Above. and Beyond.

2011 Annual Report

To Our Shareholders:

In 2011, FineMark National Bank & Trust continued to thrive despite a challenging economic environment. The bank has maintained a high quality balance sheet and for the second consecutive year, we generated positive pre-tax earnings.

The year 2011 was marked by significant growth, both from within existing offices and the opening of three new offices. Two offices opened in Naples, Vi at Bentley Village and Moorings Park. We also opened our first location outside of Southwest Florida in Palm Beach.

As a result of the Bank's growth during its first five years in business, the decision was made to raise additional capital by selling stock and by participating in the Small Business Lending Fund (SBLF), initiated through the U.S. Treasury. We received $5.7 million in capital from the SBLF, which serves as a source of low cost capital, resulting in total new capital of $11.82 million. This additional capital is expected to allow the bank to meet its future growth goals.

To support growth and ensure appropriate risk management, we added senior level Risk Management and Compliance Executives. Both individuals have significant experience in their respected areas. Our Chief Risk & Compliance Officer spent his entire career as a bank examiner for the Comptroller of the Currency.

After two years of due diligence, we decided to add to our investment capabilities by developing a relationship with Fortigent, LLC. This company provides access to a cadre of high quality outside asset managers in all asset classes, including private equity investments, hedge funds and other alternative investments. We believe with the addition of Fortigent, FineMark is well positioned to provide world-class investment capabilities to our clients.

We continue to be cautiously optimistic relating to the economic challenges as we enter 2012, but we are excited about the future of FineMark. We just opened our first out of state location in Scottsdale, Arizona and believe this opportunity is aligned with FineMark's overall strategy.

The company continues to stay true to its mission, "*Building Relationships by Going Above and Beyond*" and its vision, "*To Make a Positive Impact on the Individuals, Families and Communities we Serve while Being Good Stewards of FineMark's Resources*".

Thank you to you, our Shareholders, our Board of Directors, our clients and our nearly 80 employees for your commitment to the continued success of FineMark National Bank & Trust.

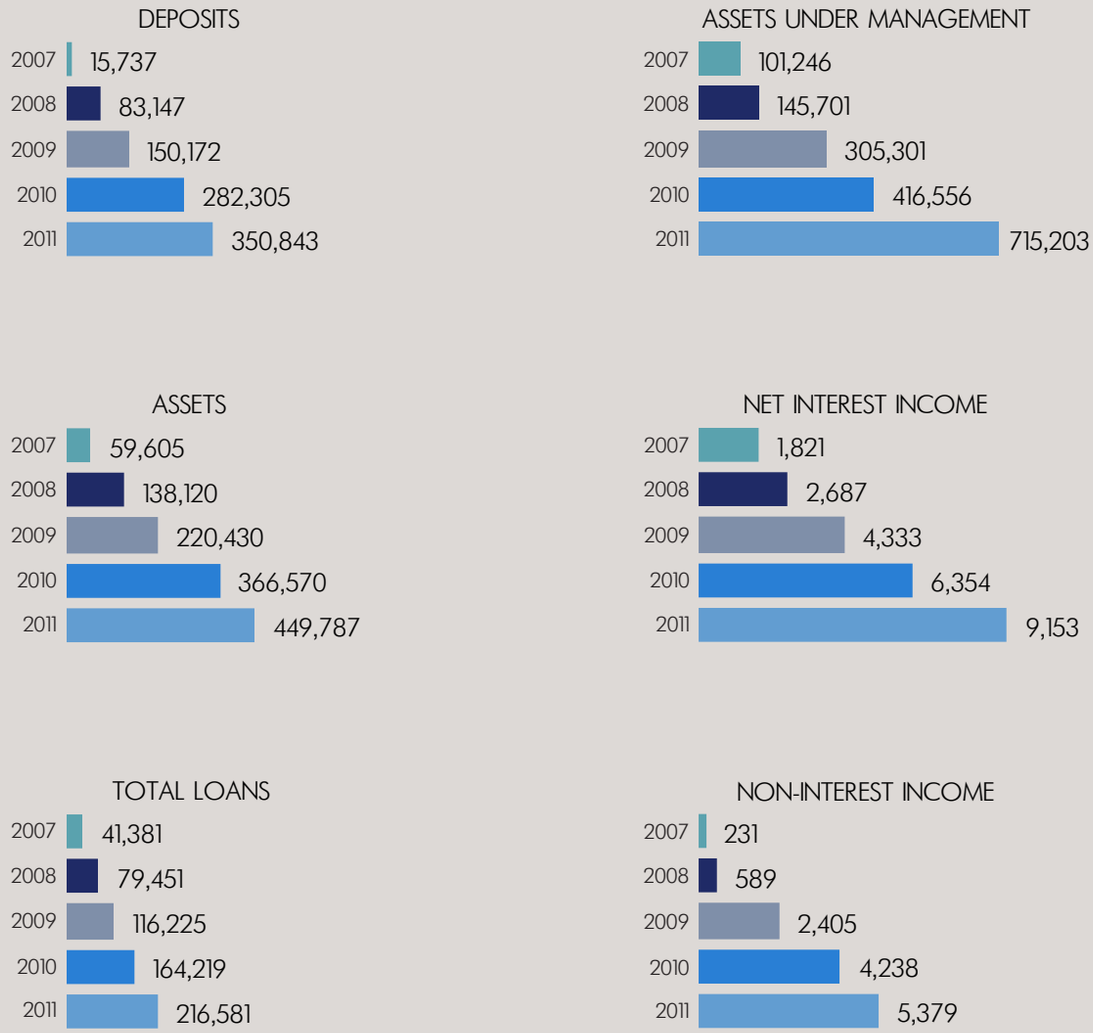
Joseph R. Catti
President & CEO
FineMark National Bank & Trust

Capital Raise

In the fall of 2011, FineMark National Bank & Trust successfully completed a capital raise of $11.82 million, which included $5.7 million from the Small Business Lending Fund, made available to stimulate small business lending. As of September 30, 2011, a Tier I capital ratio of 9.15% was acheived when $5.1 million was injected into the Bank compared to a 9.4% ratio as of September 30, 2010. FineMark stock was sold at $13 a share and was purchased by both existing and new shareholders, illustrating confidence in the Bank's performance and plans for the future. The additional funds will help support plans for growth throughout Florida and Arizona.

FINANCIAL GROWTH (IN THOUSANDS)

AS OF DECEMBER 31



New Markets

Moorings Park
Lisa Drescher, Managing Executive
120 Moorings Park Drive
Naples, Florida 34105

Vi at Bentley Village
Megan Marquardt, Managing Executive
561 Bentley Village Court
Naples, Florida 34110

Palm Beach
David Scaff, President
340 Royal Palm Way, #101
Palm Beach, Florida 33480

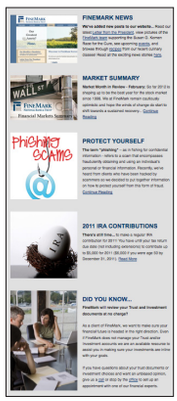
Marketing

Traditional Advertising

- Ad design and conceptualization moved in-house
- Campaign objectives for image ads:
  1. Create brand recognition
  2. Illustrate our commitment to building relationships with clients, our core values and culture
  3. Evoke a feeling of trust, commitment, family, excellence, service, relationships and community

Interactive Marketing

- An updated website was planned and designed in 2011 for an April 2012 launch.
- E-mail Newsletter was launched in October 2011. We have 1,270 subscribers.



Investment Area

The investment team at FineMark has been working diligently to upgrade operations, systems and investment offerings, to ensure clients receive the best possible investment management advice.

In 2011, Charles Schwab was added as an additional custodian. Along with the Bank of Montreal (formerly M&I), FineMark has improved capabilities in trading and technology. Charles Schwab and Bank of Montreal both provide a secure third party to ensure clients assets are custodied safely.

The investment area has also expanded its capabilities by partnering with Fortigent, LLC: a company providing wealth management solutions and consulting services to independent advisors, banks and trust companies. Fortigent allows FineMark to access world class investment managers in all major asset categories. It expands FineMark's capabilities in alternative investments including hedge funds and private equity. Fortigent conducts extensive due diligence on the investment managers working with FineMark.

FineMark's performance and account reporting has also been enhanced. Black Diamond provides FineMark's investment professionals and clients with new state-of-the-art performance reports. These reports are illustrative and display account data in a simple and easy to understand format. Black Diamond provides our investment team with easy to navigate software allowing us to analyze a portfolio in much greater detail.

FineMark Financial Services has hired Infinex Financial Group as a new broker dealer, while ending its relationship with Commonwealth Financial Network. Infinex offers Retail Investment, Wealth Management and Insurance Programs for Financial Institutions. It allows FineMark to continue to offer new annuities and 529 college savings plans as well as service existing plans.

Risk & Compliance

FineMark enhanced its risk management and compliance functions with the development of three positions. Increasing regulatory changes, coupled with economic uncertainty requires vigilance to ensure compliance with consumer protection laws and adherence to sound risk management principles. In 2011, FineMark also made a significant commitment to comply with requirements of the Bank Secrecy Act (BSA) by creating a full time position to monitor and report on all BSA related requirements. We believe these additions significantly improve the risk management of the company and position FineMark for future growth and expansion, without compromising the integrity of internal controls.

Bob Parimore was hired in July in 2011 to take on the new role of **Chief Risk and Compliance Officer** and Executive Vice President. Parimore spent his entire professional career as a bank regulator for the Office of the Comptroller of the Currency. He covered the southeast region, reviewing loan underwriting, credit administration and bank operations.

Diana Kizer, **Deposit Operations Manager**, was hired in March 2011. Kizer and her team ensure policy is being followed and that the bank is compliant with federal regulations. Kizer comes to FineMark with more than 30 years of experience in Deposit Operations. During that time, she worked for Regional, De novo and Community Banks.

Malinda Schneider was hired in July 2010 as the **Loan Operations Manager**. She is responsible for overseeing loan closings, loan servicing and compliance with all Federal regulations that govern the closing process and the various loan types offered. Schneider's work experience includes over 30 years in loan administration and management of multi-state locations.

Board of Directors

In 2011, FineMark made a change in the composition of the Board of Directors and the meeting frequency. The change allows the Holding Company Board to be more strategically focused on the Bank's growth and its National Footprint.

FineMark Holdings, Inc. Board Members

Edward G. Beimfohr
Richard E. Beightol
John F. Blais, Jr.
Aurelia J. Bell
Michael J. Carron, MD
Thomas D. Case II
Joseph R. Catti
Brian J. Eagleston
Scott A. Edmonds
Tracey U. Galloway
William N. Horowitz
Clive Lubner
David H. Lucas
Vito Manone
Alan D. Reynolds
Lee J. Seidler
William H. Turner

The Bank's Board of Directors now meets on a monthly basis and is represented by individuals from each market. The Bank Board consists of six outside members and eight internal members.

FineMark National Bank & Trust Board Members

Shelley D. Anderson
Robert M. Arnall
Aurelia J. Bell
Michael J. Carron, MD
Thomas D. Case II
Joseph R. Catti
Brian J. Eagleston
William N. Horowitz
David H. Lucas
Vito Manone
Jeffrey B. Moes
Robert A. Parimore
David H. Scaff
Robert S. Sizemore

Our. Vision.

to make a **POSITIVE IMPACT** on

the individuals, families and communities we **SERVE**

while being **GOOD STEWARDS** of FineMark's resources

Commitment to Community

Volunteers from FineMark National Bank & Trust Help Feed Those in Need

Sixty-nine volunteers from FineMark National Bank & Trust packed more than 41,000 meals to be distributed to people in need through the Harry Chapin Food Bank.

The December 11th food packing event was coordinated by the United Way Volunteer Center and funded by FineMark National Bank & Trust.

The packaged meals consisted of fortified macaroni and cheese with added soy protein and vitamins and minerals. Each bag feeds six people.

Harry Chapin Food Bank
OF SOUTHWEST FLORIDA




United Way

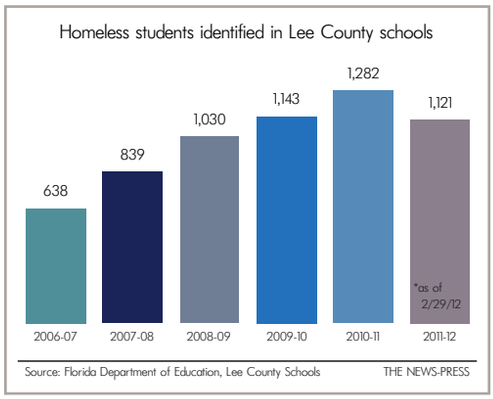
FineMark Staff Adopts Families for Christmas

FineMark Employees pooled their own personal money to 'adopt' 3 families for Christmas through the United Way. With everyone's incredible generosity, nearly $4,500 was collected. Gifts were purchased for 10 children and Publix gift cards were given to the parents. This is the 5th year FineMark has taken part in this program.

FineMark Initiates Two Community Based Programs

The first involves foster children on the verge of 'aging out' of the foster care system. After a number of interviews we selected a young man who is now working as a paid intern in our Fort Myers office. Not only is he gaining professional experience, but we are committed to helping him enroll in college to continue his education. We are encouraging other local businesses to hire young adults in similar circumstances.

FineMark is also working with The United Way and the Lee County School District to create a program that ensures homeless families get the help they need to secure stable housing. This program was initiated after learning of the growing problem of homelessness among school children in Southwest Florida.



FineMark National Bank & Trust

Building Extraordinary
Relationships by
Going Above and Beyond

FINEMARK HOLDINGS, INC.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010 and the Years Then Ended
(Together with Independent Auditor's Report)

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HACKER, JOHNSON & SMITH PA

Fort Lauderdale
Fort Myers
Orlando
Tampa

Certified Public Accountants

Independent Auditors' Report

FineMark Holdings, Inc.
Fort Myers, Florida:

We have audited the accompanying consolidated balance sheets of FineMark Holdings, Inc. and Subsidiary (the "Company") at December 31, 2011 and 2010, and the related consolidated statements of earnings, shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Hacker, Johnson + Smith PA

HACKER, JOHNSON & SMITH PA
Fort Myers, Florida
April 6, 2012

4310 Metro Parkway, Suite 205, Fort Myers, Florida 33916, (239) 313-5392
A Registered Public Accounting Firm

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

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

	At December 31,	
Assets	**2011**	**2010**
Cash and due from banks	$ 8,402	1,813
Federal funds sold	335	210
Total cash and cash equivalents	8,737	2,023
Securities available for sale	199,487	128,818
Securities held to maturity	-	50,120
Loans, net of allowance for loan losses of $3,184 in 2011 and $2,986 in 2010	213,248	161,233
Federal Home Loan Bank stock	3,074	2,878
Federal Reserve Bank stock	1,189	944
Premises and equipment, net	10,742	10,796
Accrued interest receivable	1,669	1,254
Deferred tax asset	1,328	2,976
Bank-owned life insurance	8,403	4,216
Other assets	1,004	1,312
Total assets	$ 448,881	366,570
Liabilities and Shareholders' Equity		
Liabilities:		
Noninterest-bearing demand deposits	43,643	16,916
Savings, NOW and money-market deposits	208,317	189,352
Time deposits	91,314	76,037
Total deposits	343,274	282,305
Official checks	898	451
Federal funds purchased	-	1,500
Other borrowings	3,707	1,833
Federal Home Loan Bank advances	54,727	48,951
Other liabilities	459	493
Total liabilities	403,065	335,533
Commitments (Notes 4 and 10)		
Shareholders' equity:		
Preferred stock, 9,994,335 shares authorized,$.01 par value, none issued or outstanding	-	-
Preferred stock, Series A, $.01 par value; $1,000 liquidation preference; 5665 shares authorized, 5,665 shares issued and outstanding in 2011	5,665	-
Common stock, $.01 par value; 50,000,000 shares authorized, 3,924,005 and 3,442,176 shares issued and outstanding	39	34
Additional paid-in capital	42,513	36,312
Accumulated deficit	(3,057)	(4,278)
Accumulated other comprehensive income (loss)	656	(1,031)
Total shareholders' equity	45,816	31,037
Total liabilities and shareholders' equity	$ 448,881	366,570

See Accompanying Notes to Consolidated Financial Statements.

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Earnings
(in thousands)

	Year Ended December 31,	
	2011	**2010**
Interest income:		
Loans	$ 8,777	7,170
Securities	4,723	3,477
Other	20	14
Total interest income	13,520	10,661
Interest expense:		
Deposits	3,023	3,043
Borrowings	1,344	1,261
Total interest expense	4,367	4,304
Net interest income	9,153	6,357
Provision for loan losses	381	559
Net interest income after provision for loan losses	8,772	5,798
Noninterest income:		
Trust fees	2,429	1,732
Brokerage fees	429	341
Gain on sale of securities available for sale	2,041	1,727
Income from bank-owned life insurance	187	162
Other fees and service charges	293	276
Total noninterest income	5,379	4,238
Noninterest expenses:		
Salaries and employee benefits	6,856	4,844
Occupancy and equipment	1,620	1,426
Data processing	622	555
Professional fees	659	345
Marketing	522	565
Office supplies	572	434
Other	1,375	1,119
Total noninterest expense	12,226	9,288
Earnings before income taxes	1,925	748
Income taxes	689	274
Net earnings	1,236	474
Preferred stock dividends	15	-
Earnings available to common shareholders	$ 1,221	474

See Accompanying Notes to Consolidated Financial Statements.

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Shareholders' Equity

For the Years Ended December 31, 2011 and 2010
($ in thousands)

	Preferred Stock		Common Stock		Additional Paid-In	Accumulated	Accumulated Other Compre-hensive Income	Total Shareholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	(Loss)	Equity
Balance at December 31, 2009	-	$ -	3,436,196	$ 34	36,127	(4,752)	(70)	31,339
Stock-based compensation	-	-	-	-	167	-	-	167
Comprehensive income:								
Net Earnings	-	-	-	-	-	474	-	474
Other Comprehensive income, net of tax:								
Change in unrealized loss on securities available for sale	-	-	-	-	-	-	(965)	(965)
Amortization of transferred unrealized loss on securities held to maturity	-	-	-	-	-	-	4	4
Comprehensive Income								(487)
Stock issued as compensation	-	-	4,350	-	-	-	-	-
Proceeds from sale of common stock	-	-	1,000	-	11	-	-	11
Stock issued for services redered	-	-	630	-	7	-	-	7
Balance at December 31, 2010	-	-	3,442,176	34	36,312	(4,278)	(1,031)	31,037
Stock-based compensation	-	-	-	-	74	-	-	74
Comprehensive income:								
Net Earnings	-	-	-	-	-	1,236	-	1,236
Other Comprehensive income, net of tax:								
Change in unrealized loss on securities available for sale	-	-	-	-	-	-	1,575	1,575
Amortization of transferred unrealized loss on securities held to maturity	-	-	-	-	-	-	112	112
Comprehensive Income								2,923
Stock issued as compensation	-	-	2,175	-	-	-	-	-
Dividends declared	-	-	-	-	-	(15)	-	(15)
Proceeds from sale of preferred stock, net of issuance costs of $23	5,665	5,665	-	-	(23)	-	-	5,642
Proceeds from sale of common stock, net of issuance costs of $62	-	-	479,654	5	6,150	-	-	6,155
Balance at December 31, 2011	5,665	$ 5,665	3,924,005	$ 39	42,513	(3,057)	656	45,816

See Accompanying Notes to Consolidated Financial Statements.

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31, 2011	2010
Cash flows from operating activities:		
Net earnings	$ 1,236	474
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	730	639
Provision for loan losses	381	559
Stock issued for services rendered	-	7
Amortization of deferred loan fees and costs	113	57
Amortization of premiums and discounts on securities	1,501	910
Gain on sale of securities available for sale	(2,041)	(1,727)
Increase in accrued interest receivable	(415)	(516)
Decrease in other assets	308	513
Deferred tax expense	639	274
Income from bank-owned life insurance	(187)	(162)
(Decrease) increase in other liabilities	(49)	100
Increase in official checks	447	255
Stock-based compensation	74	167
Net cash provided by operating activities	2,737	1,550
Cash flows from investing activities:		
Net increase in loans	(52,509)	(48,520)
Purchase of premises and equipment	(676)	(681)
Securities available for sale:		
Purchases	(227,555)	(298,682)
Proceeds from sales	104,243	127,482
Proceeds from maturities and calls	83,281	52,541
Proceeds from principal repayments	21,884	15,065
Securities held to maturity-		
Proceeds from principal repayments	834	107
Purchase of Federal Home Loan Bank stock	(196)	(656)
Purchase of Federal Reserve Bank stock	(245)	(91)
Purchase of bank-owned life insurance	(4,000)	-
Net cash used in investing activities	(74,939)	(153,435)
Cash flows from financing activities:		
Net increase in deposits	60,969	132,133
(Decrease) increase in federal funds purchased	(1,500)	1,500
Net increase in other borrowings	1,874	3
Net proceeds from Federal Home Loan Bank advances	5,776	12,451
Proceeds from sale of common stock, net of offering expenses	6,155	11
Proceeds from sale of preferred stock, net of offering expenses	5,642	-
Net cash provided by financing activities	78,916	146,098
Net increase (decrease) in cash and cash equivalents	6,714	(5,787)
Cash and cash equivalents at beginning of year	2,023	7,810
Cash and cash equivalents at end of year	$ 8,737	2,023

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows, Continued
(In thousands)

	Year Ended December 31, 2011	2010
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 4,370	4,272
Income taxes	$ -	-
Noncash transactions:		
Transfer of securities held to maturity to available for sale	$ 49,465	-
Transfer of securities available for sale to held to maturity net of unrealized loss of $187	$ -	50,228
Accumulated other comprehensive income (loss), net change in unrealized gain (loss) on securities available for sale, net of tax	$ 1,575	(965)
Accumulated other comprehensive income (loss), amortization of unrealized loss on securities transferred from available for sale to held to maturity, net of tax	$ 112	4
Dividends payable	$ 15	-

See Accompanying Notes to Consolidated Financial Statements.

(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. The Bank offers a variety of banking and financial services to individual and corporate clients through its six banking offices located in Lee, Collier and Palm Beach County, Florida. The Bank expects to enter into a lease for a banking office in Maricopa County, Arizona in the first quarter of 2012, and another office in Collier County in the second quarter of 2012. The deposit accounts of the Bank are insured up to the applicable limits by the Federal Deposit Insurance Corporation. The Bank also has a trust department which offers investment management, trust administration, estate planning and financial planning services. The assets under advice by the trust department, as well as the obligations associated with those assets, are not included as part of the consolidated financial statements of the Company.

Management has evaluated all significant events occurring subsequent to the balance sheet date through April 6, 2012, 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 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 and Cash Equivalents. For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, balances due from banks and federal funds sold, all of which mature within ninety days.

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, 2011 and 2010, the required reserve balances were $0 and $897,000, respectively.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Securities. Securities may be classified as either trading, held-to-maturity or available-for-sale. Trading securities are held principally for resale and recorded at their fair values. 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 operations and reported in accumulated other comprehensive income (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. 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 capitalized and certain direct origination costs are deferred. 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.

Allowance for Loan Losses. The allowance for credit losses represents the amount which, in management's judgment, will be adequate to absorb credit losses inherent in the loan portfolio as of the balance sheet date. The adequacy of the allowance is determined by management's evaluation of the loan portfolio 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. Subsequent recoveries, if any are credited to the allowance. There were no changes in the Company's accounting policies on methodology during the years ended December 31, 2011 or 2010.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Allowance for Loan Losses, Continued. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation requires estimates that are susceptible to significant revision as more information becomes available.

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 industry loss experience adjusted for qualitative factors.

The historical loss component of the allowance is determined by peer group losses recognized by portfolio segment over the preceding five quarters. This is supplemented by the risks for each portfolio segment. Risk factors impacting loans in each of the portfolio segments include broad deterioration of property values, reduced consumer and business spending as a result of continued high unemployment and reduced credit availability and lack of confidence in a sustainable recovery. 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, 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.

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 for commercial, commercial real estate, construction and land development loans 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify smaller individual personal and residential loans for impairment disclosures.

(continued)

(1) Summary of Significant Accounting Policies, Continued

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

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

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

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.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Income Taxes, Continued. 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, 2011, management is not aware of any uncertain tax positions that would have a material effect on the Company's financial statements.

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

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

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.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued.

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 and liabilities 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.

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.

(continued)

(1) Summary of Significant Accounting Policies, Continued

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

Cash and Cash Equivalents. The carrying amount of cash and cash equivalents represents fair value.

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

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.

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.

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.

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 and Federal Funds Purchased. The carrying amount of other borrowings and federal funds purchased 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 and Brokerage Fee Income. For trustee, custodian, investment manager, brokerage services 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.

(continued)

(1) Summary of Significant Accounting Policies, Continued

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 using an accelerated method over the vesting period.

Recent Pronouncements. In April 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-02, Receivables (Topic 310): *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. This guidance clarifies the guidance on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. ASU No. 2011-02 was effective for annual periods beginning on or after January 1, 2012 and should be applied retrospectively to the beginning of the annual period of adoption. The adoption of the ASU is not expected to have a material impact on the Company's consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. ASU 2011-04 applies to all reporting entities that are required or permitted to measure or disclose the fair value of an asset, a liability, or an instrument classified in a reporting entity's shareholders' equity in the financial statements. ASU 2011-04 is expected to result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. Consequently, it changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements of ASU 2011-04 it is not intended for the amendments to result in a change in the application of the requirements in Topic 820. Some of the amendments clarify the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements, including the following: (1) measuring the fair value of financial instruments that are managed within a portfolio; (2) application of premiums and discounts in a fair value measurement; and (3) additional disclosures about fair value measurements. ASU 2011-04 was effective for annual periods beginning on January 1, 2012 and is to be applied prospectively. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Recent Pronouncements, Continued. In April 2011, FASB issued ASU 2011-03, Transfers and Servicing (Topic 860): *Reconsideration of Effective Control for Repurchase Agreement*, which applies to all entities. It affects all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The amendments do not affect other transfers of financial assets. ASU 2011-03 removes the assessment of effective control the criterion relating to the transferor's ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. Consequently, it also eliminates the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. Eliminating the transferor's ability criterion and related implementation guidance from an entity's assessment of effective control should improve the accounting for repos and other similar transactions. ASU 2011-03 is effective for periods beginning on or after December 15, 2011 and is to be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The Company does not expect the adoption of ASU 2011-03 to have a material impact on the consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income* (Topic 220). The amendments in this update remove the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU No. 2011-05 is effective for annual periods beginning on January 1, 2012. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

Reclassifications. Certain numbers in the 2010 consolidated financial statements have been reclassified to conform to the 2011 financial statement presentation.

(continued)

(2) Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31 ,2011:				
Securities Available for Sale:				
U.S. Government agency securities	$ 34,136	80	-	34,216
Corporate securities	16,122	35	(380)	15,777
Mortgage-backed securities	95,010	795	(79)	95,726
Municipal securities	14,957	72	(26)	15,003
Taxable municipal securities	38,213	565	(13)	38,765
Total	$ 198,438	1,547	(498)	199,487
At December 31 ,2010:				
Securities Available for Sale:				
U.S. Government agency securities	20,280	49	(9)	20,320
Corporate securities	3,166	-	(65)	3,101
Mortgage-backed securities	83,942	72	(1,446)	82,568
Municipal securities	4,014	50	(12)	4,052
Taxable municipal securities	18,884	95	(202)	18,777
Total	$ 130,286	266	(1,734)	128,818
Securities Held to Maturity:				
U.S. Government agency securities	37,412	-	(523)	36,889
Mortgage-backed securities	5,475	-	(56)	5,419
Municipal securities	484	-	(4)	480
Taxable municipal securities	6,749	-	(177)	6,572
Total	$ 50,120	-	(760)	49,360

On August 31, 2011, the Company transferred securities with a carrying value of $49,465,000 from held to maturity to available for sale. The fair value of the securities was $50,648,000, resulting in an unrealized gain of $1,183,000. Due to the aforementioned transfer, the Company cannot classify any securities as held to maturity until September, 2013.

On December 1, 2010, the Company transferred securities with a carrying value of $50,415,000 from available for sale to held to maturity.

(continued)

(2) Securities, Continued

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

	Fair Value Measurements Using			
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31 ,2011:				
U.S. Government agency securities	$ 34,216	-	34,216	-
Corporate securities	15,777	-	15,777	-
Mortgage-backed securities	95,726	-	95,726	-
Municipal securities	15,003	-	15,003	-
Taxable municipal securities	38,765	-	38,765	-
Total	$ 199,487	-	199,487	-
December 31 ,2010:				
U.S. Government agency securities	20,320	-	20,320	-
Corporate securities	3,101	-	3,101	-
Mortgage-backed securities	82,568	-	82,568	-
Municipal securities	4,052	-	4,052	-
Taxable municipal securities	18,777	-	18,777	-
Total	$ 128,818	-	128,818	-

During the years ended December 31, 2011 and 2010, no securities were transferred in or out of Level 1, Level 2 or Level 3.

The scheduled maturities at December 31, 2011 are as follows (in thousands):

	Available for Sale	
	Amortized Cost	Fair Value
Due in less than one year	$ 9,875	9,890
Due from one to five years	90,196	90,480
Due from five to ten years	23,184	23,296
Due in over ten years	75,183	75,821
Total	$ 198,438	199,487

(continued)

(2) Securities, Continued

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

	Year Ended December 31,	
	2011	2010
Proceeds from sales of securities	$ 104,243	127,482
Gross gains from sale of securities	$ 2,041	1,727

Securities with gross unrealized losses at December 31, 2011, aggregated by length of time that individual securities have been in a continuous loss position, is as follows (in thousands):

	Less Than Twelve Months		More Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Available for Sale:				
Corporate securities	$ 267	8,243	$ 113	1,700
Mortgage-backed securities	79	24,414	-	-
Municipal securities	26	7,552	-	-
Taxable municipal securities	13	7,608	-	-
Total	$ 385	47,817	$ 113	1,700

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.

The unrealized losses of $498,000 on forty-one investment securities available for sale were caused by market conditions. It is expected that the securities would not be settled at a price less than the par value of the investments. Because the decline in fair value is attributable to changes in market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than- temporarily impaired.

At December 31, 2011 and 2010, securities with a fair value of $56.0 million and $37.8 million, respectively, were pledged to secure repurchase agreements, deposit accounts, Federal Home Loan Bank advances, and to the State of Florida in order to secure public funds.

(continued)

(3) Loans

A significant portion of our loan portfolio is concentrated among borrowers in South West Florida and a substantial portion of the portfolio is collateralized by real estate in this area. 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 area. However, due to conservative underwriting and regularly reviewing the borrower's financial condition we have been able to mitigate our risk.

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

	At December 31,	
	2011	2010
Real estate mortgage loans:		
Commercial real estate	$ 35,832	24,654
Residential real estate	122,698	89,207
Construction and land development	17,649	18,797
Total real estate mortgage loans	176,179	132,658
Commercial	22,969	17,218
Personal	17,121	14,179
Total loans	216,269	164,055
Add (subtract):		
Deferred loan costs, net	163	164
Allowance for loan losses	(3,184)	(2,986)
Loans, net	$213,248	161,233

The Company has divided the loan portfolio into three portfolio segments, each with different risk characteristics and methodologies for assessing risk. The portfolio segments identified by the Company are as follows:

Real Estate Mortgage Loans. 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 underwritten based upon standards set forth in the policies approved by the Bank's board of directors (the "Board").

(continued)

(3) Loans, Continued

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

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

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

(continued)

(3) Loans, Continued

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

	Year Ended December 31, 2011				
	Real Estate Mortgage Loans	Commercial	Personal	Total	Comparative Total 2010
Beginning balance	$ 2,647	215	124	2,986	2,869
Provision for loan losses	281	100	-	381	559
Charge-offs	(264)	(90)	-	(354)	(442)
Recoveries	171	-	-	171	-
Ending balance	$ 2,835	225	124	3,184	2,986
Individually evaluated for impairment:					
Recorded investment	$ 3,739	-	-	3,739	548
Balance in allowance for loan losses	$ 415	-	-	415	-
Collectively evaluated for impairment:					
Recorded investment	$ 172,440	22,969	17,121	212,530	163,507
Balance in allowance for loan losses	$ 2,420	225	124	2,769	2,986

(continued)

(3) Loans, Continued

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

	Real Estate Mortgage Loans						
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial	Personal	Total	Comparative Totals for 2010
Credit Risk Profile by Internally Assigned Grade:							
Grade:							
Pass	$ 35,534	122,149	14,684	22,969	16,951	212,287	159,860
Special mention	-	73	-	-	166	239	255
Substandard	298	476	2,965	-	4	3,743	3,940
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	$ 35,832	122,698	17,649	22,969	17,121	216,269	164,055

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. We make various assumptions and judgments about the collectability of our loan portfolio and provide an allowance for potential losses based on several factors including economic uncertainty. If our assumptions are wrong, our allowance for loan losses may not be sufficient to cover our losses and may cause us to increase the allowance in the future. Among the factors that could affect our ability to collect our loans and require us 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, 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.

(continued)

(3) Loans, Continued

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.

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.

(continued)

(3) Loans, Continued

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

	Accruing Loans						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Nonaccrual Loans	Total Loans
At December 31, 2011:							
Real estate mortgage loans							
Commercial real estate	$ -	-	-	-	35,535	297	35,832
Residential real estate	-	-	-	-	122,362	336	122,698
Construction and land development	-	-	-	-	17,649	-	17,649
Commercial	-	-	100	100	22,869	-	22,969
Personal	-	-	-	-	17,121	-	17,121
Total	$ -	-	100	100	215,536	633	216,269
Comparative totals for 2010	$ -	-	-	-	163,655	400	164,055

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.

(continued)

(3) Loans, Continued

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

	With No Related Allowance Recorded		With Related Allowance Recorded		
	Recorded Investment	Unpaid Contractual Principle Balance	Recorded Investment	Unpaid Contractual Principle Balance	Recorded Allowance
At December 31, 2011:					
Real estate mortgage loans					
Commercial real estate	$ 298	649	-	-	-
Residential real estate	476	911	-	-	-
Construction and land development	-	-	2,965	2,965	415
Commercial	-	17	-	-	-
Personal	-	-	-	-	-
Total	$ 774	1,577	$ 2,965	2,965	415
Comparative totals for 2010	$ 548	548	$ -	-	-

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

	For the Year Ended December 31, 2011		
	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Real estate mortgage loans:			
Commercial real estate	$ 305	-	13
Residential real estate	172	-	8
Construction and land development	2,726	182	182
Total	$ 3,203	$ 182	$ 203
Comparative totals for 2010	$ 761	$ 5	$ 5

(continued)

(3) Loans, Continued

Troubled debt restructurings during the year ended December 31, 2011 are as follows (dollars in thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings-			
Real estate mortgage loans-			
Construction and land development-			
Modified interest rate and amortization	1	$2,975	2,965

The allowance for loan losses on all loans that have been restructured and are considered trouble debt restructurings ("TDR") is included in the Company's specific reserve. The specific reserve is determined on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral-dependent. TDR's that have subsequently defaulted are considered collateral-dependent. During the year ended December 31, 2011, no TDR's have subsequently defaulted.

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

	Fair Value	Level 1	Level 2	Level 3	Total Losses	Losses Recorded During the Year
At December 31, 2011:						
Commercial real estate	$ 298	-	-	298	242	90
Residential real estate	476	-	-	476	409	264
	$ 774	-	-	774	651	354
At December 31, 2010:						
Commercial real estate	$ 548	-	-	548	298	153

(continued)

(4) Premises and Equipment

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

	At December 31,	
	2011	2010
Land	$ 1,630	1,630
Building	5,490	5,344
Leasehold Improvements	2,937	2,933
Furniture, fixtures and equipment	2,420	2,054
Data processing equipment and software	465	305
Total, at cost	12,942	12,266
Less accumulated depreciation and amortization	(2,200)	(1,470)
Premises and equipment, net	$ 10,742	10,796

The Company has a land lease agreement for the Coconut Point office location. This lease expires in 2034 and has two renewal options and rent adjustment clauses during the term of the lease. Rent expense under this operating lease for the years ended December 31, 2011 and 2010 was approximately $226,000 and $221,000 respectively.

The Company has a building lease agreement for the Shell Point office location. The lease expires in 2014 and has five renewal options of three years each and rent adjustment clauses during the term of the lease. The lease also provides for a fifty percent rent discount for the first eighteen months of the term in consideration of renovation costs undertaken by the Company. Rent expense under this operating lease for the years ended December 31, 2011 and 2010 was approximately $25,000 and $26,000 respectively.

In 2011, the Company entered into a building lease agreement for the Moorings Park office location. The lease expires in 2016 and has five renewal options of three years each and rent adjustment clauses during the term of the lease. The commencement date was May 1, 2011. Rent expense under this operating lease for the year ended December 31, 2011 was approximately $8,000.

In 2011, the Company entered into a building lease agreement for the Bentley Village office location. The lease expires in 2019 and has four renewal options of three years each. The commencement date was July 14, 2011. Rent expense under this operating lease for the year ended December 31, 2011 was approximately $1,000.

In 2011, the Company entered into a building lease agreement for the Palm Beach office location. The lease expires in 2013 and includes rent adjustment clauses during the term of the lease. The commencement date was December 1, 2011. Rent expense under this operating lease for the year ended December 31, 2011 was approximately $7,000.

(continued)

(4) Premises and Equipment, Continued

Future minimum rental commitments under these noncancelable leases at December 31, 2011 are approximately as follows (in thousands):

Year Ending December 31,	Minimum Annual Rental Payment
2012	$ 357
2013	360
2014	266
2015	244
2016	237
Thereafter	3,880
	$ 5,344

(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 $8,403,000 and $4,216,000 at December 31, 2011 and 2010, 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 sheet 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, 2011. 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.

(continued)

(6) Deposits

The aggregate amount of time deposits with a denomination of $100,000 or more, was approximately $77.7 million and $63.9 million at December 31, 2011 and 2010, respectively.

A schedule of maturities of time deposits at December 31, 2011 follows (in thousands):

Year Ending December 31,	Amount
2012	$ 69,486
2013	17,254
2014	1,405
2015	494
2016	2,675
	$ 91,314

At December 31, 2011, securities with a carrying value of $30,437,000 and $21,137,000 were pledged to secure deposits totaling $23,649,000 for thirteen depositors and four Qualified Public Depositors totaling $32,073,000, 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, 2011 and 2010, the balance totaled $3,707,000 and $1,833,000, respectively, and the Company had pledged securities as collateral for these agreements with a carrying value of $4,475,000 and $3,148,000, respectively.

(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	Call Date	Interest Rate	At December 31, 2011	At December 31, 2010
2011	Fixed	-	.28-3.10 %	$ -	4,000
2012	Fixed	-	.55-3.30	2,100	2,100
2013	Fixed	-	1.81-2.23	6,000	6,000
2014	Fixed	-	2.54-2.70	6,000	11,000
2015	Fixed	-	1.22-2.65	17,627	12,851
2016	Fixed	-	0.18-1.79	10,000	-
2017	Fixed	2012	4.71-4.87	5,000	5,000
2018	Fixed	2013	3.63-3.70	8,000	8,000
				$ 54,727	48,951

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

(9) Income Taxes

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

	Year Ended December 31, 2011	Year Ended December 31, 2010
Current:		
Federal	$ 50	-
State	-	-
Total current	50	-
Deferred:		
Federal	533	228
State	106	46
Total deferred	639	274
Total	$ 689	274

(continued)

(9) Income Taxes, continued

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,			
	2011		2010	
	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Income tax expense at statutory rate	$ 655	34.0 %	$ 254	34.0 %
Increase (decrease) resulting from:				
State taxes, net of Federal tax benefit	70	3.6	30	4.0
Share-based compensation	16	0.8	52	7.0
Tax-exempt income	(80)	(4.2)	(61)	(8.2)
Other, net	28	1.6	(1)	(0.2)
	$ 689	35.8 %	$ 274	36.6 %

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

	At December 31,	
	2011	2010
Deferred tax assets:		
Net operating loss carryforwards	$ 293	910
Allowance for loan losses	1,072	1,003
Organizational and start-up costs	222	244
Share-based compensation	530	520
Unrealized loss on securities available for sale	-	550
Unrealized loss on securities held to maturity	-	67
Other	6	111
Deferred tax assets	2,123	3,405
Deferred tax liabilities:		
Accrual to cash conversion	(97)	(220)
Unrealized gain on securities available for sale	(392)	-
Premises and equipment	(306)	(209)
Deferred tax liabilities	(795)	(429)
Net deferred tax asset	$ 1,328	2,976

(continued)

(9) Income Taxes, continued

At December 31, 2011, the Company had net operating loss carryforwards of approximately $900,000 available to offset future taxable income. These carryforwards will begin to expire in 2027.

The Company's Federal and state income tax returns filed since inception remain subject to examination by the respective taxing authorities.

(10) Financial Instruments

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, 2011 and 2010, there was no liability to beneficiaries resulting from standby letters of credit. At December 31, 2011, 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, 2011, follows (in thousands):

Commitments to extend credit	$ 2,295
Unused lines of credit	$ 45,402
Standby letters of credit	$ 1,839

(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,			
	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 8,737	8,737	2,023	2,023
Securities available for sale	199,487	199,487	128,818	128,818
Securities held to maturity	-	-	50,120	49,360
Loans, net	213,248	213,650	161,233	164,343
Federal Home Loan Bank stock	3,074	3,074	2,878	2,878
Federal Reserve Bank stock	1,189	1,189	944	944
Accrued interest receivable	1,669	1,669	1,254	1,254
Financial liabilities:				
Deposits	343,274	344,825	282,305	282,693
Federal Home Loan Bank advances	54,727	57,577	48,951	49,553
Federal funds purchased	-	-	1,500	1,500
Other borrowings	3,707	3,707	1,833	1,833
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 $168,000 and $119,000 for the years ended December 31, 2011 and 2010, respectively.

(12) Stock-Based Compensation Plans

The Company has a stock incentive plan for directors and employees. Under the plan, 713,100 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 vest over a three to five year period. All options expire ten years from the date of grant. At December 31, 2011, 380,400 shares remain available for grant. A summary of the stock option activity under this plan is as follows:

(continued)

(12) Stock-Based Compensation Plans, continued

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at December 31, 2009	188,750	$ 10.63	
Granted	56,450	10.10	
Forfeited	(1,000)	12.00	
Outstanding at December 31, 2010	244,200	10.50	
Granted	80,500	9.82	
Forfeited	(2,000)	11.00	
Outstanding at December 31, 2011	322,700	$ 10.33	7.29 years
Exercisable at December 31, 2011	202,113	$ 10.57	6.29 years

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:

	Year Ended December 31,	
	2011	2010
Risk-free interest rate	2.55-2.73%	1.98-3.08%
Dividend yield	-	-
Expected stock volatility	9.67%	9.00%
Expected life in years	6	6
Per share grant-date fair value of options issued during the year	$1.58-2.32	1.90-2.17

All stock options granted in 2011 and 2010 were to employees under the plan discussed above. The Company used the guidance of the SEC to determine the estimated life of options issued. Expected volatility is based on historical volatility of similar financial institutions. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield assumption is based on the Company's history and expectation of dividend payments.

At December 31, 2011, there was $157,000 of total unrecognized compensation expense related to nonvested stock options granted under the plan. The cost is expected to be recognized over the next 2.85 years. The total fair value of shares vesting and recognized as compensation expense was $67,000 and $151,000 for the years ended December 31, 2011 and 2010, respectively, with no related income tax benefit in 2011 and 2010.

(continued)

(12) Stock-Based Compensation Plans, continued

In 2007, the Company granted 10,000 restricted stock awards to employees. These awards vest 50% after three years and 25% in each of the next two years. The fair value of this restricted stock was determined to be $100,000. At December 31, 2011, there was $2,000 of total unrecognized compensation expense related to nonvested restricted stock awards which is expected to be recognized in 2012. The total fair value of shares vested and recognized as compensation expense was $7,000 and $16,000 for the years ended December 31, 2011 and 2010, respectively, with a related income tax benefit in 2011 and 2010 of $3,000 and $6,000, respectively. During 2011 and 2010, no shares were forfeited. In 2011, 2175 shares were fully vested and were issued to employees. During 2010, 4,350 shares became fully vested and were issued to employees.

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. As of December 31, 2011, no options had been exercised and 12,500 options had been forfeited.

(13) Related Party Transactions and Economic Dependence

The Company has had transactions in the ordinary course of business, including deposits, borrowings and other transactions, with certain of our 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):

	Year Ended December 31,	
	2011	2010
Loans:		
Beginning balance	$ 13,005	12,950
Additions	2,137	2,371
Repayments	(4,263)	(2,316)
Ending balance	$ 10,879	13,005
Deposits at end of year	$ 50,448	55,171

In 2011, a director acted as agent in the acquisition of bank owned life insurance. The transaction was evaluated next to independent third parties. Also, the Company purchased a substantial amount of office furniture from a company controlled by a director. Finally, in 2008, the Company entered into a lease agreement with a director to lease certain premises. All transactions were evaluated to ensure that the terms and conditions are comparable to transactions with other persons, including where appropriate obtaining independent appraisals.

(continued)

(14) Senior Non-Cumulative Perpetual Preferred Stock

On September 21, 2011, the Company entered into a Securities Purchase Agreement with the Secretary of the Treasury, pursuant to which the Company issued and sold to the Treasury 5,665 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of $1,000 per share (the "Series A Preferred Stock"), for proceeds of $5,642,000, net of offering costs of $23,000. The issuance was pursuant to the Treasury's Small Business Lending Fund ("SBLF") program. The Series A Preferred Stock is entitled to receive non-cumulative dividends payable quarterly on each January 1, April 1, July 1 and October 1, commencing October 1, 2011. The dividend rate, which is calculated on the aggregate Liquidation Amount, has been initially set at 5% per annum based upon the current level of "Qualified Small Business Lending" ("QSBL") by the Bank. The dividend rate for future dividend periods will be set based upon the percentage change in qualified lending between each dividend period and the baseline QSBL level established at the time the Agreement was entered into. Such dividend rate may vary from 1% per annum to 5% per annum for the second through tenth dividend periods, and from 1% per annum to 7% per annum for the eleventh through the first half of the nineteenth dividend periods. If the Series A Preferred Stock remains outstanding for more than four-and-one-half years, the dividend rate will be fixed at 9%. Prior to that time, in general, the dividend rate decreases as the level of the Company's QSBL increases. Such dividends are not cumulative, but the Company may only declare and pay dividends on its common stock (or any other equity securities junior to the Series A Preferred Stock) if it has declared and paid dividends for the current dividend period on the Series A Preferred Stock, and will be subject to other restrictions on its ability to repurchase or redeem other securities.

The SBLF Preferred Stock is non-voting, except in limited circumstances. In the event that the Company misses five dividend payments, whether or not consecutive, the holder of the SBLF Preferred Stock will have the right, but not the obligation, to appoint a representative as an observer on the Company's board of directors. As is more completely described in the Certificate of Designation, holders of the Series A Preferred Stock have the right to vote as a separate class on certain matters relating to the rights of holders of Series A Preferred Stock and on certain corporate transactions. Except with respect to such matters and, if applicable, the election of the additional directors described above, the Series A Preferred Stock does not have voting rights.

The Company may redeem the shares of Series A Preferred Stock, in whole or in part, at any time at a redemption price equal to the sum of the Liquidation Amount per share and the per-share amount of any unpaid dividends for the then-current period, subject to any required prior approval by the Company's primary federal banking regulator.

(continued)

(15) Regulatory Matters

The Company and the Bank are subject to statutory and regulatory limitations on their payment of dividends. The Holding Company's primary source of income from which it may pay dividends will be the dividends that it receives from the Bank.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and percents (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2011, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2011, the most recent notification from the regulatory authorities categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage percents as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and percents are also presented in the table ($ in thousands):

	Actual		For Capital Adequacy Purposes		For Well Capitalized Purposes	
	Amount	Percent	Amount	Percent	Amount	Percent
As of December 31, 2011:						
Total Capital to Risk-Weighted Assets	$41,420	16.46 %	$20,132	8.00 %	$25,165	10.00 %
Tier I Capital to Risk-Weighted Assets	38,274	15.21	10,066	4.00	15,099	6.00
Tier I Capital to Average Assets	38,274	8.82	17,349	4.00	21,687	5.00
As of December 31, 2010:						
Total Capital to Risk-Weighted Assets	30,471	16.13	15,111	8.00	18,889	10.00
Tier I Capital to Risk-Weighted Assets	28,102	14.88	7,555	4.00	11,333	6.00
Tier I Capital to Average Assets	28,102	8.08	13,916	4.00	17,395	5.00

(continued)

(16) Comprehensive Income (Loss)

The components of other comprehensive income (loss) and related tax effects are as follows (in thousands):

	Year Ended December 31,	
	2011	2010
Unrealized holding gains on available for sale securities	$ 3,375	184
Holding gains related to transfer of securities from held to maturity to available for sale	1,183	-
Reclassification adjustment for gains realized in operations	(2,041)	(1,727)
Net change in unrealized losses	2,517	(1,543)
Income tax effect	(942)	578
Change in unrealized loss on available for sale securities	$ 1,575	(965)
Amortization of unrealized loss on securities transferred from available for sale to held to maturity, net of tax of $67 in 2011 and $3 in 2010	$ 112	4

(17) Parent Company Only Financial Information

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

Condensed Balance Sheets

	At December 31,	
Assets	2011	2010
Cash	$ 6,598	1,277
Investment in subsidiary	39,352	29,879
Total Assets	$ 45,950	31,156
Liabilities and Shareholders' Equity		
Dividend Payable	15	-
Deferred taxes	119	119
Shareholders' Equity	45,816	31,037
Total liabilities and shareholders' equity	$ 45,950	31,156

(continued)

(17) Parent Company Only Financial Information, continued

Condensed Statements of Shareholders' Equity

	Year Ended December 31,	
	2011	2010
Shareholders beginning balance	$ 31,037	31,339
Net earnings	1,236	474
Shares issued for services rendered	-	7
Stock-based compensation	74	167
Proceeds from sale of common stock, net of offering expenses	6,155	11
Proceeds from sale of preferred stock, net of offering expenses	5,642	-
Preferred stock dividend	(15)	-
Change in accumulated other comprehensive income (loss)	1,687	(961)
Shareholders ending balance	$ 45,816	31,037

Condensed Statements of Operations

	Year Ended December 31,	
	2011	2010
Revenue	$ -	3
Expenses	-	-
Earnings before earnings of subsidiary	-	3
Earnings of subsidiary	1,236	471
Net earnings	$ 1,236	474

(continued)

(17) Parent Company Only Financial Information, continued

Condensed Statements of Cash Flows

	Year Ended December 31,	
	2011	2010
Cash flows from operating activities:		
Net earnings	$ 1,236	474
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiary	(1,236)	(471)
Stock issued for services rendered	-	7
Net cash provided by operating activities	-	10
Cash flows from investing activity-		
Capital infusion to subsidiary	(6,476)	(2,500)
Cash flows from financing activities:		
Proceeds from sale of common stock, net of offering expenses	6,155	11
Proceeds from sale of preferred stock, net of offering expenses	5,642	-
Net cash provided by financing activities	11,797	11
Net increase (decrease) in cash	5,321	(2,479)
Cash at beginning of the year	1,277	3,756
Cash at end of year	$ 6,598	1,277
Noncash transactions:		
Net change in investment in subsidiary due to change in accumulated other comprehensive income (loss)	$ 1,687	(961)
Stock-based compensation expense of subsidiary	$ 74	167
Dividends payable	$ 15	-

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