



FINEMARK HOLDINGS, INC.

**Audited Consolidated
Financial Statements**

December 31, 2017 and 2016 and the Years then Ended
(Together with Independent Auditor's Report)



FINEMARK HOLDINGS, INC.

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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 Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, 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. 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.

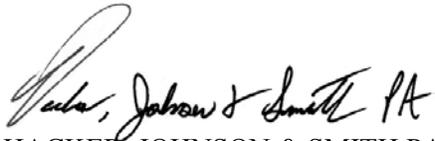
Opinion

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, 2017 and 2016, 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.

The Board of Directors and Stockholders
FineMark Holdings, Inc.
Page Two

Other Matters

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 8, 2018 expressed an unmodified opinion.

A handwritten signature in black ink that reads "Hacker, Johnson & Smith PA". The signature is written in a cursive, flowing style.

HACKER, JOHNSON & SMITH PA
Tampa, Florida
March 8, 2018

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets (\$ in thousands, except per share amounts)

Assets	At December 31,	
	2017	2016
Cash and due from banks	\$ 11,933	13,358
Securities available for sale	270,525	304,253
Securities held to maturity	29,080	-
Loans, net of allowance for loan losses of \$12,812 in 2017 and \$11,147 in 2016	1,199,030	986,466
Federal Home Loan Bank stock	5,374	6,156
Federal Reserve Bank stock	3,014	3,003
Premises and equipment, net	16,058	12,739
Accrued interest receivable	4,523	3,895
Deferred tax asset	3,470	4,458
Bank-owned life insurance	32,588	31,636
Other assets	3,956	3,894
Total assets	\$ 1,579,551	1,369,858
Liabilities and Shareholders' Equity		
Liabilities:		
Noninterest-bearing demand deposits	172,403	144,246
Savings, NOW and money-market deposits	923,414	775,197
Time deposits	208,725	181,495
Total deposits	1,304,542	1,100,938
Official checks	13,028	4,827
Federal funds purchased	12,000	-
Other borrowings	398	7,447
Federal Home Loan Bank advances	97,473	121,320
Other liabilities	9,506	4,763
Total liabilities	1,436,947	1,239,295
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$.01 par value; 50,000,000 shares authorized, 8,536,680 and 8,409,122 shares issued and outstanding in 2017 and 2016	85	84
Additional paid-in capital	117,191	114,719
Retained earnings	27,982	17,944
Accumulated other comprehensive loss	(2,654)	(2,184)
Total shareholders' equity	142,604	130,563
Total liabilities and shareholders' equity	\$ 1,579,551	1,369,858

See Accompanying Notes to Consolidated Financial Statements

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings (\$ in thousands, except per share amounts)

	Year Ended December 31,	
	<u>2017</u>	<u>2016</u>
Interest income:		
Loans	\$ 43,152	33,774
Securities	5,677	6,224
Other	180	94
Total interest income	49,009	40,092
Interest expense:		
Deposits	5,191	3,156
Borrowings	2,246	2,151
Total interest expense	7,437	5,307
Net interest income	41,572	34,785
Provision for loan losses	2,119	2,186
Net interest income after provision for loan losses	39,453	32,599
Noninterest income:		
Trust fees	13,998	11,463
Income from bank-owned life insurance	952	840
Gain on sale of securities available for sale	290	962
Gain on extinguishment of debt	381	518
Other fees and service charges	848	652
Total noninterest income	16,469	14,435
Noninterest expenses:		
Salaries and employee benefits	25,710	21,367
Occupancy and equipment	4,359	4,128
Data processing	2,527	2,026
Telecommunications	595	614
Legal fees	133	188
Accounting and professional fees	965	993
Marketing	1,632	1,389
Office supplies	593	485
FDIC assessment	894	685
Outside services	476	806
Other	2,468	2,222
Total noninterest expense	40,352	34,903
Earnings before income taxes	15,570	12,131
Income taxes	5,966	4,152
Net earnings	\$ 9,604	7,979
Basic earnings per common share	1.13	0.96
Diluted earnings per common share	1.10	0.94

See Accompanying Notes to Consolidated Financial Statements

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(in thousands)

	<u>Year Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Net Earnings	\$ 9,604	7,979
Other comprehensive loss:		
Unrealized holding gain (loss) on available for sale securities	234	(1,496)
Reclassification adjustment for gains realized in earnings	<u>(290)</u>	<u>(962)</u>
Net change in unrealized loss	(56)	(2,458)
Income tax effect	(414)	921
One-time reclassification for newly enacted corporate tax rate	<u>434</u>	<u>-</u>
Total other comprehensive loss	<u>(36)</u>	<u>(1,537)</u>
Comprehensive income	<u>\$ 9,568</u>	<u>6,442</u>

See Accompanying Notes to Consolidated Financial Statements

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

For the Years Ended December 31, 2017 and December 31, 2016
(\$ In thousands)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Compre- hensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2015			8,239,811	\$ 82	112,205	9,965	(647)	121,605
Stock-based compensation	-	-	-	-	421	-	-	421
Net earnings	-	-	-	-	-	7,979	-	7,979
Change in unrealized loss on securities available for sale, net of tax	-	-	-	-	-	-	(1,537)	(1,537)
Stock grants vested			3,958	-	-	-	-	-
Proceeds from exercise of stock options	-	-	182,250	2	1,828	-	-	1,830
Tax benefit from stock options exercised	-	-	-	-	413	-	-	413
Repurchase of common stock	-	-	(50,000)	-	(751)	-	-	(751)
Proceeds from issuance of common stock	-	-	<u>33,103</u>	-	<u>603</u>	-	-	<u>603</u>
Balance at December 31, 2016	-	-	8,409,122	84	114,719	17,944	(2,184)	130,563
Stock-based compensation	-	-	-	-	846	-	-	846
Net earnings	-	-	-	-	-	9,604	-	9,604
Change in unrealized loss on securities available for sale, net of tax	-	-	-	-	-	-	(36)	(36)
One-time reclassification for newly enacted corporate tax rate						434	(434)	-
Stock grants vested	-	-	8,750	-	-	-	-	-
Proceeds from exercise of stock options	-	-	87,800	1	877	-	-	878
Proceeds from issuance of common stock	-	-	<u>31,008</u>	-	<u>749</u>	-	-	<u>749</u>
Balance at December 31, 2017	<u>-</u>	<u>\$ -</u>	<u>8,536,680</u>	<u>\$ 85</u>	<u>117,191</u>	<u>27,982</u>	<u>(2,654)</u>	<u>142,604</u>

See Accompanying Notes to Consolidated Financial Statements.

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (In thousands)

	Year Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net earnings	\$ 9,604	7,979
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,644	1,585
Provision for loan losses	2,119	2,186
Amortization of deferred loan fees and costs	255	185
Amortization of premiums and discounts on securities	3,211	5,693
Gain on sale of securities available for sale	(290)	(962)
Increase in accrued interest receivable	(628)	(776)
(Increase) decrease in other assets	(62)	158
Deferred income taxes (benefit)	1,008	(808)
Income from bank-owned life insurance	(952)	(840)
Increase in other liabilities	4,743	98
Increase in official checks	8,201	957
Stock-based compensation	846	421
Loans held-for-sale:		
Loan originations	-	(250)
Proceeds from loan sales	-	251
Gain on sale of loans held-for-sale	-	(1)
Net cash provided by operating activities	29,699	15,876
Cash flows from investing activities:		
Redemption of time deposits	-	1,345
Net increase in loans	(214,938)	(191,303)
Purchase of premises and equipment, net	(4,963)	(1,513)
Securities available for sale:		
Purchases	(141,917)	(304,437)
Proceeds from sales	33,869	37,917
Proceeds from maturities and calls	44,726	51,979
Proceeds from principal repayments	94,226	155,189
Securities held to maturity:		
Purchases	(29,233)	-
Purchase of bank owned life insurance	-	(8,000)
Redemption (purchase) of Federal Home Loan Bank stock	782	(1,623)
Purchase of Federal Reserve Bank stock	(11)	(940)
Net cash used in investing activities	(217,459)	(261,386)
Cash flows from financing activities:		
Net increase in deposits	203,604	206,906
Net (decrease) increase in other borrowings	(7,049)	3,815
Net (repayment) proceeds from Federal Home Loan Bank advances	(23,847)	34,164
Net increase in Federal funds purchased	12,000	-
Proceeds from sale of common stock, net	749	603
Repurchase of common stock	-	(751)
Proceeds from exercise of stock options	878	1,830
Tax benefit from stock options exercised	-	413
Net cash provided by financing activities	186,335	246,980
Net (decrease) increase in cash and due from banks	(1,425)	1,470
Cash and due from banks at beginning of year	13,358	11,888
Cash and due from banks at end of year	\$ 11,933	13,358

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued (In thousands)

	Year Ended December 31,	
	2017	2016
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 7,366</u>	<u>5,231</u>
Income taxes	<u>\$ 4,201</u>	<u>5,178</u>
Noncash transaction -		
Accumulated other comprehensive loss, net change in unrealized loss on securities available for sale, net of tax	<u>\$ (36)</u>	<u>(1,537)</u>
One-time reclassification for newly enacted corporate tax rate	<u>\$ 434</u>	<u>-</u>

See Accompanying Notes to Consolidated Financial Statements.

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

At December 31, 2017 and 2016 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 twelve banking offices located in Lee, Collier and Palm Beach County, Florida, Maricopa County, Arizona, and Berkeley County, South Carolina. 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. In 2017, the bank formed FineMark Solar, LLC ("Solar"), a South Carolina Limited Liability Company. The purpose of Solar is to own solar farms located in South Carolina. The bank owns 100% of Solar which operates 8 solar farms that generate renewable energy that is sold to local electric companies.

Management has evaluated all significant events occurring subsequent to the consolidated balance sheet date through March 8, 2018, 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, 2017 and 2016, the Bank's required reserve balance was \$1,512,000 and \$1,725,000 respectively.

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FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, 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, 2017 and 2016, 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.

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FINEMARK HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, 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, 2017 or 2016.

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.

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FINEMARK HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, 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.

Trust Assets and Fees. Client assets, totaling \$3 billion and \$2.3 billion at December 31, 2017 and 2016 are not included in the consolidated balance sheets as such, these items are not assets of the Company. The Company charges fees for trustee, custodian, and investment management services. These fees are recognized as income over the period the services are provided.

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 and the one-time reclassification for newly enacted corporate tax rate, are components of comprehensive income. The tax effects of items included in accumulated other comprehensive income are released as each individual item matures, sold or disposed of.

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.

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FINEMARK HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, 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, 2017, management is not aware of any uncertain tax positions that would have a material effect on the Company's consolidated financial statements.

On December 22, 2017, the "Tax Cuts and Jobs Act of 2017," or the Tax Act, was signed into law. The Tax Act, among other things, reduced the maximum statutory federal corporate income tax rate from 35% to 21% effective January 1, 2018. As a result of the enactment of the Tax Act, the Company revalued its net deferred tax asset. This revaluation resulted in an additional charge to the income tax provision of \$1,659,000 in 2017.

The Company recognizes interest and penalties on income taxes, if any, 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.

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FINEMARK HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, 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.

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FINEMARK HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, 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.

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)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, 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)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, 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 2017 and 2016, 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):

	2017			2016		
	Weighted- Average Shares	Per Share Amount	Earnings	Weighted- Average Shares	Per Share Amount	Earnings
Year Ended December 31:						
Basic EPS:						
Net earnings available to common shareholders	\$9,604	8,493,701	\$1.13	\$7,979	8,285,444	\$0.96
Effect of dilutive securities-						
Incremental shares from restricted stock and assumed conversion of options		213,105		202,935		
Diluted EPS:						
Net earnings available to common shareholders	\$9,604	8,706,806	\$1.10	\$7,979	8,488,379	\$0.94

Recent Pronouncements. In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU requires equity investments to be measured at fair value with changes in fair value 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 the available-for-sale debt securities in combination with the Company's other deferred tax assets. The ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Recent Pronouncements, continued.

In February 2016, the FASB issued ASU No. 2016-2, *Leases (Topic 842)* which will require lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with term of more than twelve months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. The new ASU will require both types of leases to be recognized on the balance sheet. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The ASU is effective for fiscal years beginning after December 15, 2019, and for interim periods with fiscal years beginning after December 15, 2020. The Company is in the process of determining the effect of the ASU on its consolidated financial statements. Early adoption is permitted.

In March 2016, the FASB issued ASU No. 2016-09 *Compensation-Stock Compensation (Topic 718)*. The ASU affects all organizations that issue share-based payment awards to their employees. The ASU simplifies several aspects of the accounting for share-based payment award transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the consolidated statement of cash flows. The amendments in this ASU are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

In June 2016, FASB issued ASU No. 2016-13 *Financial Instruments-Credit Losses (Topic 326)*. The ASU requires the Company to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. The Company will continue to use judgement to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other consolidated financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the consolidated financial statements. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU is effective for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted. The Company is in the process of determining the effect of the ASU on its consolidated financial statements.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Recent Pronouncements, continued.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The ASU shortens the amortization period for certain callable debt securities held at a premium, the ASU requires the premium to be amortized to the earliest call date. No accounting change is required for securities held at a discount. The ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company is in the process of determining the effect of the ASU on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting*. The ASU was issued to provide clarity as to when to apply modification accounting when there is a change in the terms or conditions of a share-based payment award. The ASU requires an entity to account for the effects of a modification unless the fair value, vesting conditions, and balance sheet classification of the award is the same after the modification as compared to the original award prior to the modification. The ASU is effective for reporting periods beginning after December 15, 2017. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedge Activities*. The ASU better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the ASU expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. As a result, the adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement Reporting Comprehensive Income (Topic 220)*. The ASU allows for a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate. The amount of the reclassification would be the difference between the historical corporate tax rate and the newly enacted 21 percent corporate tax rate. The Company early adopted the ASU. The effects of the ASU were to increase accumulated other comprehensive loss by \$434,000 and increase retained earnings by the same amount.

Reclassification. Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the 2017 consolidated financial statement presentation.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Securities

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

<i>Securities available for sale</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>At December 31, 2017:</i>				
U.S. Government agency securities	\$ 54,773	1	(646)	54,128
Corporate debt securities	11,962	13	(93)	11,882
Mortgage-backed securities	64,066	1	(1,163)	62,904
Collateralized mortgage obligations	52,041	-	(850)	51,191
Municipal securities	23,044	115	(123)	23,036
Taxable municipal securities	<u>68,187</u>	<u>30</u>	<u>(833)</u>	<u>67,384</u>
Total	<u>\$ 274,073</u>	<u>160</u>	<u>(3,708)</u>	<u>270,525</u>
<i>At December 31, 2016:</i>				
U.S. Government agency securities	37,051	1	(499)	36,553
Corporate debt securities	10,025	12	(17)	10,020
Mortgage-backed securities	58,870	-	(1,327)	57,543
Commercial mortgage-backed securities	106,348	8	(189)	106,167
Collateralized mortgage obligations	25,887	14	(559)	25,342
Municipal securities	36,796	109	(369)	36,536
Taxable municipal securities	<u>32,768</u>	<u>23</u>	<u>(699)</u>	<u>32,092</u>
Total	<u>\$ 307,745</u>	<u>167</u>	<u>(3,659)</u>	<u>304,253</u>
<i>Securities held to maturity</i>				
<i>At December 31, 2017:</i>				
Collateralized mortgage obligations	4,632	8	-	4,640
Taxable municipal securities	<u>24,448</u>	<u>1</u>	<u>(341)</u>	<u>24,108</u>
Total	<u>\$29,080</u>	<u>9</u>	<u>(341)</u>	<u>28,748</u>

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Securities, Continued

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

	<u>Fair Value Measurements Using</u>			
	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<i>December 31, 2017:</i>				
U.S. Government agency securities	\$ 54,128	-	54,128	-
Corporate debt securities	11,882	-	11,882	-
Mortgage-backed securities	62,904	-	62,904	-
Collateralized mortgage obligations	51,191	-	51,191	-
Municipal securities	23,036	-	23,036	-
Taxable municipal securities	<u>67,384</u>	<u>-</u>	<u>67,384</u>	<u>-</u>
Total	<u>\$ 270,525</u>	<u>-</u>	<u>270,525</u>	<u>-</u>
<i>December 31, 2016:</i>				
U.S. Government agency securities	36,553	-	36,553	-
Corporate debt securities	10,020	-	10,020	-
Mortgage-backed securities	57,543	-	57,543	-
Commercial mortgage-backed securities	106,167	-	106,167	-
Collateralized mortgage obligations	25,342	-	25,342	-
Municipal securities	36,536	-	36,536	-
Taxable municipal securities	<u>32,092</u>	<u>-</u>	<u>32,092</u>	<u>-</u>
Total	<u>\$ 304,253</u>	<u>-</u>	<u>304,253</u>	<u>-</u>

During the years ended December 31, 2017 and 2016, no securities were transferred in or out of Level 1, Level 2 or Level 3.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Securities, Continued

The scheduled maturities of securities at December 31, 2017 are as follows (in thousands):

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in less than one year	\$ 8,635	8,600	-	-
Due from one to five years	105,488	104,660	-	-
Due from five to ten years	43,843	43,170	20,407	20,134
Due in over ten years	-	-	4,041	3,974
Mortgage-backed securities	64,066	62,904	-	-
Collateralized mortgage obligations	<u>52,041</u>	<u>51,191</u>	<u>4,632</u>	<u>4,640</u>
Total	<u>\$ 274,073</u>	<u>270,525</u>	<u>29,080</u>	<u>28,748</u>

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

	<u>Year Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Proceeds from sales of securities	<u>\$ 33,869</u>	<u>37,917</u>
Gross gains from sale of securities	<u>\$ 290</u>	<u>962</u>

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Securities, Continued

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

	<u>Less Than Twelve Months</u>		<u>More Than Twelve Months</u>	
<i>Securities available for sale</i>				
December 31, 2017:	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Government agency securities	\$ 118	19,733	528	29,500
Corporate debt securities	75	8,887	18	1,982
Mortgage-backed securities	188	16,840	975	45,624
Collateralized mortgage obligations	415	36,449	435	14,742
Taxable Municipal securities	389	46,694	445	12,670
Municipal securities	122	10,535	-	-
	<u>\$ 1,307</u>	<u>139,138</u>	<u>2,401</u>	<u>104,518</u>
December 31, 2016:				
U.S. Government agency securities	499	31,552	-	-
Corporate debt securities	17	5,983	-	-
Mortgage-backed securities	1,119	50,209	208	7,334
Commercial mortgage-backed securities	189	93,411	-	-
Collateralized mortgage obligations	494	13,671	65	3,487
Taxable Municipal securities	699	19,075	-	-
Municipal securities	369	23,281	-	-
	<u>\$ 3,386</u>	<u>237,182</u>	<u>273</u>	<u>10,821</u>
<i>Securities held to maturity</i>				
December 31, 2017:				
Municipal securities	<u>\$ 340</u>	<u>23,607</u>	<u>-</u>	<u>-</u>

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)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Securities, Continued

At December 31, 2017 and 2016, the unrealized loss on one hundred sixty six investment securities available for sale and one hundred fifty four investment securities available for sale respectively, 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, 2017 and 2016, securities with a fair value of \$221.3 million and \$219.2 million, respectively, were pledged to secure repurchase agreements, State of Florida deposits and trust operations.

(3) Loans

A significant portion of the loan portfolio is concentrated among borrowers in South West Florida, Scottsdale, Arizona, and Charleston, South Carolina 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.

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

	At December 31,	
	2017	2016
Real estate mortgage:		
Commercial real estate	\$ 156,148	144,591
Residential real estate	777,798	626,571
Construction and land development	132,122	109,690
Total real estate mortgage	1,066,068	880,852
Commercial	76,217	51,293
Personal	68,800	64,840
Total loans	1,211,085	996,985
Add (subtract):		
Deferred loan costs, net	757	628
Allowance for loan losses	(12,812)	(11,147)
Loans, net	\$ 1,199,030	986,466

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, 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 development 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, personal investment account secured 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)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, 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, 2017:				
Beginning balance	\$ 10,136	506	505	11,147
Provision for loan losses	1,945	174	-	2,119
Charge-offs	<u>(436)</u>	<u>(10)</u>	<u>(8)</u>	<u>(454)</u>
Ending balance	<u>\$ 11,645</u>	<u>670</u>	<u>497</u>	<u>12,812</u>
Individually evaluated for impairment:				
Recorded investment	<u>\$ 1,857</u>	<u>-</u>	<u>-</u>	<u>1,857</u>
Balance in allowance for loan losses	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Collectively evaluated for impairment:				
Recorded investment	<u>\$ 1,064,211</u>	<u>76,217</u>	<u>68,800</u>	<u>1,209,228</u>
Balance in allowance for loan losses	<u>\$ 11,645</u>	<u>670</u>	<u>497</u>	<u>12,812</u>
Year Ended December 31, 2016:				
Beginning balance	8,213	364	271	8,848
Provision for loan losses	1,778	142	266	2,186
Recoveries/(charge-offs)	<u>145</u>	<u>-</u>	<u>(32)</u>	<u>113</u>
Ending balance	<u>\$ 10,136</u>	<u>506</u>	<u>505</u>	<u>11,147</u>
Individually evaluated for impairment:				
Recorded investment	<u>\$ 5,843</u>	<u>-</u>	<u>6</u>	<u>5,849</u>
Balance in allowance for loan losses	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Collectively evaluated for impairment:				
Recorded investment	<u>\$ 875,009</u>	<u>51,293</u>	<u>64,834</u>	<u>991,136</u>
Balance in allowance for loan losses	<u>\$ 10,136</u>	<u>506</u>	<u>505</u>	<u>11,147</u>

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, 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 SUBSIDIARIES

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):

	<u>Real Estate Mortgage</u>					
	<u>Commercial</u>	<u>Residential</u>	<u>Construction and Land</u>	<u>Commercial</u>	<u>Personal</u>	<u>Total</u>
	<u>Real Estate</u>	<u>Real Estate</u>	<u>Development</u>			
At December 31, 2017:						
Credit Risk Profile by Internally Assigned Grade:						
Pass	\$ 156,148	774,032	131,378	75,194	68,690	1,205,442
Special Mention	-	524	744	998	-	2,266
Substandard	-	3,242	-	25	110	3,377
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 156,148</u>	<u>777,798</u>	<u>132,122</u>	<u>76,217</u>	<u>68,800</u>	<u>1,211,085</u>
At December 31, 2016:						
Credit Risk Profile by Internally Assigned Grade:						
Pass	144,591	621,717	105,844	51,293	64,820	988,265
Special Mention	-	330	3,846			4,176
Substandard	-	4,524	-	-	20	4,544
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 144,591</u>	<u>626,571</u>	<u>109,690</u>	<u>51,293</u>	<u>64,840</u>	<u>996,985</u>

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

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

	<u>Accruing Loans</u>				<u>Current</u>	<u>Nonaccrual Loans</u>	<u>Total Loans</u>
	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Greater Than 90 Days Past Due</u>	<u>Total Past Due</u>			
At December 31, 2017:							
Real estate mortgage:							
Commercial real estate	\$ -	-	-	-	156,148	-	156,148
Residential real estate	156	283	-	439	777,334	25	777,798
Construction and land development	-	-	-	-	132,122	-	132,122
Commercial	-	25	-	25	76,192	-	76,217
Personal	<u>10</u>	<u>-</u>	<u>-</u>	<u>10</u>	<u>68,790</u>	<u>-</u>	<u>68,800</u>
Total	<u>\$ 166</u>	<u>308</u>	<u>-</u>	<u>474</u>	<u>1,210,586</u>	<u>25</u>	<u>1,211,085</u>
At December 31, 2016:							
Real estate mortgage:							
Commercial real estate	-	-	-	-	144,591	-	144,591
Residential real estate	49	-	-	49	622,794	3,728	626,571
Construction and land development	-	-	-	-	109,690	-	109,690
Commercial	-	-	-	-	51,293	-	51,293
Personal	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>	<u>64,833</u>	<u>6</u>	<u>64,840</u>
Total	<u>\$ 49</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>50</u>	<u>993,201</u>	<u>3,734</u>	<u>996,985</u>

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

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, 2017:					
Real estate mortgage -					
Residential real estate	\$ 1,857	2,010	-	-	-
At December 31, 2016 -					
Real estate mortgage -					
Residential real estate	3,888	4,081	-	-	-
Commercial real estate	1,955	1,955			
Personal	6	6	-	-	-
Total	<u>\$ 5,849</u>	<u>\$ 6,042</u>	<u>-</u>	<u>-</u>	<u>-</u>

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, 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):

	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Interest Income Received</u>
Year Ended December 31, 2017:			
Real estate mortgage:			
Residential real estate	\$ 1,866	67	68
Year Ended December 31, 2016:			
Real estate mortgage:			
Residential real estate	3,916	4	35
Commercial real estate	2,060	108	108
Personal	2	-	-
Total	<u>\$ 5,978</u>	<u>\$ 112</u>	<u>\$ 143</u>

There were no TDR's entered into during the year ended December 31, 2016. TDR's entered into during the year ended December 31, 2017 are as follows (dollars in thousands):

	<u>Pre- Modification Outstanding Number of Contracts</u>	<u>Pre- Modification Outstanding Recorded Investment</u>	<u>Post- Modification Outstanding Recorded Investment</u>
Year Ended December 31, 2017			
Real estate mortgage -			
Residential real estate -			
Modified Payment Terms	<u>1</u>	<u>\$ 1,676</u>	<u>1,676</u>

There were no TDR's that subsequently defaulted during the year ended December 31, 2017 which were restructured during the same period.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, 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):

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Losses</u>	<u>Losses Recorded During the Year</u>
At December 31, 2017 -						
Residential real estate	\$ 156	-	-	156	145	-
At December 31, 2016 -						
Residential real estate	\$ 160	-	-	160	145	-

(4) Premises and Equipment

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

	<u>At December 31,</u>	
	<u>2017</u>	<u>2016</u>
Land	\$ 1,630	1,630
Building	7,341	7,208
Leasehold Improvements	4,653	4,653
Furniture, fixtures, solar farms and equipment	10,296	5,741
Data processing equipment and software	1,839	1,564
Total, at cost	25,759	20,796
Less accumulated depreciation and amortization	(9,701)	(8,057)
Premises and equipment, net	<u>\$ 16,058</u>	<u>12,739</u>

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(4) Premises and Equipment, Continued

At December 31, 2017, the Company was committed to rent premises used in banking operations under non-cancellable operating leases. Rental expense under the operating leases was approximately \$1.3 million and \$1.2 million for 2017 and 2016, respectively. Lease expiration dates range from 1 year to 25 years, with renewal options on certain leases of 1 year to 25 years.

Future minimum rental commitments under these non-cancellable leases at December 31, 2017 are approximately as follows (in thousands):

<u>Year Ending</u> <u>December 31,</u>	<u>Minimum</u> <u>Annual</u> <u>Rental</u> <u>Payment</u>
2018	\$ 1,373
2019	1,332
2020	1,178
2021	1,124
2022	961
Thereafter	<u>3,970</u>
	<u>\$ 9,938</u>

(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 \$32,588,000 and \$31,636,000 at December 31, 2017 and 2016, 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, 2017. 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 2016.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(6) Deposits

The aggregate amount of time deposits with a denomination of \$100,000 or more was approximately \$196.6 million and \$168.7 million at December 31, 2017 and 2016, respectively. A schedule of maturities of time deposits at December 31, 2017 follows (in thousands):

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2018	\$ 136,124
2019	58,067
2020	5,203
2021	3,369
2022	5,962
	<hr/>
	<u>\$ 208,725</u>

At December 31, 2017 and 2016, securities with a carrying value of \$43,624,000 and \$95,235,000, and letters of credit of \$60 million and \$20 million, respectively were pledged to secure Qualified Public Depositors totaling \$167,392,000 and 149,575,000, respectively.

(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, 2017 and 2016, the balance totaled \$398,000 and \$7,447,000 respectively, and the Company had pledged securities as collateral for these agreements with a carrying value of \$1,234,000 and \$12,161,000, respectively.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

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	Weighted- Average Interest Rate	At December 31,	
			2017	2016
2017	Fixed	0.96%	\$ -	51,700
2018	Fixed	1.82%	38,000	18,000
2019	Fixed	1.53%	10,000	-
2020	Fixed	2.14%	5,000	5,000
2021	Fixed	1.93%	9,250	19,750
2022	Fixed	2.50%	29,151	20,084
2026	Fixed	2.01%	6,072	6,786
			<u>\$ 97,473</u>	<u>121,320</u>

The Company has entered into a collateral agreement with the FHLB which consists of a blanket lien on qualifying real estate loans. As of December 31, 2017 and 2016, the Company had remaining available borrowing capacity of \$453.5 million and \$382.7 million, respectively.

The Company has secured Standby Letters of Credit with the FHLB that are used to collateralize Qualified Public Deposits with the State of Florida. As of December 31, 2017 and 2016, the Letters of Credit were \$60 million and \$20 million, respectively.

In 2017 and 2016, the Company prepaid certain FHLB advances with a total carrying amount of \$65.7 million and \$56.5 million, respectively, and recorded a net gain on extinguishment of debt of \$381,000 and \$518,000, respectively. The gains resulted from the difference in interest rates between the current market rate and the interest rate on the debt obligations.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(9) Income Taxes

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

	Year Ended December 31,	
	2017	2016
Current:		
Federal	\$ 4,128	4,216
State	830	744
Total current	4,958	4,960
Deferred:		
Federal	1,156	(654)
State	(148)	(154)
Total deferred	1,008	(808)
Income tax expense	\$ 5,966	4,152

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,			
	2017		2016	
	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Income taxes at statutory rate	\$ 5,294	34.0 %	\$ 4,125	34.0 %
Increase (decrease) resulting from:				
State taxes, net of Federal tax benefit	450	2.9	389	3.2
Share-based compensation	44	0.3	44	0.4
Tax-exempt income	(545)	(3.5)	(581)	(4.8)
Reduction in federal rate	1,657	1.3	-	-
Tax credits from solar farms	(1,133)	10.6	-	-
Other, net	199	(7.3)	175	1.4
Income tax expense	\$ 5,966	38.3 %	\$ 4,152	34.2 %

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES
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,	
	2017	2016
Deferred tax assets:		
Allowance for loan losses	\$ 3,247	4,194
Organizational and start-up costs	61	112
Share-based compensation	103	136
Unrealized loss on securities available for sale	894	1,308
Deferred tax assets	4,305	5,750
Deferred tax liabilities:		
Prepaid expenses	(94)	(118)
Premises and equipment	(741)	(1,126)
Other	-	(48)
Deferred tax liabilities	(835)	(1,292)
Net deferred tax asset	\$ 3,470	4,458

The Company's Federal and state income tax returns filed prior to 2014 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)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, 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, 2017 and 2016, there was no liability to beneficiaries resulting from standby letters of credit. At December 31, 2017, 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, 2017, follows (in thousands):

Commitments to extend credit	<u>\$ 121,924</u>
Unused lines of credit	<u>\$ 222,971</u>
Standby letters of credit	<u>\$ 1,110</u>

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

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,			
	2017		2016	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:				
Cash and due from banks	\$ 11,933	11,933	13,358	13,358
Securities available for sale	270,525	270,525	304,253	304,253
Securities held to maturity	29,080	28,748	-	-
Loans, net	1,199,030	1,198,682	986,466	987,593
Federal Home Loan Bank stock	5,374	5,374	6,156	6,156
Federal Reserve Bank stock	3,014	3,014	3,003	3,003
Accrued interest receivable	4,523	4,523	3,895	3,895
Financial liabilities:				
Deposits	1,304,542	1,305,281	1,100,938	1,100,384
Federal Home Loan Bank advances	97,473	97,679	121,320	121,063
Other borrowings	398	398	7,447	7,447
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 \$588,000 and \$505,000 for the years ended December 31, 2017 and 2016, respectively.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, 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, 2017, 231,933 shares remain available for grant. In 2017 and 2016, \$203,000 and \$129,000 of compensation expense was recognized. At December 31, 2017, there was \$541,000 of unrecognized compensation expense related to the nonvested stock options granted under this plan. The remaining cost is expected to be recognized over the next 2.76 years. A summary of the stock option activity under this plan is as follows:

	<u>Number of Options</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term</u>
Outstanding at December 31, 2015	594,179	\$ 11.09	
Granted	91,675	18.50	
Forfeited	(475)	18.50	
Exercised	<u>(13,500)</u>	10.57	
Outstanding at December 31, 2016	671,879	12.04	
Granted	90,288	25.00	
Forfeited	(4,450)	20.30	
Exercised	<u>(78,400)</u>	10.00	
Outstanding at December 31, 2017	<u>679,317</u>	<u>\$ 14.03</u>	<u>5.04 years</u>
Exercisable at December 31, 2017	<u>454,204</u>	<u>\$ 10.79</u>	<u>3.45 years</u>

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:

	<u>Year Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Risk-free interest rate	2.12%	1.30-1.55%
Dividend yield	-	-
Expected stock volatility	17.50%	8.48%
Expected life in years	6	6
Per share grant-date fair value of options issued during the year	<u>\$ 5.78</u>	<u>\$ 2.33-2.49</u>

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 the grant. The dividend yield assumption is based on the Company's history and expectation of dividend payment.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(12) Stock-Based Compensation Plans, continued

On April 25, 2013, the Company 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 after a four year period. At December 31, 2017, 12,325 shares remain available for grant. In 2017 and 2016, \$63,000 and \$85,000 of compensation expense was recognized with a related income tax benefit of \$22,000 and \$29,000, in 2017 and 2016, respectively. All options expire ten years from the date of grant. At December 31, 2017, there was \$30,000 of total unrecognized compensation expense. The remaining cost is expected to be recognized over the next 0.60 years. A summary of stock option activity under this plan is as follows:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>
Outstanding at December 31, 2016	142,475	\$14.53	
Forfeited	<u>(4,800)</u>	16.24	
Outstanding at December 31, 2017	<u>137,675</u>	<u>\$14.55</u>	<u>6.08 years</u>

The Company issued restricted stock grants that vest monthly over 48 months. At December 31, 2017, there was \$1,606,000 of total unrecognized compensation expense related to restricted stock awards, which will be recognized over the next 4 years. In 2017 and 2016, \$580,000 and \$207,000, respectively, of compensation expense was recognized with a related income tax benefit of \$199,000 and \$71,000 for 2017 and 2016, respectively. A summary of the restricted stock grant activity is as follows:

	<u>Number of Grants</u>	<u>Price</u>	<u>Fair Value (in thousands)</u>
Outstanding at December 31, 2015	7,500	\$ 16.00	120
Granted	73,000	18.50	1,351
Vested and issued	<u>(3,958)</u>	13.76	<u>(55)</u>
Outstanding at December 31, 2016	76,542	18.50	1,416
Granted	38,000	25.00	950
Vested and issued	<u>(8,750)</u>	18.50	<u>(162)</u>
Outstanding at December 31, 2017	<u>105,792</u>	<u>\$ 20.83</u>	<u>2,204</u>

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 2017 and 2016, 9,400 and 168,750 were exercised, respectively. At December 31, 2017, no options were outstanding.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(13) Related Party Transactions and Economic Dependence

The Company has had transactions in the ordinary course of business, including deposits, loans, trust relationships 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,	
	2017	2016
Loans:		
Beginning balance	\$ 17,336	17,934
Additions	8,544	7,636
Repayments	(9,177)	(8,234)
Ending balance	\$ 16,703	17,336
Deposits at end of year	\$ 34,338	38,997
Trust accounts under administration	\$ 154,728	124,377

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 2016, a director acted as agent in the acquisition of bank-owned life insurance, and in 2017, acted as agent in the acquisition of long term disability insurance, receiving commission on both. The transaction was evaluated next to independent third parties.

In 2017 and 2016, the Company purchased furniture through a company owned by several directors.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(14) Regulatory Matters

The Company and the Bank are 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 Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company and Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company and 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 Company and 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 Company and 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. Beginning on January 1, 2016, the Company and Bank became subject to the capital conservation buffer rules which places limitations on distributions, including dividend payments, and certain discretionary bonus payments to executive officers. In order to avoid these limitations, an institution must hold a capital conservation buffer above its minimum risk-based capital requirements. As of December 31, 2017 and 2016, the Company and the Bank's capital conservation buffer exceeds the minimum requirements of 1.25% and 0.625%. The required conservation buffer of 2.5% is to be phased in at 0.625% on each January 1st over the next two years.

As of December 31, 2017, the Bank was well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Company and 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, 2017, that the Company and the Bank meets all capital adequacy requirements to which it is subject. The Company's and the Bank's actual capital amounts and percentages are presented in the table (\$ in thousands):

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(14) Regulatory Matters, continued

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>For Well Capitalized Purposes</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
<i>As of December 31, 2017:</i>						
Common equity tier 1 capital ratio						
Bank	\$133,254	12.88 %	\$46,561	4.50 %	\$67,254	6.50 %
Total Capital to Risk-Weighted Assets-						
Bank	146,066	14.12	82,774	8.00	103,468	10.00
Tier I Capital to Risk-Weighted Assets-						
Bank	133,254	12.88	62,081	6.00	82,774	8.00
Tier I Capital to Average Assets-						
Bank	133,254	8.57	62,187	4.00	77,734	5.00
Common equity tier 1 capital ratio						
Company	145,258	14.02	46,616	4.50	N/A	N/A
Total Capital to Risk-Weighted Assets-						
Company	158,207	15.27	82,873	8.00	N/A	N/A
Tier I Capital to Risk-Weighted Assets-						
Company	145,258	14.02	62,155	6.00	N/A	N/A
Tier I Capital to Average Assets-						
Company	145,258	9.34	62,240	4.00	N/A	N/A
<i>As of December 31, 2016:</i>						
Common equity tier 1 capital ratio						
Bank	120,343	13.77	39,339	4.50	56,823	6.50
Total Capital to Risk-Weighted Assets-						
Bank	131,273	15.02	69,936	8.00	87,420	10.00
Tier I Capital to Risk-Weighted Assets-						
Bank	120,343	13.77	52,452	6.00	69,936	8.00
Tier I Capital to Average Assets-						
Bank	120,343	9.02	53,365	4.00	66,707	5.00
Common equity tier 1 capital ratio						
Company	132,747	15.16	39,405	4.50	N/A	N/A
Total Capital to Risk-Weighted Assets-						
Company	143,693	16.41	70,053	8.00	N/A	N/A
Tier I Capital to Risk-Weighted Assets-						
Company	132,747	15.16	52,540	6.00	N/A	N/A
Tier I Capital to Average Assets-						
Company	132,747	9.94	53,426	4.00	N/A	N/A

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(15) Parent Company Only Financial Information

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

Condensed Balance Sheets

Assets	At December 31,	
	<u>2017</u>	<u>2016</u>
Cash and due from banks	\$ 10,820	10,961
Other assets	1,276	1,536
Investment in subsidiaries	<u>130,600</u>	<u>118,158</u>
Total assets	<u>\$ 142,696</u>	<u>130,655</u>
Liabilities and Shareholders' Equity		
Accounts payable	92	92
Shareholders' equity	<u>142,604</u>	<u>130,563</u>
Total liabilities and shareholders' equity	<u>\$ 142,696</u>	<u>130,655</u>

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(15) Parent Company Only Financial Information, continued

Condensed Statements of Shareholders' Equity

	Year Ended December 31,	
	<u>2017</u>	<u>2016</u>
Shareholders beginning balance	\$ 130,563	121,605
Net earnings	9,604	7,979
Stock-based compensation	846	421
Proceeds from sale of common stock	749	603
Repurchase of common stock	-	(751)
Proceeds from exercise of stock options	878	1,830
Tax benefit from stock options exercised	-	413
Change in accumulated other comprehensive loss	<u>(36)</u>	<u>(1,537)</u>
Shareholders ending balance	<u>\$ 142,604</u>	<u>130,563</u>

Condensed Statements of Earnings

	Year Ended December 31,	
	<u>2017</u>	<u>2016</u>
Revenue	\$ -	8
Expenses	<u>(526)</u>	<u>439</u>
Loss before earnings of subsidiaries	(526)	(431)
Earnings of subsidiaries	<u>10,130</u>	<u>8,410</u>
Net earnings	<u>\$ 9,604</u>	<u>7,979</u>

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(15) Parent Company Only Financial Information, continued

Condensed Statements of Cash Flows

	Year Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net earnings	\$ 9,604	7,979
Adjustments to reconcile net earnings to net cash used in operating activities:		
Equity in undistributed earnings of subsidiaries	(10,130)	(8,410)
Decrease (Increase) in other assets	23	260
Increase in accounts payable	-	5
Net cash used in operating activities	(503)	(166)
Cash flows from investing activities:		
Net decrease (increase) in loans	234	2,048
Capital infusion to subsidiaries	(1,500)	(10,000)
Net cash used in investing activities	(1,266)	(7,952)
Cash flows from financing activities:		
Repurchase of common stock	-	(751)
Proceeds from sale of common stock, net	749	603
Proceeds from exercise of stock options	879	1,830
Tax benefit from stock options exercised	-	413
Net cash provided by financing activities	1,628	2,095
Net decrease in cash	(141)	(6,023)
Cash at beginning of year	10,961	16,984
Cash at end of year	\$ 10,820	10,961
Noncash transactions:		
Net change in investment in subsidiaries due to change in accumulated other comprehensive loss	\$ (36)	(1,537)
Stock-based compensation expense of subsidiaries	\$ 846	421



FINEMARK HOLDINGS, INC.

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