-off is reversed against interest income. The interest on loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Allowance for Loan Losses. The allowance for loan losses represents the amount which, in management's judgment, will be adequate to absorb loan losses inherent in the loan portfolio as of the consolidated balance sheet date. The adequacy of the allowance is determined by management's evaluation of the loan portfolio on a regular basis based on such factors as the differing economic risks associated with each loan category, the current financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. This evaluation requires estimates that are susceptible to significant revision as more information becomes available. Subsequent recoveries, if any are credited to the allowance. There were no changes in the Company's accounting policies or methodology during the years ended December 31, 2015 or 2014.

The allowance consists of specific and general components. The specific component affects the gross value of the reserve for loans that are considered impaired. For such loans, an allowance is established when the discounted cash flows or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers all other loans and is based on historical loss experience adjusted for qualitative factors.

The historical loss component of the allowance is determined by the Company's recognized losses by portfolio segment over the preceding four years. This is supplemented by the risks for each portfolio segment. Risk factors impacting loans in each of the portfolio segments include any deterioration of property values, reduced consumer and business spending as a result of unemployment and reduced credit availability and lack of confidence in the economy. The loss experience is adjusted for the following qualitative factors, changes in: lending policies and procedures, regional and local economic and business conditions, the nature and volume of the loan portfolio, experience level of lending management and staff, volume and severity of past due loans, the quality of loan review, the value of underlying collateral, as well as the existence of credit concentrations and changes in levels of concentration, the effect of external factors such as competition and legal and regulatory requirements, economic conditions and other trends or uncertainties that could affect management's estimate of probable losses.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Allowance for Loan Losses, continued. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Premises and Equipment. Land is stated at cost. Building, leasehold improvements, furniture and fixtures, equipment, data processing equipment, and software are stated at cost less accumulated depreciation and amortization. Interest costs are capitalized in connection with the construction of new banking offices. Depreciation and amortization expense is computed using the straight-line method over the estimated useful life of each type of asset or lease term, if shorter.

Comprehensive Income. Accounting principles generally require that recognized revenue, expenses, gains and losses be included in earnings. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheet. Such items, along with net earnings, are components of comprehensive income.

Transfer of Financial Assets. Transfers of financial assets or a participating interest in an entire financial asset are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. A participating interest is a portion of an entire financial asset that (1) conveys proportionate ownership rights with equal priority to each participating interest holder (2) involves no recourse (other than standard representations and warranties) to, or subordination by, any participating interest holder, and (3) does not entitle any participating interest holder to receive cash before any other participating interest holder.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Income Taxes. There are two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods.

Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company follows accounting guidance relating to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. As of December 31, 2015, management is not aware of any uncertain tax positions that would have a material effect on the Company's consolidated financial statements.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Holding Company and the Bank file consolidated income tax returns. Income taxes are allocated proportionately to the Holding Company and the Bank as though separate income tax returns were filed.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Fair Value Measurements. GAAP defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable. Valuations may be obtained from, or corroborated by, third-party pricing services.

Level 3: Unobservable inputs to measure fair value of assets and liabilities for which there is little, if any market activity at the measurement date, using reasonable inputs and assumptions based upon the best information at the time, to the extent that inputs are available without undue cost and effort.

The following describes valuation methodologies used for assets measured at fair value:

Securities Available for Sale. 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 bonds, certain mortgage products and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include certain collateralized mortgage and debt obligations and certain high-yield debt 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. Securities classified within Level 3 include certain residual interests in securitizations and other less liquid securities.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Fair Value Measurements, continued.

Impaired Loans. Estimates of fair value are determined based on a variety of information, including the use of available appraisals, estimates of market value by licensed appraisers or local real estate brokers and the knowledge and experience of the Company's management related to values of properties in the Company's market areas. Management takes into consideration the type, location and occupancy of the property as well as current economic conditions in the area the property is located in assessing estimates of fair value. Accordingly, fair value estimates for impaired loans are classified as Level 3.

Off-Balance Sheet Instruments. In the ordinary course of business the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit, unused lines of credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded.

Fair Value of Financial Instruments. The following methods and assumptions were used by the Company in estimating fair values of financial instruments:

Cash and Due from Banks. The carrying amount of cash and due from banks represents fair value.

Time Deposits. The carrying amount of time deposits approximates their fair values.

Securities Available for Sale. Fair values for securities are based on the framework for measuring fair value.

Loans. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for fixed-rate mortgage (e.g. one-to- four family residential), commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Federal Home Loan Bank Stock and Federal Reserve Bank Stock. The stock is not publicly traded and the estimated fair value is based on its redemption value.

Accrued Interest Receivable. The carrying amount of accrued interest receivable approximates fair value.

Deposit Liabilities. The fair values disclosed for demand, NOW, money-market and savings deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregated expected monthly maturities of time deposits.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Fair Value of Financial Instruments, continued.

Federal Home Loan Bank Advances. Fair values for Federal Home Loan Bank advances are estimated using discounted cash flow analysis based on current borrowing rates of the Federal Home Loan Bank.

Other Borrowings. The carrying amount of other borrowings approximates fair value.

Off-Balance-Sheet Instruments. Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. Fees received are taken into income over the life of the commitment.

Trust Fee Income. For trustee, custodian, investment manager and related activities, the Company charges fees for the various services it renders in these capacities. These fees are recognized as income over the period the services are provided.

Marketing. The Company expenses all marketing as incurred.

Stock-Based Compensation. The Company expenses the fair value of any stock-based compensation. The Company recognizes stock-based compensation in salaries and employee benefits for officers and employees and in other expense for directors in the consolidated statements of earnings. The expense is recognized over the vesting period.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Earnings Per Share. Earnings per share ("EPS") has been computed on the basis of the weighted-average number of shares of common stock outstanding. In 2015 and 2014, outstanding stock options and restricted stock are considered dilutive securities for purposes of calculating diluted EPS which was computed using the treasury stock method (dollars in thousands, except per share amounts):

	2015			2014		
	Earnings	Weighted-Average Shares	Per Share Amount	Earnings	Weighted-Average Shares	Per Share Amount
Year Ended December 31:						
Basic EPS:						
Net earnings available to common shareholders	$6,083	5,864,537	$1.04	$3,524	5,563,307	$0.63
Effect of dilutive securities- Incremental shares from restricted stock and assumed conversion of options		217,326			159,050	
Diluted EPS:						
Net earnings available to common shareholders	$6,083	6,081,863	$1.00	$3,524	5,722,357	$0.62

Recent Pronouncements. In January 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,* which is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The ASU requires equity investments to be measured at fair value with changes in fair values recognized in net earnings, simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment and eliminates the requirement to disclose fair values, the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost. The ASU also clarifies that the Company should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale debt securities in combination with the Company's other deferred tax assets. These amendments are effective for the Company beginning January 1, 2018. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

Reclassification. Certain amounts in the 2014 consolidated financial statements have been reclassified to conform to the 2015 financial statement presentation.

(continued)

(2) Securities

The carrying amount of securities available-for-sale and their fair values are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2015:				
U.S. Government agency securities	$ 19,022	-	(172)	18,850
Corporate securities	15,215	7	(183)	15,039
Mortgage-backed securities	40,738	8	(600)	40,146
Commercial mortgage-backed securities	103,300	36	(394)	102,942
Collateralized mortgage obligations	15,704	3	(238)	15,469
Municipal securities	39,486	532	(21)	39,997
Taxable municipal securities	19,659	28	(40)	19,647
Total	$ 253,124	614	(1,648)	252,090
At December 31, 2014:				
U.S. Government agency securities	8,497	2	(46)	8,453
Corporate securities	10,935	15	(31)	10,919
Mortgage-backed securities	49,439	57	(503)	48,993
Commercial mortgage-backed securities	86,866	257	(281)	86,842
Collateralized mortgage obligations	7,430	8	(85)	7,353
Municipal securities	22,045	197	(9)	22,233
Taxable municipal securities	18,263	69	(33)	18,299
Total	$ 203,475	605	(988)	203,092

(continued)

(2) Securities, Continued

Available-for-sale securities measured at fair value on a recurring basis are summarized below (in thousands):

		Fair Value Measurements Using		
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2015:				
U.S. Government agency securities	$ 18,850	-	18,850	-
Corporate securities	15,039	-	15,039	-
Mortgage-backed securities	40,146	-	40,146	-
Commercial mortgage-backed securities	102,942	-	102,942	-
Collateralized mortgage obligations	15,469	-	15,469	-
Municipal securities	39,997	-	39,997	-
Taxable municipal securities	19,647	-	19,647	-
Total	$ 252,090	-	252,090	-
December 31, 2014:				
U.S. Government agency securities	8,453	-	8,453	-
Corporate securities	10,919	-	10,919	-
Mortgage-backed securities	48,993	-	48,993	-
Commercial mortgage-backed securities	86,842	-	86,842	-
Collateralized mortgage obligations	7,353	-	7,353	-
Municipal securities	22,233	-	22,233	-
Taxable municipal securities	18,299	-	18,299	-
Total	$ 203,092	-	203,092	-

During the years ended December 31, 2015 and 2014, no securities were transferred in or out of Level 1, Level 2 or Level 3.

(continued)

(2) Securities, Continued

The scheduled maturities of securities available-for-sale at December 31, 2015 are as follows (in thousands):

	Amortized Cost	Fair Value
Due in less than one year	$ 6,913	6,925
Due from one to five years	43,901	43,656
Due from five to ten years	50,008	50,118
Due in over ten years	8,264	8,303
Commercial mortgage-backed securities	103,300	102,942
Mortgage-backed securities	40,738	40,146
Total	$ 253,124	252,090

The following summarized sales of securities available for sale (in thousands):

	Year Ended December 31, 2015	2014
Proceeds from sales of securities	$ 14,287	29,462
Gross gains from sale of securities	$ 220	566

(continued)

(2) Securities, Continued

Securities available-for-sale with gross unrealized losses, aggregated by length of time that individual securities have been in a continuous loss position, is as follows (in thousands):

	Less Than Twelve Months		More Than Twelve Months	
December 31, 2015:	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Government agency securities	$ 159	16,863	13	1,987
Corporate securities	183	13,551	-	-
Mortgage-backed securities	192	21,309	408	16,217
Commercial mortgage-backed securities	384	85,578	10	3,719
Collateralized mortgage obligations	178	11,229	60	3,911
Municipal securities	60	15,225	1	651
Total	$ 1,156	163,755	492	26,485
December 31, 2014:				
U.S. Government agency securities	1	1,500	45	4,454
Corporate securities	31	7,099	-	-
Mortgage-backed securities	44	12,713	459	26,986
Commercial mortgage-backed securities	279	43,098	2	480
Collateralized mortgage obligations	2	2,412	83	4,354
Municipal securities	38	10,597	4	354
Total	$ 395	77,419	593	36,628

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

(continued)

(2) Securities, Continued

At December 31, 2015, the unrealized loss of $1,648,000 on one hundred twenty two investment securities available for sale were caused by market conditions. It is expected that the securities would not be settled at a price less than the par value of the investments. Because the decline in fair value is attributable to changes in market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than- temporarily impaired.

At December 31, 2015 and 2014, securities with a fair value of $86.9 and $150.0 million, respectively, were pledged to secure repurchase agreements, deposit accounts, Federal Home Loan Bank advances, and to the State of Florida in order to secure public funds and trust operations.

(3) Loans

A significant portion of the loan portfolio is concentrated among borrowers in South West Florida and Scottsdale, Arizona and a substantial portion of the portfolio is collateralized by real estate in these areas. In general, the ability of single family residential and consumer borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity within the market area and real estate values. The ability of commercial borrowers to honor their repayment commitments is dependent on the general economy as well as the health of the real estate economic sector in the Company's market areas. However, due to conservative underwriting and regularly reviewing the borrower's financial condition the Company has been able to control its risk.

The components of loans by segment are as follows (in thousands):

	At December 31,	
	2015	2014
Real estate mortgage:		
Commercial real estate	$ 119,259	99,997
Residential real estate	504,339	397,917
Construction and land development	88,656	56,954
Total real estate mortgage	712,254	554,868
Commercial	48,242	37,658
Personal	45,378	39,431
Total loans	805,874	631,957
Add (subtract):		
Deferred loan costs, net	508	484
Allowance for loan losses	(8,848)	(6,922)
Loans, net	$ 797,534	625,519

(continued)

(3) Loans, Continued

The Company has divided the loan portfolio into three portfolio segments, each with different risk characteristics and methodologies for assessing risk. All loans are underwritten based upon standards set forth in the policies approved by the Company's board of directors. The portfolio segments identified by the Company are as follows:

Real Estate Mortgage. Real estate mortgage loans are typically segmented into three classes: Commercial real estate, Residential real estate and Construction and land development. Commercial real estate loans are secured by the subject property and are approved based on standards which include, among other factors, loan to value limits, cash flow coverage and the general creditworthiness of the obligors. Residential real estate loans are approved based on repayment capacity and source, value of the underlying property, credit history and stability. Construction and land development loans are to borrowers to finance the construction of owner occupied and leased properties. These loans are categorized as construction and land loans during the construction period, later converting to commercial or residential real estate loans after the construction is complete and amortization of the loan begins. Construction and land development loans are approved based on an analysis of the borrower and guarantor, the viability of the project and on an acceptable percentage of the appraised value of the property securing the loan. Construction and land development loan funds are disbursed periodically based on the percentage of construction completed. The Company carefully monitors these loans with on-site inspections and requires the receipt of lien waivers on funds advanced. Construction and land loans are typically secured by the properties under development or construction, and personal guarantees are typically obtained. Further, to assure that reliance is not placed solely on the value of the underlying property, the Company considers the market conditions and feasibility of proposed projects, the financial condition and reputation of the borrower and guarantors, the amount of the borrower's equity in the project, independent appraisals, cost estimates and pre-construction sale information. The Company also makes loans on occasion for the purchase of land for future development by the borrower. Land real estate loans are extended for either commercial or residential use by the borrower. The Company carefully analyzes the intended use of the property and the viability thereof.

Commercial. Commercial loans are primarily underwritten on the basis of the borrowers' ability to service such debt from income. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. As a general practice, the Company takes as collateral a security interest in any available real estate, equipment, or other chattel, although loans may also be made on an unsecured basis. Collateralized working capital loans typically are secured by short-term assets whereas long-term loans are primarily secured by long-term assets.

Personal. Personal loans are extended for various purposes, including purchases of automobiles, recreational vehicles, and boats. The Company also offers home improvement loans, lines of credit, personal loans, and deposit account collateralized loans. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Personal loans are extended after a credit evaluation, including the creditworthiness of the borrower(s), the purpose of the credit, and the secondary source of repayment. Personal loans are made at fixed and variable interest rates and may be made on terms of up to ten years. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

(continued)

(3) Loans, Continued

An analysis of the change in the allowance for loan losses follows (in thousands):

	Real Estate Mortgage	Commercial	Personal	Total
Year ended December 31, 2015:				
Beginning balance	$ 6,428	343	151	6,922
Provision for loan losses	2,021	21	120	2,162
Charge-offs	(236)	-	-	(236)
Ending balance	$ 8,213	364	271	8,848
Individually evaluated for impairment:				
Recorded investment	$ 4,253	-	-	4,253
Balance in allowance for loan losses	$ -	-	-	-
Collectively evaluated for impairment:				
Recorded investment	$ 708,001	48,242	45,378	801,621
Balance in allowance for loan losses	$ 8,213	364	271	8,848
Year Ended December 31, 2014:				
Beginning balance	4,264	408	529	5,201
Provision (Credit) for loan losses	2,635	(65)	(378)	2,192
Charge-offs	(471)	-	-	(471)
Ending balance	$ 6,428	343	151	6,922
Individually evaluated for impairment:				
Recorded investment	$ 1,528	-	-	1,528
Balance in allowance for loan losses	$ -	-	-	-
Collectively evaluated for impairment:				
Recorded investment	$ 553,340	37,658	39,431	630,429
Balance in allowance for loan losses	$ 6,428	343	151	6,922

(continued)

(3) Loans, Continued

The allowance for loan losses is management's best estimate of inherent risk of loss in the loan portfolio as of the consolidated balance sheet date. The Company makes various assumptions and judgments about the collectability of the loan portfolio and provide an allowance for potential losses based on several factors including economic uncertainty. If the assumptions are wrong, the allowance for loan losses may not be sufficient to cover losses and may cause the Company to increase the allowance in the future. Among the factors that could affect the Company's ability to collect its loans and require it to increase the allowance in the future are: general real estate and economic conditions; regional credit concentration; and industry concentration, for example, in the health care industry. In addition, various regulatory agencies periodically review the allowance for loan losses. Such agencies may require additions to the allowance based on their judgments about information available to them at the time of their examination.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors.

The Company analyzes loans individually by classifying the loans as to credit risk. Loans classified as substandard or special mention over $50,000 are reviewed regularly by the Company for further deterioration or improvement to determine if they are appropriately classified and whether there is any impairment. All loans are graded upon initial issuance. Further, most commercial and commercial real estate loans are typically reviewed at least annually to determine the appropriate loan grading. In addition, during the renewal process of any loan, as well as if a loan becomes past due, the Company will determine the appropriate loan grade.

Loans excluded from the review process above are generally classified as pass credits until: (a) they become past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Company for a modification. In these circumstances, the loan is specifically evaluated for potential classification as to special mention, substandard or even charged-off. The Company uses the following definitions for risk ratings:

Pass – A Pass loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary.

Special Mention – A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard – A Substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

Doubtful – A loan classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss – A loan classified Loss is considered uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is being written off as a basically worthless asset even though partial recovery may be effected in the future.

The following summarizes the loan credit quality (in thousands):

	Real Estate Mortgage					
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial	Personal	Total
At December 31, 2015:						
Credit Risk Profile by Internally Assigned Grade:						
Pass	$ 119,259	499,498	88,358	48,242	45,356	800,713
Substandard	-	4,841	298	-	22	5,161
Total	$ 119,259	504,339	88,656	48,242	45,378	805,874
At December 31, 2014:						
Credit Risk Profile by Internally Assigned Grade:						
Pass	99,277	392,264	56,954	37,658	39,386	625,539
Substandard	720	5,653	-	-	45	6,418
Total	$ 99,997	397,917	56,954	37,658	39,431	631,957

(continued)

(3) Loans, Continued

Age analysis of past-due loans is as follows (in thousands):

	Accruing Loans						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Nonaccrual Loans	Total Loans
At December 31, 2015:							
Real estate mortgage:							
Commercial real estate	$ -	-	-	-	119,259	-	119,259
Residential real estate	249	-	-	249	500,001	4,089	504,339
Construction and land development	-	-	-	-	88,656	-	88,656
Commercial	-	-	-	-	48,242	-	48,242
Personal	17	-	-	17	45,361	-	45,378
Total	$ 266	-	-	266	801,519	4,089	805,874
At December 31, 2014:							
Real estate mortgage:							
Commercial real estate	-	-	-	-	99,997	-	99,997
Residential real estate	74	-	-	74	396,315	1,528	397,917
Construction and land development	-	-	-	-	56,954	-	56,954
Commercial	-	-	-	-	37,658	-	37,658
Personal	-	-	-	-	39,431	-	39,431
Total	$ 74	-	-	74	630,355	1,528	631,957

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

Impaired loans are loans for which management considers it probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreements. Impaired loans also include loans restructured in a troubled debt restructuring ("TDR's").

The following summarizes the amount of impaired loans (in thousands):

	With No Related Allowance Recorded		With Related Allowance Recorded		
	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Allowance
At December 31, 2015 -					
Real estate mortgage -					
Residential real estate	$ 4,253	4,727	-	-	-
At December 31, 2014 -					
Real estate mortgage -					
Residential real estate	$ 1,528	$ 2,501	-	-	-

(continued)

(3) Loans, Continued

The average net investment in impaired loans and interest income recognized and received on impaired loans are as follows (in thousands):

	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Year Ended December 31, 2015 -			
Real estate mortgage -			
Residential real estate	$ 4,255	-	-
Year Ended December 31, 2014:			
Real estate mortgage:			
Residential real estate	1,807	-	-
Construction and land development	1,362	-	-
	$ 3,169	-	-

There were no TDR's entered into during the year ended December 31, 2014. TDR's entered into during the year ended December 31, 2015 are as follows (dollars in thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate mortgage -			
Residential real estate -			
Modified Payment Terms	$ 1	2,974	2,974

There were no TDR's that subsequently defaulted during the year ended December 31, 2015, which were restructured during the same period.

(continued)

(3) Loans, Continued

Impaired collateral-dependent loans are carried at fair value when the current collateral value is lower than the carrying value of the loan. Those impaired collateral-dependent loans which are measured at fair value on a nonrecurring basis are as follows (in thousands):

	Fair Value	Level 1	Level 2	Level 3	Total Losses	Losses Recorded During the Year
At December 31, 2015 -						
Residential real estate	$ 452	-	-	452	409	-
At December 31, 2014 -						
Residential real estate	$ 1,496	-	-	1,496	879	470

(4) Premises and Equipment

A summary of premises and equipment follows (in thousands):

	At December 31, 2015	2014
Land	$ 1,630	1,630
Building	6,591	6,735
Leasehold Improvements	4,587	3,276
Furniture, fixtures and equipment	5,268	4,377
Data processing equipment and software	1,339	1,097
Total, at cost	19,415	17,115
Less accumulated depreciation and amortization	(6,604)	(5,368)
Premises and equipment, net	$ 12,811	11,747

(continued)

(4) Premises and Equipment, Continued

The Company has a land lease agreement for the Coconut Point office location. This lease expires in 2034 and has two renewal options and rent adjustment clauses during the term of the lease. Rent expense under this operating lease for the years ended December 31, 2015 and 2014 was approximately $243,000 and $240,000, respectively. (See note 13)

The Company had a building lease agreement for the Shell Point office location. The lease expired in 2014. During 2014 it was renewed till 2017 and has four renewal options of three years each and rent adjustment clauses during the term of the lease. Rent expense under this operating lease for the years ended December 31, 2015 and 2014 was approximately $33,000 and $29,000, respectively.

The Company has a building lease agreement for the Moorings Park office location. In October 2015 this lease was renewed for an additional three years, expiring in 2019. There are four renewal options of three years each remaining. Rent expense under this operating lease for the years ended December 31, 2015 and 2014 was approximately $12,000.

The Company has a building lease agreement for the Bentley Village office location. The lease expires in 2019 and has four renewal options of three years each. Rent expense under this operating lease for the years ended December 31, 2015 and 2014 was approximately $9,000 and $21,000, respectively.

The Company has a building lease agreement for the Palm Beach office location which expires in 2016. Rent expense under this operating lease for the years ended December 31, 2015 and 2014 was approximately $103,000 and $93,000 respectively.

In 2013, the Company entered into a building lease agreement for a Naples office location. The lease commencement date was November 1, 2013, and the term was 12 months. An addendum extended this lease for 10 years and added an additional suite. Rent expense under this operating lease for the years ending December 31, 2015 and 2014 was approximately $178,000 and $133,000, respectively.

In 2013, the Company entered into a building lease for an Arizona location. The lease includes rent adjustment clauses during the term of the lease and extends for a term of 125 months. Rent expense under this operating lease for the years ended December 31, 2015 and 2014 was approximately $259,000 and $251,000 respectively.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(4) Premises and Equipment, Continued

In 2014, the Company entered into a building lease for the DC Ranch office located in Arizona. The lease commencement date was April 1, 2015, lease term of seven years, with two additional renewals, of five years each. Rent expense under this operating lease for the year ended December 31, 2015 was approximately $93,000.

In 2014, the Company entered into a building lease at Marbella in Naples, Florida, for an initial one year term with fifteen, one year extensions available. This lease commenced January 1, 2015. Rent expense under this operating lease for the year ended December 31, 2015 was approximately $1,300.

In 2014, the Company entered into a building lease at Bonita Bay in Bonita Springs, Florida, for a five year term, with two additional five year renewals available. The lease commenced in June, 2015. Rent expense under this operating lease for the year ended December 31, 2015 was approximately $29,000.

Future minimum rental commitments under these non-cancelable leases at December 31, 2015 are approximately as follows (in thousands):

Year Ending December 31,	Minimum Annual Rental Payment
2016	$ 1,132
2017	1,034
2018	1,022
2019	1,025
2020	995
Thereafter	5,610
	$ 10,818

(5) Investment in Bank-Owned Life Insurance ("BOLI")

The Company enters into agreements to acquire life insurance on key employees by purchasing BOLI. BOLI amounted to $22,796,000 and $14,377,000 at December 31, 2015 and 2014, respectively. BOLI provides a means to mitigate increasing employee benefit costs. The Company expects to benefit from the BOLI contracts as a result of the tax-free growth in cash surrender value and death benefits that are expected to be generated over time. The purchase of the life insurance policies result in an interest sensitive asset on the consolidated balance sheets that provides monthly tax-free income to the Company. BOLI is invested in the "general account" and a "separate account" of quality insurance companies. All carriers were rated "A++" or better by A.M. Best and "Aa2" or better by Moody's at December 31, 2015. BOLI is included in the consolidated balance sheets at its cash surrender value. Increases in BOLI's cash surrender value are reported as a component of noninterest income in the consolidated statements of earnings. The Company purchased an additional $8.0 million of BOLI in 2015.

(continued)

(6) Deposits

The aggregate amount of time deposits with a denomination of $100,000 or more was approximately $143.6 million and $147.5 million at December 31, 2015 and 2014, respectively. A schedule of maturities of time deposits at December 31, 2015 follows (in thousands):

Year Ending December 31,	Amount
2016	$ 112,966
2017	34,734
2018	4,004
2019	800
2020	3,503
	$ 156,007

At December 31, 2015, securities with a carrying value of $48,173,000 were pledged to secure eighteen Qualified Public Depositors totaling $92,769,000.

(7) Other Borrowings

The Company enters into repurchase agreements with customers. These agreements require the Company to pledge securities as collateral for the balance in the accounts. At December 31, 2015 and 2014, the balance totaled $3,632,000 and $3,414,000 respectively, and the Company had pledged securities as collateral for these agreements with a carrying value of $5,045,000 and $4,111,000 respectively.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(8) Federal Home Loan Bank Advances

A summary of Federal Home Loan Bank ("FHLB") advances follows ($ in thousands):

Maturing in the Year Ending December 31,	Fixed or Variable Rate	Interest Rate	At December 31, 2015	At December 31, 2014
2015	Fixed	0.53-1.84 %	$ -	15,863
2016	Fixed	0.37-2.38	24,645	28,667
2017	Fixed	1.51-4.71	11,000	11,000
2018	Fixed	1.71-3.70	18,000	8,000
2019	Fixed	1.65	-	5,000
2020	Fixed	2.14	5,000	-
2022	Fixed	1.86-3.99	21,011	16,933
2026	Fixed	2.01	7,500	8,214
			$ 87,156	$ 93,677

The Company has entered into a collateral agreement with the FHLB which consists of a blanket lien on qualifying real estate loans.

In 2014, the Company secured a $10,000,000 Standby Letter of Credit with the FHLB that was used to collateralize Qualified Public Deposits with the State of Florida. This Letter of Credit was renewed in 2015.

In 2015 and 2014, the Company prepaid certain FHLB advances with a total carrying amount of $10.0 million and $22.5 million, respectively, and recorded a net gain on extinguishment of debt of $80,000 and $609,000, respectively. The gains resulted from the difference in interest rates between the current market rate and the interest rate on the debt obligations.

(continued)

(9) Income Taxes

The components of the income tax expense are as follows (in thousands):

	Year Ended December 31, 2015	2014
Current:		
Federal	$ 3,470	1,858
State	449	241
Total current	3,919	2,099
Deferred:		
Federal	(549)	(233)
State	15	(40)
Total deferred	(534)	(273)
Total	$ 3,385	1,826

The reasons for the difference between the statutory Federal income tax rate of 34% and the effective tax rates are summarized as follows (dollars in thousands):

	Year Ended December 31, 2015		2014	
	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Income tax expense at statutory rate	$ 3,237	34.0 %	$ 1,838	34.0 %
Increase (decrease) resulting from:				
State taxes, net of Federal tax benefit	306	3.2	133	2.5
Share-based compensation	58	0.6	50	0.9
Tax-exempt income	(332)	(3.5)	(115)	(2.1)
Other, net	116	1.3	(80)	(1.5)
	$ 3,385	35.6 %	$ 1,826	33.8 %

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(9) Income Taxes, continued

Tax effects of temporary differences that give rise to the deferred tax assets and liabilities are as follows (in thousands):

	At December 31, 2015	2014
Deferred tax assets:		
Allowance for loan losses	$ 3,258	2,480
Organizational and start-up costs	134	156
Share-based compensation	251	233
Unrealized loss on securities available for sale	387	143
Other	-	32
Deferred tax assets	4,030	3,044
Deferred tax liabilities:		
Prepaid expenses	(157)	(78)
Premises and equipment	(1,107)	(1,015)
Other	(37)	-
Deferred tax liabilities	(1,301)	(1,093)
Net deferred tax asset	$ 2,729	1,951

The Company's Federal and state income tax returns filed prior to 2012 are no longer subject to examination by the respective taxing authorities.

(10) Financial Instruments

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit, unused lines of credit, and standby letters of credit and may involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheet. The contract amounts of these instruments reflect the extent of involvement the Company has in these financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, unused lines of credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

(continued)

(10) Financial Instruments, continued

Commitments to extend credit are agreements to lend to a customer as long as there are no violations of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and normally generate a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each borrower's creditworthiness is evaluated on a case-by-case basis the same as other extensions of credit.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Under the standby letters of credit, the Company is required to make payments to the beneficiary of the letters of credit upon request by the beneficiary contingent upon the customer's failure to perform under the terms of the underlying contract with the beneficiary. Standby letters of credit extend up to one year. At December 31, 2015 and 2014, there was no liability to beneficiaries resulting from standby letters of credit. At December 31, 2015, a substantial portion of the standby letters of credit were supported by pledged collateral. Should the Company be required to make payments to the beneficiary, repayment from the customer to the Company is required.

Commitments to extend credit, unused lines of credit and standby letters of credit typically result in loans with a market interest rate when funded. A summary of the amounts of the Company's financial instruments with off-balance sheet risk at December 31, 2015, follows (in thousands):

Commitments to extend credit	$ 34,032
Unused lines of credit	$ 123,614
Standby letters of credit	$ 2,700

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(10) Financial Instruments, continued

The carrying amounts and estimated fair values of the Company's financial instruments, are as follows (in thousands):

	At December 31,			
	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	$ 11,888	11,888	18,980	18,980
Time Deposits	1,345	1,345	1,245	1,245
Securities available for sale	252,090	252,090	203,092	203,092
Loans, net	797,534	798,757	625,519	625,759
Federal Home Loan Bank stock	4,533	4,533	4,868	4,868
Federal Reserve Bank stock	2,063	2,063	1,831	1,831
Accrued interest receivable	3,119	3,119	2,440	2,440
Financial liabilities:				
Deposits	894,032	894,556	708,851	709,268
Federal Home Loan Bank advances	87,156	85,901	93,677	92,619
Other borrowings	3,632	3,632	3,414	3,414
Off-balance-sheet financial instruments	-	-	-	-

(11) Employee Benefit Plan

The Company has a 401 (k) plan (the "Plan") which is available to all employees electing to participate after meeting certain length-of-service requirements. The Company's expense related to the Plan was approximately $425,000 and $369,000 for the years ended December 31, 2015 and 2014, respectively.

(continued)

(12) Stock-Based Compensation Plans

The Company has a stock incentive plan for directors and employees. Under the plan, 1,213,100 shares (amended) have been reserved for the granting of stock options or restricted stock awards. All stock options and restricted stock awards must be granted at a price not less than the fair market value of the common stock on the date of grant. Some stock options are fully vested when granted while the majority vests over a one to four year period. All options expire ten years from the date of grant. At December 31, 2015, 519,971 shares remain available for grant. In 2015 and 2014, $162,000 and $140,000 of compensation expense was recognized. At December 31, 2015, there was $138,000 of unrecognized compensation expense related to the nonvested stock options granted under this plan. The cost is expected to be recognized over the next 2.04 years. A summary of the stock option activity under this plan is as follows:

	Number of Options	Exercise Price	Contractual Term
Outstanding at December 31, 2013	612,554	$ 10.69	
Granted	48,300	16.00	
Forfeited	(16,200)	11.99	
Exercised	(25,700)	10.61	
Outstanding at December 31, 2014	618,954	11.01	
Forfeited	(4,025)	11.40	
Exercised	(20,750)	10.24	
Outstanding at December 31, 2015	594,179	$ 11.09	5.18
Exercisable at December 31, 2015	287,950	$ 10.34	3.49

In 2014, the fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	1.92-2.11%
Dividend yield	-
Expected stock volatility	11.30-13.50%
Expected life in years	6
Per share grant-date fair value of options issued during the year	$2.11-2.72

(continued)

(12) Stock-Based Compensation Plans, continued

On April 25, 2013, the Board of Directors adopted a Non-Qualified Stock Option Plan and made 150,000 options available. All stock options must be granted at a price not less than the fair market value of the common stock on the date of grant. Stock options cliff vest over a four year period. At December 31, 2015, 7,525 shares remain available for grant. In 2015 and 2014, $87,000 and $61,000 of compensation expense was recognized with a related income tax benefit of $30,000 and $20,000, in 2015 and 2014, respectively. All options expire ten years from the date of grant. At December 31, 2015, there was $195,000 of total unrecognized compensation expense. The cost is expected to be recognized over the next 2.31 years. A summary of stock option activity under this plan is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at 12/31/13	52,500	$13.30	
Granted	90,700	15.25	
Outstanding at 12/31/14	143,200	14.53	
Forfeited	(725)	15.28	
Outstanding at 12/31/15	142,475	$14.53	8.08 years

The fair value of each Non-Qualified Stock Option granted in 2014 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Year Ended December 31,
Risk-free interest rate	1.92-2.11%
Dividend yield	-
Expected stock volatility	11.30-13.50%
Expected life in years	6
Per share grant-date fair value of options issued during the year	$2.11-2.72

All stock options granted in 2014 were to employees under the plans discussed above. The Company used the guidance of the Securities and Exchange Commission to determine the estimated life of options issued. Expected volatility is based on historical volatility of similar financial institutions. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield assumption is based on the Company's history and expectation of dividend payments.

(continued)

(12) Stock-Based Compensation Plans, continued

In 2012, the Company granted 3,000 restricted stock awards to employees. In 2015, the Company granted 5,000 restricted stock awards to employees. Both awards cliff vest after four years. The fair value of the restricted stock in 2015 and 2012 was $92,500 and $33,000, respectively. As of December 31, 2015, 500 shares were forfeited. At December 31, 2015, there was $93,000 of total unrecognized compensation expense related to nonvested restricted stock awards. In 2015 and 2014, $9,000 and $8,000, respectively, of compensation expense was recognized with a related income tax benefit of $3,000 for both years.

In addition, in connection with the initial common stock offering, the organizing directors of the Company were granted one common stock option for every two shares purchased. A total of 586,900 stock options were granted to the organizing directors and were fully vested at December 31, 2007. The stock options expire ten years from date of grant and have an exercise price of $10 per share. In 2015 and 2014, 15,000 and 149,250 options were exercised respectively. At December 31, 2015, 178,150 options were still outstanding.

(13) Related Party Transactions and Economic Dependence

The Company has had transactions in the ordinary course of business, including deposits, borrowings and other transactions, with certain of its directors and executive officers and their associates, all of which were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectability or present other unfavorable features when granted. Similar transactions may be expected to take place in the ordinary course of business in the future.

The following summarizes these transactions (in thousands):

	At or for the Year Ended December 31, 2015	2014
Loans:		
Beginning balance	$ 12,922	13,320
Additions	8,207	2,326
Repayments	(3,195)	(2,724)
Ending balance	$ 17,934	12,922
Deposits at end of year	$ 36,965	50,761

In 2008, the Company entered into a 25 year lease agreement with a director to lease the Coconut Point land. This transaction was evaluated to ensure that the terms and conditions are comparable to transactions with other persons, including where appropriate obtaining independent appraisals.

In 2015, a director acted as agent in the acquisition of bank owned life insurance and received payment from the life insurance company. The transaction was evaluated next to independent third parties.

The Company purchased furniture through a company owned by several directors.

(continued)

(14) Senior Non-Cumulative Perpetual Preferred Stock

On September 21, 2011, the Company entered into a Securities Purchase Agreement with the Secretary of the Treasury, pursuant to which the Company issued and sold to the Treasury 5,665 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of $1,000 per share (the "Series A Preferred Stock"), for proceeds of $5,642,000, net of offering costs of $23,000. The issuance was pursuant to the Treasury's Small Business Lending Fund program. The Series A Preferred Stock was entitled to receive non-cumulative dividends (1% in 2015 and 2014) payable quarterly on each January 1, April 1, July 1 and October 1, commencing October 1, 2011.

The Company redeemed the shares of Series A Preferred Stock in December 2015 in whole for the sum of the Liquidation Amount per share and the per-share amount of any unpaid dividends, as approved by the Company's primary federal banking regulator.

(15) Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Effective January 1, 2015, the Bank, became subject to the new Basel III capital level threshold requirements under the Prompt Corrective Action regulations with full compliance with all of the final rule's requirements phased in over a multi-year schedule. These new regulations were designed to ensure that banks maintain strong capital positions even in the event of severe economic downturns or unforeseen losses.

Changes that could affect the Bank going forward include additional constraints on the inclusion of deferred tax assets in capital and increased risk weightings for nonperforming loans and acquisition/development loans in regulatory capital. Under the new regulations in the first quarter of 2015, the Bank elected an irreversible one-time opt-out to exclude accumulated other comprehensive loss from regulatory capital.

As of December 31, 2015, the Bank was well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain a minimum Common equity tier 1 capital ratio, Tier 1 capital ratio, Total capital ratio and Tier 1 leverage ratio as set forth in the table. Management believes, as of December 31, 2015, that the Bank meets all capital adequacy requirements to which it is subject. The Bank's actual capital amounts and percentages are presented in the table (in thousands):

(continued)

(15) Regulatory Matters, continued

	Actual		For Capital Adequacy Purposes		For Well Capitalized Purposes	
	Amount	Percent	Amount	Percent	Amount	Percent
As of December 31, 2015:						
Common equity tier 1 capital ratio Bank	$ 101,352	14.36 %	$ 31,764	4.50 %	$ 45,882	6.50 %
Total Capital to Risk-Weighted Assets-Bank	110,176	15.61	56,470	8.00	70,588	10.00
Tier I Capital to Risk-Weighted Assets-Bank	101,352	14.36	42,353	6.00	56,470	8.00
Tier I Capital to Average Assets-Bank	101,352	9.08	44,663	4.00	55,829	5.00
Common equity tier 1 capital ratio Company	122,252	17.27	31,857	4.50	N/A	N/A
Total Capital to Risk-Weighted Assets-Company	131,100	18.52	56,634	8.00	N/A	N/A
Tier I Capital to Risk-Weighted Assets-Company	122,252	17.27	42,476	6.00	N/A	N/A
Tier I Capital to Average Assets-Company	122,252	10.93	44,745	4.00	N/A	N/A
As of December 31, 2014:						
Total Capital to Risk-Weighted Assets-Bank	78,169	14.43	43,324	8.00	54,155	10.00
Tier I Capital to Risk-Weighted Assets-Bank	71,398	13.18	21,662	4.00	32,493	6.00
Tier I Capital to Average Assets-Bank	71,398	8.31	34,366	4.00	27,077	5.00
Total Capital to Risk-Weighted Assets-Company	82,815	15.25	43,430	8.00	N/A	N/A
Tier I Capital to Risk-Weighted Assets-Company	76,029	14.00	21,715	4.00	N/A	N/A
Tier I Capital to Average Assets-Company	76,029	8.84	34,420	4.00	N/A	N/A

(continued)

(16) Parent Company Only Financial Information

The Holding Company's unconsolidated financial information is as follows (in thousands):

Condensed Balance Sheets

	At December 31, 2015	2014
Assets		
Cash and due from banks	$ 17,143	2,588
Loans	2,048	1,438
Other assets	1,796	625
Investment in subsidiary	100,705	71,158
Total Assets	$ 121,692	75,809
Liabilities and Shareholders' Equity		
Accounts payable	87	20
Shareholders' equity	121,605	75,789
Total liabilities and shareholders' equity	$ 121,692	75,809

(continued)

(16) Parent Company Only Financial Information, continued

Condensed Statements of Shareholders' Equity

	Year Ended December 31, 2015	2014
Shareholders beginning balance	$ 75,789	65,165
Net earnings	6,137	3,581
Stock-based compensation	258	209
Proceeds from sale of common stock	45,158	4,453
Repurchase of common stock	-	(151)
Repurchase of preferred stock	(5,665)	-
Proceeds from exercise of stock options	362	1,765
Tax benefit from stock options exercised	27	52
Preferred stock dividends	(54)	(57)
Change in accumulated other comprehensive loss	(407)	772
Shareholders ending balance	$ 121,605	75,789

Condensed Statements of Earnings

	Year Ended December 31, 2015	2014
Revenue	$ 30	68
Expenses	89	409
Loss before earnings of subsidiary	(59)	(341)
Earnings of subsidiary	6,196	3,922
Net earnings	$ 6,137	3,581

(continued)

(16) Parent Company Only Financial Information, continued

Condensed Statements of Cash Flows

	Year Ended December 31, 2015	2014
Cash flows from operating activities:		
Net earnings	$ 6,137	3,581
Adjustments to reconcile net earnings to net cash used in operating activities:		
Equity in undistributed earnings of subsidiary	(6,196)	(3,922)
Increase in other assets	(1,171)	(612)
Increase in accounts payable	81	6
Net cash used in operating activities	(1,149)	(947)
Cash flows from investing activities:		
Net (increase) decrease in loans	(610)	1,286
Capital infusion to subsidiary	(23,500)	(9,000)
Net cash used in investing activities	(24,110)	(7,714)
Cash flows from financing activities:		
Preferred stock dividends paid	(68)	(43)
Repurchase of common stock	-	(151)
Repurchase of preferred stock	(5,665)	
Proceeds from sale of common stock, net	45,158	4,453
Proceeds from exercise of stock options	362	1,765
Tax benefit from stock options exercised	27	52
Net cash provided by financing activities	39,814	6,076
Net increase (decrease) in cash	14,555	(2,585)
Cash at beginning of the year	2,588	5,173
Cash at end of year	$ 17,143	2,588
Noncash transactions:		
Net change in investment in subsidiary due to change in accumulated other comprehensive loss	$ (407)	772
Stock-based compensation expense of subsidiary	$ 258	209
Dividends payable	$ -	14

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FINEMARK HOLDINGS, INC.

To our clients, associates, shareholders and board members who helped make 2015 a great year, **Thank You!**

FINEMARK HOLDINGS, INC.