FineMark Holdings, Inc.

2014
Annual Report

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FINEMARK HOLDINGS, INC.

Our Mission:

To build extraordinary relationships by going above and beyond!

Our Vision:

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

Dear Shareholder:

Consistent with prior years, FineMark stayed true to its goal of providing unparalleled service to our clients. As a result, in 2014, the bank realized significant earnings and balance-sheet growth. This steadfast focus and resulting success would not have been possible without top professionals who are committed to our mission and vision.

Our Naples office, which formally opened in January of 2014 with 12 people, has performed beyond the bank's expectations. Both Naples and our Scottsdale office, which opened in 2012, have contributed to the overall growth of the company.

In late 2014, the bank committed to opening three additional offices. The first opened in January of 2015 in a small space located at Marbella, a retirement condominium in Naples. The two additional offices will open in late spring 2015. One location is adjacent to the Bonita Bay Community in Bonita Springs and the other is in North Scottsdale in the DC Ranch Community. While each location is attractive from a growth standpoint, our expansion strategy continues to be opportunistic rather than planned.

In order to support our growth and maintain our commitment of providing exceptional client service, we hired 16 associates in 2014. In the fall, Dick Riley, who has been with FineMark since inception, relocated to Scottsdale to help support the bank's trust and investment area.

As you will see on pages 10 and 11 of this report, FineMark continued to see significant balance-sheet growth in 2014. Total assets increased 23 percent year over year and total loan balances increased 33 percent for the same time period, without compromising the high quality of our loan portfolio.

The year was also a turning point in the company's earnings growth. While the bank has experienced profitability since 2009, it realized significant increases in core operating income this past year, with pre-tax earnings increasing by 138 percent over 2013.

Capital levels remain strong evidenced by a Tier 1 leverage ratio of 8.31 percent at year end. Management believes there is sufficient surplus capital, combined with increased earnings, to support anticipated growth and opportunities that arise.

As we look to 2015, we will face a number of challenges. The regulatory environment is, and will continue to be, a challenge for the foreseeable future. Examinations, documentation and scrutiny are expected to increase exponentially as the bank grows. In addition, like all other financial institutions, we are critically aware of the need for increased cyber security. Cyber-attacks are more frequent, more sophisticated and more widespread than just one year prior. We have addressed this issue by creating a cyber-security framework and using a variety of security technologies to constantly monitor and improve our systems.

While it is a challenge to maintain our culture as we grow, all of our colleagues are fully committed to making sure the fundamentals of our unique culture do not change. That means providing the highest level of service and building deep relationships with our clients.

We also remain committed to our shareholders, associates, board of directors and the communities we serve. We thank each of you for your ongoing support of this organization. We realize we could not reach this level of success without you.

Joe

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

YEAR IN REVIEW

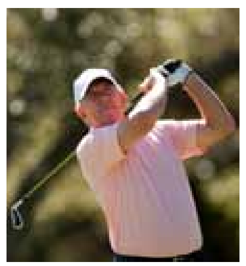
FineMark's Naples Office experienced tremendous success in 2014 amid major renovations. Construction started in October and is expected to be completed in summer 2015. The office will consist of 10,000 square-feet of space including a commercial kitchen and community room.

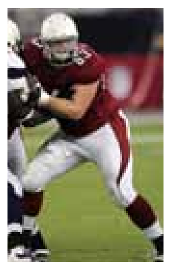
16 associates were hired in 2014 to support FineMark's continued growth. FineMark also announced three new offices would open in 2015: **North Scottsdale,** in the DC Ranch Community; **Bonita Springs,** in the Bonita Bay Club Lifestyle Center; and in **Naples** at the Marbella at Pelican Bay.

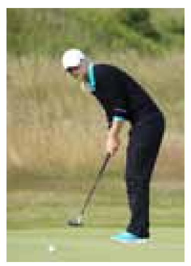
226 women attended 16 **Women's Series** workshops throughout Southwest Florida in 2014. The series, designed specifically for women, focused on financial education, wealth creation and wealth preservation. The series is led by Collier County President, Adria Starkey.

FINEMARK Sports MANAGEMENT®

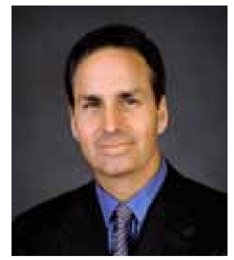
FineMark Sports Management® grew to **96** professional athletes, coaches and executives in 2014. The number of athletes has increased from 74 at year end 2013.







The News-Press Media Group selected FineMark National Bank & Trust as its **2014 Business of the Year** Award Recipient. More than 60 nominations were considered and FineMark was awarded top honors. For the past 28 years, *The News-Press* has honored the people and businesses making a profound difference in the quality of life in Southwest Florida.



In October, FineMark announced the appointment of **Martin Wasmer** to the FineMark Holdings, Inc. Board of Directors. Wasmer is the founder of Wasmer, Schroeder & Company, a firm that specializes in fixed income management.

In November, The Bonita Springs Area Chamber of Commerce named the Bonita Springs Office of FineMark National Bank & Trust its **2014 Outstanding Large Business Member**. The award represents FineMark's commitment to the community and it was the first time FineMark received this honor.

In December, the nation's leading independent bank rating and research firm, Bauer Financial, awarded FineMark National Bank & Trust a **5-Star Superior Rating** for the 15^{th} consecutive quarter. Bauer rates banks on a scale from zero to five. Ratings are based on capital ratios, profitability trends, levels of delinquent loans, charge-offs, repossessed assets, liquidity and other historical data.

OUR PEOPLE

Our **core values** of Benevolence, Fidelity, Growth, Integrity, Mutual Respect, Proactivity, Reliability, Stability and Having Fun are still alive in the daily actions and attitudes of the entire FineMark team.

"Giving back is part of our culture at FineMark. We take pride in serving our communities."

— Shelley Anderson
Senior Vice President &
Managing Executive, Coconut Point

"FineMark is comprised of committed professionals who are empowered to make decisions. We strive to provide the highest levels of service and are focused on what is in the best interest of our clients. By working together, we are able meet the needs of our clients quickly and efficiently."

— Robert Arnall
Executive Vice President &
Senior Lending Officer, Riverwalk

"Our core values inspire everything we do at FineMark: from our work, to how we interact with associates, to how we serve our clients."

— Susan Chicone
Vice President & Managing Executive, Scottsdale

FINEMARK GIVES BACK

"FineMark's vision, to make a positive impact on the individuals, families and communities we serve while being good stewards of FineMark's resources, is more than just a statement. It is who we are as a company and as individuals. We choose to give our time and resources, **because it is the right thing to do**."

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

Photograph courtesy of Mark Gall Photography, Orlando

2014

In 2014, FineMark continued its commitment to give back to the community. Since inception, FineMark has maintained 100 percent employee participation in **United Way** capital campaigns. Associates have also supported families in need every Christmas.

In addition to United Way contributions, individual offices supported many other national and community organizations. For example, the Fort Myers office gave to **Community Cooperative Ministries, Inc., Florida Gulf Coast University** and **The Golisano Children's Hospital**. In Bonita Springs, associates volunteered at the **Bonita Springs Assistance Office**, a local social service agency and food bank. The Naples office worked with **Grace Place**, a center focused on breaking the cycle of poverty for children and families. In Palm Beach, the bank continued to support the **Animal Rescue League**. And the Scottsdale office contributed to the **Chandler Education Foundation** and the **Tesseract School**.

118	$112,940	5,136
Organizations Supported	Total Amount Raised for Local United Way Capital Campaigns	Employee Volunteer Hours

In 2014, FineMark sponsored three **Habitat for Humanity** homes and associates volunteered hundreds of hours to build them. Fifteen mortgages were also purchased providing Habitat more liquidity to build more homes. Since 2009, FineMark has purchased a total of 93 mortgages in Florida and Arizona.

"The **enthusiasm for giving** at FineMark is contagious. Their commitment to helping others is a core part of their corporate philosophy. The United Way benefits from their generosity as do many other agencies. We are so thankful for all they do to make our community a better place."

— Cliff Smith, President
United Way of Lee, Hendry, Glades and Okeechobee Counties

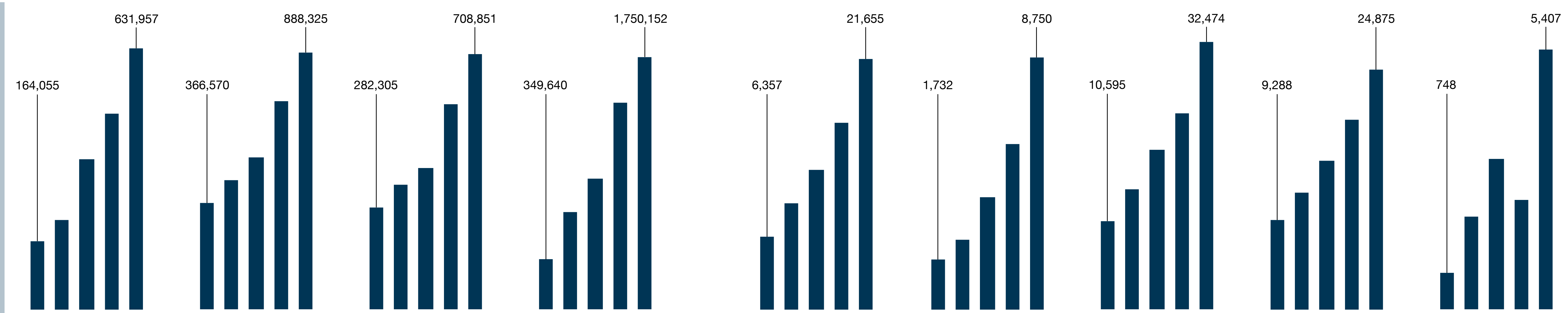
QUALITY LIFE CENTER OF SOUTHWEST FLORIDA, INC.

Quality Life Center has provided educational and character programs for at-risk youth in Lee County since 1990. When "The Q" was faced with losing its building in 2014, Joe Catti and Jeff Moes assisted in negotiating a solution that would pay off the building, including a $50,000 donation from FineMark.

ANNUAL GROWTH

Since opening its doors in February 2007, FineMark has grown to eight locations and nearly $900 million in total assets at year end 2014. In addition, assets under management and administration (AUMA) have grown to $1.75 billion for the same period. The **compound annual growth rates** over the past five years are illustrated below.

	Total Loans	Total Bank Assets	Total Deposits	Assets Under Management & Administration (AUMA)	Net Interest Income	Fee Income	Total Revenue	Non Interest Expense	Pre Tax Income
Compound Annual Growth Rate	31%	19%	20%	38%	28%	38%	25%	22%	49%
Dollars in Thousands (000s)									
Years	2010 – 2014	2010 – 2014	2010 – 2014	2010 – 2014	2010 – 2014	2010 – 2014	2010 – 2014	2010 – 2014	2010 – 2014



$ in 000s	as of December 31, 2010	2011	2012	2013	2014
Total Loans	$ 164,055	$ 216,269	$ 364,202	$ 474,938	$ 631,957
Total Bank Assets	$ 366,570	$ 448,881	$ 527,868	$ 720,425	$ 888,325
Total Deposits	$ 282,305	$ 343,274	$ 390,419	$ 567,181	$ 708,851
AUMA	$ 349,640	$ 670,666	$ 910,099	$ 1,427,933	$ 1,750,152
Banking Offices	3	6	8	8	8

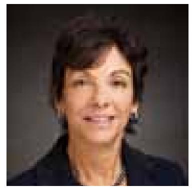
$ in 000s	as of December 31, 2010	2011	2012	2013	2014
Net Interest Income	$ 6,357	$ 9,153	$ 12,079	$ 16,188	$ 21,665
Fee Income	$ 1,732	$ 2,429	$ 3,898	$ 5,754	$ 8,750
Total Revenue	$ 10,595	$ 14,532	$ 19,406	$ 23,675	$ 32,474
Non Interest Expense	$ 9,288	$ 12,226	$ 15,498	$ 19,770	$ 24,875
Pre Tax Income	$ 748	$ 1,925	$ 3,129	$ 2,271	$ 5,407

BOARD OF DIRECTORS

FineMark National Bank & Trust Board

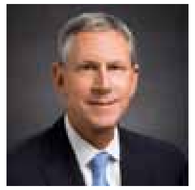

Shelley D. Anderson*
Senior Vice President
Managing Executive, Coconut Point

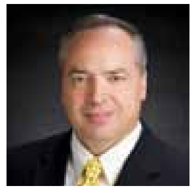

Robert M. Arnall*
Executive Vice President
Senior Lending Officer


Aurelia J. Bell
Arrowhead Partners, Inc.


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


Thomas D. Case II
Case Pearlman
Corporate Benefits

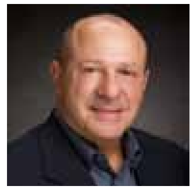

Joseph R. Catti*
President
Chief Executive Officer

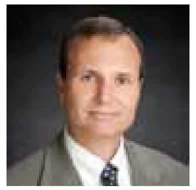

Brian J. Eagleston*
Executive Vice President
Chief Financial Officer

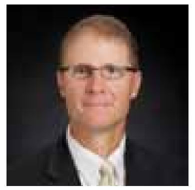

David A. Highmark*
President, Arizona Operations & FineMark Sports Management

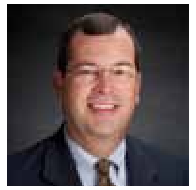

William N. Horowitz
Cummings & Lockwood, LLC


David H. Lucas†
The Bonita Bay Group


Vito Manone
Manone Investments, Inc.


Jeffrey B. Moes*
Executive Vice President
Chief Fiduciary Officer

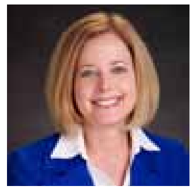

Robert A. Parimore*
Executive Vice President
Chief Risk & Compliance Officer


Gerald M. Roberts*
Executive Vice President
Private Wealth Advisor

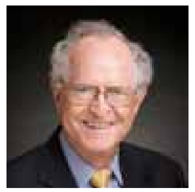

David H. Scaff*
Senior Vice President
President, Palm Beach

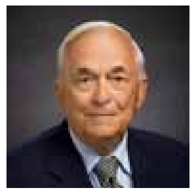

Malinda L. Schneider*
Senior Vice President
Loan Administration Manager

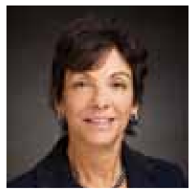

Adria D. Starkey*
Executive Vice President
President, Collier County


Jennifer L. Stevens*
Executive Vice President
Human Resources Director

FineMark Holdings, Inc. Board


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


Edward G. Beimfohr
Windels Marx Lane & Mittendorf, LLP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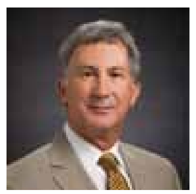
Arrowhead Partners, Inc.


John F. Blais, Jr.‡
BlaisCo.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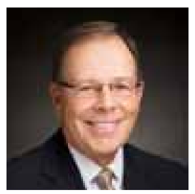
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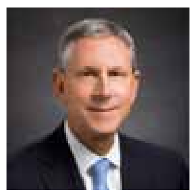
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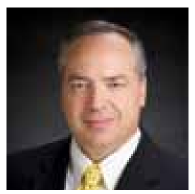
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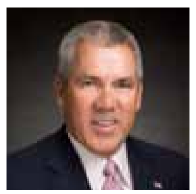
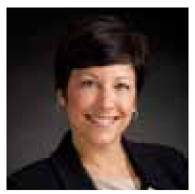
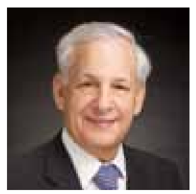
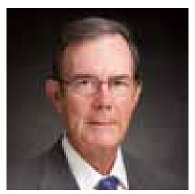

Scott A. Edmonds
Bellfield Investment Partners


Tracey U. Galloway
Community Cooperative Ministries, Inc.


William N. Horowitz
Cummings & Lockwood, LLC


Clive Lubner
Clive Daniel Home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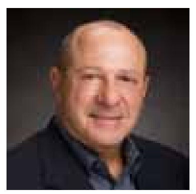
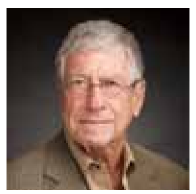
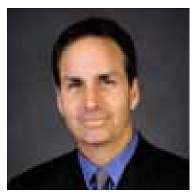
The Bonita Bay Group


Vito Manone
Manone Investments, Inc.


Alan D. Reynolds
Stantec


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


William H. Turner
Retired Vice Chairman
Chase Bank


Martin M. Wasmer
Wasmer, Schroeder & Company

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

FINANCIAL STATEMENTS

FINEMARK HOLDINGS, INC.

Audited Consolidated Financial Statements

December 31, 2014 and 2013 and the Years then Ended
(Together with Independent Auditor's Report)

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FineMark Holdings, Inc.

2014 Financial Statements
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HACKER, JOHNSON & SMITH PA

Fort Lauderdale
Orlando
Tampa

Certified Public Accountants

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of FineMark Holdings, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of earnings, comprehensive income (loss), shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Tampa, Florida
February 26, 2015

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

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Balance Sheets

($ in thousands, except per share amounts)

Assets	**At December 31, 2014**	**2013**
Cash and due from banks	$ 18,980	36,560
Securities available for sale	203,092	179,806
Time deposits	1,245	1,245
Loans, net of allowance for loan losses of $6,922 in 2014 and $5,201 in 2013	625,519	470,142
Federal Home Loan Bank stock	4,868	4,265
Federal Reserve Bank stock	1,831	1,625
Premises and equipment, net	11,747	11,771
Accrued interest receivable	2,440	1,961
Deferred tax asset	1,951	2,141
Bank-owned life insurance	14,377	8,967
Other assets	2,275	1,942
Total assets	$ 888,325	720,425
Liabilities and Shareholders' Equity		
Liabilities:		
Noninterest-bearing demand deposits	98,978	75,658
Savings, NOW and money-market deposits	449,103	353,653
Time deposits	160,770	137,870
Total deposits	708,851	567,181
Official checks	2,999	2,095
Other borrowings	3,414	4,030
Federal Home Loan Bank advances	93,677	80,505
Other liabilities	3,595	1,449
Total liabilities	812,536	655,260
Commitments (Notes 4 and 10)		
Shareholders' equity:		
Preferred stock, 9,994,335 shares authorized,$.01 par value, none issued or outstanding	-	-
Preferred stock, Series A, $.01 par value; $1,000 liquidation preference; 5,665 shares authorized, 5,665 shares issued and outstanding	5,665	5,665
Common stock, $.01 par value; 50,000,000 shares authorized, 5,743,078 and 5,300,871 shares issued and outstanding in 2014 and 2013	58	53
Additional paid-in capital	66,424	60,101
Retained earnings	3,882	358
Accumulated other comprehensive loss	(240)	(1,012)
Total shareholders' equity	75,789	65,165
Total liabilities and shareholders' equity	$ 888,325	720,425

See Accompanying Notes to Consolidated Financial Statements

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Earnings

(in thousands)

	For the Year Ended December 31, 2014	**2013**
Interest income:		
Loans	$ 21,195	16,344
Securities	4,501	3,545
Other	51	63
Total interest income	25,747	19,952
Interest expense:		
Deposits	2,213	1,969
Borrowings	1,869	1,795
Total interest expense	4,082	3,764
Net interest income	21,665	16,188
Provision for loan losses	2,192	1,634
Net interest income after provision for loan losses	19,473	14,554
Noninterest income:		
Trust fees	8,750	5,754
Gain on sale of securities available for sale	566	992
Income from bank-owned life insurance	410	277
Gain on sale of loans held-for-sale	11	116
Gain on extinguishment of debt	609	-
Other fees and service charges	463	348
Total noninterest income	10,809	7,487
Noninterest expenses:		
Salaries and employee benefits	14,818	11,988
Occupancy and equipment	3,084	2,408
Data processing	1,245	918
Telecommunications	345	251
Legal fees	135	94
Accounting and professional fees	703	706
Marketing	1,421	975
Office supplies	381	271
FDIC assessment	471	384
Outside services	476	417
Other	1,796	1,358
Total noninterest expense	24,875	19,770
Earnings before income taxes	5,407	2,271
Income taxes	1,826	750
Net earnings	3,581	1,521
Preferred stock dividends	57	57
Earnings available to common shareholders	$ 3,524	1,464

See Accompanying Notes to Consolidated Financial Statements

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income (Loss)
(in thousands)

	Year Ended December 31, 2014	2013
Net Earnings	$ 3,581	1,521
Other comprehensive income (loss):		
Unrealized holding gain (loss) on available for sale securities	1,801	(1,489)
Reclassification adjustment for gains realized in earnings	(566)	(992)
Net change in unrealized gain (loss)	1,235	(2,481)
Income tax effect	(463)	929
Total other comprehensive income (loss)	772	(1,552)
Comprehensive income (loss)	$ 4,353	(31)

See Accompanying Notes to Consolidated Financial Statements

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Shareholders' Equity

For the Years Ended December 31, 2014 and December 2013
(In thousands)

	Preferred Stock		Common Stock		Additional Paid-In	Retained Earnings (Accumulated	Accumulated Other Compre-hensive Income	Total Shareholders'
	Shares	Amount	Shares	Amount	Capital	Deficit)	(Loss)	Equity
Balance at December 31, 2012	5,665	$ 5,665	3,922,834	$ 39	42,674	(1,106)	540	47,812
Stock-based compensation	-	-	-	-	213	-	-	213
Net earnings	-	-	-	-	-	1,521	-	1,521
Change in unrealized gain on securities available for sale, net of tax	-	-	-	-	-	-	(1,552)	(1,552)
Dividends declared	-	-	-	-	-	(57)	-	(57)
Proceeds from exercise of stock options	-	-	267,000	3	2,697	-	-	2,700
Tax benefit from stock options exercised	-	-	-	-	69	-	-	69
Proceeds from sale of common stock	-	-	1,111,037	11	14,448	-	-	14,459
Balance at December 31, 2013	5,665	5,665	5,300,871	53	60,101	358	(1,012)	65,165
Stock-based compensation	-	-	-	-	209	-	-	209
Net earnings	-	-	-	-	-	3,581	-	3,581
Change in unrealized loss on securities available for sale, net of tax	-	-	-	-	-	-	772	772
Dividends declared	-	-	-	-	-	(57)	-	(57)
Proceeds from exercise of stock options	-	-	174,950	2	1,763	-	-	1,765
Tax benefit from stock options exercised	-	-	-	-	52	-	-	52
Repurchase of common stock	-	-	(11,615)	-	(151)	-	-	(151)
Proceeds from sale of common stock	-	-	278,872	3	4,450	-	-	4,453
Balance at December 31, 2014	5,665	$ 5,665	5,743,078	$ 58	66,424	3,882	(240)	75,789

See Accompanying Notes to Consolidated Financial Statements.

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended December 31, 2014	2013
Cash flows from operating activities:		
Net earnings	$ 3,581	1,521
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,290	1,049
Provision for loan losses	2,192	1,634
Amortization of deferred loan fees and costs	237	198
Amortization of premiums and discounts on securities	2,857	2,759
Gain on sale of securities available for sale	(566)	(992)
Increase in accrued interest receivable	(479)	(356)
Increase in other assets	(333)	(338)
Deferred income taxes	(273)	13
Income from bank-owned life insurance	(410)	(277)
Increase in other liabilities	2,132	428
Increase (decrease) in official checks	904	(1,572)
Stock-based compensation	209	213
Loans held-for-sale:		
Loan originations	(1,019)	(7,376)
Proceeds from loan sales	1,030	8,131
Gain on sale of loans held-for-sale	(11)	(116)
Net cash provided by operating activities	11,341	4,919
Cash flows from investing activities:		
Net increase in loans	(157,806)	(111,191)
Purchase of premises and equipment, net	(1,266)	(1,495)
Securities available for sale:		
Purchases	(142,538)	(162,675)
Proceeds from sales	29,462	51,841
Proceeds from maturities and calls	24,441	11,640
Proceeds from principal repayments	64,293	39,903
Purchase of bank owned life insurance	(5,000)	-
(Purchase) redemption of Federal Home Loan Bank stock	(603)	117
Purchase of Federal Reserve Bank stock	(206)	(405)
Net cash used in investing activities	(189,223)	(172,265)
Cash flows from financing activities:		
Net increase in deposits	141,670	176,762
Net (decrease) increase in other borrowings	(616)	1,088
Net proceeds (repayment) from Federal Home Loan Bank advances	13,172	(1,488)
Proceeds from sale of common stock	4,453	14,459
Repurchase of common stock	(151)	-
Proceeds from exercise of stock options	1,765	2,700
Tax benefit from stock options exercised	52	69
Preferred stock dividends paid	(43)	(71)
Net cash provided by financing activities	160,302	193,519
Net (decrease) increase in cash and due from banks	(17,580)	26,173
Cash and due from banks at beginning of year	36,560	10,387
Cash and due from banks at end of year	$ 18,980	36,560

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows, Continued

(In thousands)

	Year Ended December 31, 2014	2013
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 4,047	3,751
Income taxes	$ 1,468	928
Noncash transactions:		
Accumulated other comprehensive loss, net change in unrealized gain (loss) on securities available for sale, net of tax	$ 772	(1,552)
Dividends payable	$ 14	-

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 and trust company. The Bank offers a variety of banking and financial services to individual and corporate clients through its eight banking offices located in Lee, Collier and Palm Beach County, Florida, and Maricopa County, Arizona. The deposit accounts of the Bank are insured up to the applicable limits by the Federal Deposit Insurance Corporation "FDIC." The Bank also has a trust department which offers investment management, trust administration, estate planning and financial planning services. The assets under advice by the trust department, as well as the obligations associated with those assets, are not included as part of the consolidated financial statements of the Company.

Management has evaluated all significant events occurring subsequent to the consolidated balance sheet date through February 26, 2015, 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, 2014 and 2013, the Bank's required reserve balance was $2,080,000 and $0, respectively.

(continued)

(1) Summary of Significant Accounting Policies, Continued

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

Loans Held-for-Sale. Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to earnings. As of December 31, 2014 and 2013, 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 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.

(continued)

(1) Summary of Significant Accounting Policies, Continued

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 consolidated 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 or methodology during the years ended December 31, 2014 or 2013.

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 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 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.

(continued)

(1) Summary of Significant Accounting Policies, Continued

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

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

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

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

(continued)

(1) **Summary of Significant Accounting Policies, Continued**

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

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

The Company follows accounting guidance relating to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. As of December 31, 2014, management is not aware of any uncertain tax positions that would have a material effect on the Company's consolidated financial statements.

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

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

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:

(continued)

(1) **Summary of Significant Accounting Policies, Continued**

Fair Value Measurements, Continued.

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.

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

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

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

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

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

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

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

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.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

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.

Recent Pronouncements. In January 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-04, *Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure,* which is intended to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. These amendments clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additional disclosures are required. The amendments are effective for the Company beginning January 1, 2015. The adoption of this guidance is not expected to have any impact on the Company's consolidated financial statements.

Recent Regulatory Developments

Basel III Rules. On July 2, 2013, the Federal Reserve Board ("FRB") approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks. Under the final rules, minimum requirements will increase for both the quantity and quality of capital held by the Bank. The rules include a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% and require a minimum leverage ratio of 4.0%. The final rules also implement strict eligibility criteria for regulatory capital instruments. On July 9, 2013, the FDIC also approved, as an interim final rule, the regulatory capital requirements for U.S. banks, following the actions of the FRB. The FDIC's rule is identical in substance to the final rules issued by the FRB. (See note 15)

The phase-in period for the final rules began for the Bank on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule. The Bank is currently evaluating the provisions of the final rules and their expected impact on the Bank.

(continued)

(2) Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2014:				
U.S. Government agency securities	$ 8,497	2	(46)	8,453
Corporate securities	10,935	15	(31)	10,919
Mortgage-backed securities	49,439	57	(503)	48,993
Commercial mortgage-backed securities	86,866	257	(281)	86,842
Collateralized mortgage obligations	7,430	8	(85)	7,353
Municipal securities	22,045	197	(9)	22,233
Taxable municipal securities	18,263	69	(33)	18,299
Total	$ 203,475	605	(988)	203,092
At December 31, 2013:				
U.S. Government agency securities	6,498	0	(122)	6,376
Corporate securities	5,525	4	(26)	5,503
Mortgage-backed securities	51,028	23	(1,460)	49,591
Commercial mortgage-backed securities	70,115	230	(183)	70,162
Collateralized mortgage obligations	5,641	5	(114)	5,532
Municipal securities	18,721	148	(37)	18,832
Taxable municipal securities	23,896	44	(130)	23,810
Total	$ 181,424	454	(2,072)	179,806

(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, 2014:				
U.S. Government agency securities	$ 8,453	-	8,453	-
Corporate securities	10,919	-	10,919	-
Mortgage-backed securities	48,993	-	48,993	-
Commercial mortgage-backed securities	86,842	-	86,842	-
Collateralized mortgage obligations	7,353	-	7,353	-
Municipal securities	22,233	-	22,233	-
Taxable municipal securities	18,299	-	18,299	-
Total	$ 203,092	-	203,092	-
December 31, 2013:				
U.S. Government agency securities	6,376	-	6,376	-
Corporate securities	5,503	-	5,503	-
Mortgage-backed securities	49,591	-	49,591	-
Commercial mortgage-backed securities	70,162	-	70,162	-
Collateralized mortgage obligations	5,532	-	5,532	-
Municipal securities	18,832	-	18,832	-
Taxable municipal securities	23,810	-	23,810	-
Total	$ 179,806	-	179,806	-

During the years ended December 31, 2014 and 2013, no securities were transferred in or out of Level 1, Level 2 or Level 3.

The scheduled maturities of securities available-for-sale at December 31, 2014 are as follows (in thousands):

	Amortized Cost	Fair Value
Due in less than one year	$ 1,293	1,299
Due from one to five years	39,209	39,186
Due from five to ten years	21,349	21,463
Due in over ten years	5,319	5,309
Commercial mortgage-backed securities	86,866	86,842
Mortgage-backed securities	49,439	48,993
Total	$ 203,475	203,092

(continued)

(2) Securities, Continued

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

	Year Ended December 31, 2014	2013
Proceeds from sales of securities	$ 29,462	51,841
Gross gains from sale of securities	$ 566	992

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

	Less Than Twelve Months		More Than Twelve Months	
December 31, 2014:	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Government agency securities	$ 1	1,500	45	4,454
Corporate securities	31	7,099	-	-
Mortgage-backed securities	44	12,713	459	26,986
Commercial mortgage-backed securities	279	43,098	2	480
Collateralized mortgage obligations	2	2,412	83	4,354
Municipal securities	38	10,597	4	354
Total	$ 395	77,419	593	36,628
December 31, 2013:				
U.S. Government agency securities	122	6,376	-	-
Corporate securities	26	3,971	-	-
Mortgage-backed securities	1,295	41,989	165	4,669
Commercial mortgage-backed securities	176	36,669	7	952
Collateralized mortgage obligations	114	4,636	-	-
Municipal securities	167	20,110	-	-
Total	$1,900	113,751	172	5,621

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

(continued)

(2) Securities, Continued

At December 31, 2014, the unrealized losses of $988,000 on seventy-six 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, 2014 and 2013, securities with a fair value of $150.0 million and $109.0 million, respectively, were pledged to secure repurchase agreements, deposit accounts, Federal Home Loan Bank advances, and to the State of Florida in order to secure public funds and trust operations.

(3) Loans

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

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

	At December 31, 2014	2013
Real estate mortgage loans:		
Commercial real estate	$ 99,997	56,094
Residential real estate	397,917	316,906
Construction and land development	56,954	31,726
Total real estate mortgage loans	554,868	404,726
Commercial	37,658	41,663
Personal	39,431	28,549
Total loans	631,957	474,938
Add (subtract):		
Deferred loan costs, net	484	405
Allowance for loan losses	(6,922)	(5,201)
Loans, net	$ 625,519	470,142

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

Commercial 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):

	Real Estate Mortgage Loans	Commercial	Personal	Total
Year ended December 31, 2014:				
Beginning balance	$ 4,264	408	529	5,201
Provision (Credit) for loan losses	2,635	(65)	(378)	2,192
Charge-offs	(471)	-	-	(471)
Ending balance	$ 6,428	343	151	6,922
Individually evaluated for impairment:				
Recorded investment	$ 1,528	-	-	1,528
Balance in allowance for loan losses	$ -	-	-	-
Collectively evaluated for impairment:				
Recorded investment	$ 553,340	37,658	39,431	630,429
Balance in allowance for loan losses	$ 6,428	343	151	6,922
Year Ended December 31, 2013:				
Beginning balance	3,128	339	141	3,608
Provision for loan losses	1,177	69	388	1,634
Charge-offs	(41)	-	-	(41)
Ending balance	$ 4,264	408	529	5,201
Individually evaluated for impairment:				
Recorded investment	$ 4,746	-	2	4,748
Balance in allowance for loan losses	$ -	-	2	2
Collectively evaluated for impairment:				
Recorded investment	$ 399,980	41,663	28,547	470,190
Balance in allowance for loan losses	$ 4,264	408	527	5,199

(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)

(3) Loans, Continued

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

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

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

	Real Estate Mortgage Loans					
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial	Personal	Total
At December 31, 2014:						
Credit Risk Profile by Internally Assigned Grade:						
Pass	$ 99,277	392,264	56,954	37,658	39,386	625,539
Substandard	720	5,653	-	-	45	6,418
Total	$ 99,997	397,917	56,954	37,658	39,431	631,957
At December 31, 2013:						
Credit Risk Profile by Internally Assigned Grade:						
Pass	53,308	314,884	26,526	41,663	28,384	464,765
Special mention	2,061	-	2,724	-	131	4,916
Substandard	725	2,022	2,476	-	34	5,257
Total	$ 56,094	316,906	31,726	41,663	28,549	474,938

(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, 2014:							
Real estate mortgage loans							
Commercial real estate	$ -	-	-	-	99,997	-	99,997
Residential real estate	74	-	-	74	396,315	1,528	397,917
Construction and land development	-	-	-	-	56,954	-	56,954
Commercial	-	-	-	-	37,658	-	37,658
Personal	-	-	-	-	39,431	-	39,431
Total	$ 74	-	-	74	630,355	1,528	631,957
At December 31, 2013:							
Real estate mortgage loans							
Commercial real estate	254	-	-	254	55,840	-	56,094
Residential real estate	-	-	-	-	315,008	1,898	316,906
Construction and land development	-	-	-	-	31,726	-	31,726
Commercial	5	-	-	5	41,658	-	41,663
Personal	-	-	-	-	28,549	-	28,549
Total	$ 259	-	-	259	472,781	1,898	474,938

(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.

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, 2014:					
Real estate mortgage loans - Residential real estate	$ 1,528	2,501	-	-	-
At December 31, 2013:					
Real estate mortgage loans:					
Residential real estate	2,022	2,502	-	-	-
Construction and land development	2,724	2,724	-	-	-
Personal	-	-	2	2	2
Total	$ 4,746	5,226	2	2	2

(continued)

(3) Loans, Continued

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

	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Year Ended December 31, 2014:			
Real estate mortgage loans:			
Residential real estate	$ 1,807	-	-
Construction and land development	1,362	-	-
Total	$ 3,169	$ -	$ -
Year Ended December 31, 2013:			
Real estate mortgage loans:			
Commercial real estate	151	-	-
Residential real estate	1,169	-	-
Construction and land development	2,758	254	255
Total	$ 4,078	254	255

The Company had no troubled debt restructurings ("TDR's") during the years ended December 31, 2014 or 2013.

The allowance for loan losses on all loans that have been restructured and are considered TDR's 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.

(continued)

(3) Loans, Continued

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

	Fair Value	Level 1	Level 2	Level 3	Total Losses	Losses Recorded During the Year
At December 31, 2014:						
Residential real estate	$ 1,496	-	-	1,496	879	470
At December 31, 2013:						
Residential real estate	$ 431	-	-	431	409	-

(4) Premises and Equipment

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

	At December 31, 2014	2013
Land	$ 1,630	1,630
Building	6,735	6,569
Leasehold Improvements	3,276	3,230
Furniture, fixtures and equipment	4,377	3,535
Data processing equipment and software	1,097	886
Total, at cost	17,115	15,850
Less accumulated depreciation and amortization	(5,368)	(4,079)
Premises and equipment, net	$ 11,747	11,771

(continued)

(4) Premises and Equipment, Continued

The Company has a land lease agreement for the Coconut Point office location. This lease expires in 2034 and has two renewal options and rent adjustment clauses during the term of the lease. Rent expense under this operating lease for the years ended December 31, 2014 and 2013 was approximately $240,000 and $236,000, respectively. (See note 13)

The Company had a building lease agreement for the Shell Point office location. The lease expired in 2014. During 2014 it was renewed till 2017 and has four renewal options of three years each and rent adjustment clauses during the term of the lease. Rent expense under this operating lease for the years ended December 31, 2014 and 2013 was approximately $29,000 and $27,000, respectively.

The Company has 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 years ended December 31, 2014 and 2013 was approximately $12,000 and $11,000, respectively.

The Company has a building lease agreement for the Bentley Village office location. The lease expires in 2019 and has four renewal options of three years each. The commencement date was July 14, 2011. Rent expense under this operating lease for the years ended December 31, 2014 and 2013 was approximately $21,000 and $2,500, respectively.

The Company had a building lease agreement for the Palm Beach office location which expired in 2013. During 2013, the Company extended the lease term for another three years, until 2016. Rent expense under this operating lease for the years ended December 31, 2014 and 2013 was approximately $93,000 and $100,000, respectively.

In 2012, the Company entered into a building lease agreement for a Naples office location. The lease expired in 2013. Rent expense under this operating lease for the year ended December 31, 2013 was approximately $15,000. In 2013, the Company entered into a building lease agreement for a new Naples office location. The lease commencement date was November 1, 2013, and the term was 12 months. An addendum extended this lease for 10 years and added an additional suite. Rent expense under this operating lease for the years ending December 31, 2014 and 2013 was approximately $133,000 and $21,000, respectively.

In 2013, the Company moved from its temporary Arizona location to the permanent location. The lease on the temporary location expired in 2013. Rent expense under this operating lease for the year ended December 31, 2013 was approximately $10,000. The Company's lease on the permanent location commenced on March 1, 2013. The lease includes rent adjustment clauses during the term of the lease and extends for a term of 65 months. The term was later amended to 125 months. Rent expense under this operating lease for the years ended December 31, 2014 and 2013 was approximately $251,000 and $196,000 respectively.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(4) Premises and Equipment, Continued

In 2014, the Company entered into 3 new office leases. The DC Ranch location in Arizona has a lease term of 7 years, beginning April 1, 2015, having 2 additional extensions, of 5 years. Rent expense for this location in 2015 is expected to be approximately $91,000. The second location at Marbella in Naples, Florida is for an initial one year term with 15, one year extensions available. This lease commences January 1, 2015. Rent expense for this location in 2015 is expected to be approximately $1,000. The third location at Bonita Bay in Bonita Springs, Florida is a five year term, with two additional five year extensions. Anticipated opening of this office is April 1, 2015. Rent expense for this location in 2015 is expected to be approximately $40,000.

Future minimum rental commitments under these non-cancelable leases at December 31, 2014 are approximately as follows (in thousands):

December 31,	Payment
2015	$ 1,001
2016	1,116
2017	1,016
2018	1,007
2019	1,018
Thereafter	6,415
	$ 11,573

(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 $14,377,000 and $8,967,000 at December 31, 2014 and 2013, 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, 2014. 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 $5 million of BOLI in 2014.

(continued)

(6) Deposits

The aggregate amount of time deposits with a denomination of $100,000 or more was approximately $147.5 million and $123.9 million at December 31, 2014 and 2013, respectively. A schedule of maturities of time deposits at December 31, 2014 follows (in thousands):

Year Ending December 31,	Amount
2015	$ 65,208
2016	87,948
2017	4,480
2018	2,716
2019	418
	$ 160,770

At December 31, 2014, securities with a carrying value of $99,174,000 and $45,463,000 were pledged to secure deposits totaling $144,943,000 for nineteen depositors and sixteen Qualified Public Depositors totaling $91,432,000, 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, 2014 and 2013, the balance totaled $3,414,000 and $4,030,000 respectively, and the Company had pledged securities as collateral for these agreements with a carrying value of $4,111,000 and $4,597,000 respectively.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(8) Federal Home Loan Bank Advances

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

Maturing in the Year Ending December 31,	Fixed or Variable Rate	Interest Rate	At December 31, 2014	At December 31, 2013
2015	Fixed	0.53-1.84 %	$ 15,863	15,727
2016	Fixed	0.37-2.38	28,667	19,000
2017	Fixed	1.51-4.70	11,000	11,000
2018	Fixed	3.63-3.70	8,000	8,000
2019	Fixed	1.65	5,000	-
2022	Fixed	1.86-3.99	16,933	17,850
2026	Fixed	2.01	8,214	8,928
			$ 93,677	80,505

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

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

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

(continued)

(9) Income Taxes

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

	Year Ended December 31, 2014	2013
Current:		
Federal	$ 1,858	720
State	241	17
Total current	2,099	737
Deferred:		
Federal	(233)	17
State	(40)	(4)
Total deferred	(273)	13
Total	$ 1,826	750

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):

	2014 Amount	2014 % of Pretax Earnings	2013 Amount	2013 % of Pretax Earnings
Income tax expense at statutory rate	$ 1,838	34.0 %	$ 772	34.0 %
Increase (decrease) resulting from:				
State taxes, net of Federal tax benefit	133	2.5	9	0.4
Share-based compensation	50	0.9	57	2.5
Tax-exempt income	(115)	(2.1)	(84)	(3.7)
Other, net	(80)	(1.5)	(4)	(0.2)
	$ 1,826	33.8 %	$ 750	33.0 %

(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, 2014	2013
Deferred tax assets:		
Allowance for loan losses	$ 2,480	1,797
Organizational and start-up costs	156	178
Share-based compensation	233	575
Unrealized loss on securities available for sale	143	606
Other	32	22
Deferred tax assets	3,044	3,178
Deferred tax liabilities:		
Prepaid expenses	(78)	(124)
Premises and equipment	(1,015)	(913)
Deferred tax liabilities	(1,093)	(1,037)
Net deferred tax asset	$ 1,951	2,141

The Company's Federal and state income tax returns filed prior to 2011 are no longer 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, 2014 and 2013, there was no liability to beneficiaries resulting from standby letters of credit. At December 31, 2014, 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.

(continued)

(10) Financial Instruments, continued

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, 2014, follows (in thousands):

Commitments to extend credit	$ 31,959
Unused lines of credit	$ 99,798
Standby letters of credit	$ 954

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

	At December 31,			
	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	$ 18,980	18,980	36,560	36,560
Time Deposits	1,245	1,245	1,245	1,245
Securities available for sale	203,092	203,092	179,806	179,806
Loans, net	625,519	625,759	470,142	464,567
Federal Home Loan Bank stock	4,868	4,868	4,265	4,265
Federal Reserve Bank stock	1,831	1,831	1,625	1,625
Accrued interest receivable	2,440	2,440	1,961	1,961
Financial liabilities:				
Deposits	708,851	709,268	567,181	567,544
Federal Home Loan Bank advances	93,677	92,619	80,505	82,218
Other borrowings	3,414	3,414	4,030	4,030
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 $369,000 and $265,000 for the years ended December 31, 2014 and 2013, respectively.

(continued)

(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 vests over a one to five year period. All options expire ten years from the date of grant. At December 31, 2014, 20,946 shares remain available for grant. In 2014 and 2013, $140,000 and $191,000 of compensation expense was recognized with a related income tax benefit of $14,000, in 2013. At December 31, 2014, there was $304,000 of unrecognized compensation expense related to the nonvested stock options granted under this plan. The cost is expected to be recognized over the next 2.38 years. A summary of the stock option activity under this plan is as follows:

	Number of Options	Exercise Price	Contractual Term
Outstanding at December 31, 2012	640,200	$ 10.70	
Granted	7,354	13.36	
Forfeited	(35,000)	10.87	
Outstanding at December 31, 2013	612,554	10.69	
Granted	48,300	16.00	
Forfeited	(16,200)	11.99	
Exercised	(25,700)	10.61	
Outstanding at December 31, 2014	618,954	$ 11.01	6.07 years
Exercisable at December 31, 2014	248,700	$ 10.47	3.98 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,	
	2014	2013
Risk-free interest rate	1.92-2.11%	.85-1.42%
Dividend yield	-	-
Expected stock volatility	11.30-13.50%	11.25%
Expected life in years	6	6
Per share grant-date fair value of options issued during the year	$2.11-2.72	$1.78-2.01

(continued)

(12) Stock-Based Compensation Plans, continued

On April 25, 2013, the Board of Directors adopted a Non-Qualified Stock Option Plan and made 150,000 options available. All stock options must be granted at a price not less than the fair market value of the common stock on the date of grant. Stock options cliff vest over a four year period. At December 31, 2014, 6,800 shares remain available for grant. In 2014 and 2013, $61,000 and $14,000 of compensation expense was recognized with a related income tax benefit of $20,000 and $5,000, in 2014 and 2013, respectively. All options expire ten years from the date of grant. At December 31, 2014, there was $283,000 of total unrecognized compensation expense. The cost is expected to be recognized over the next 3.24 years. A summary of stock option activity under this plan is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at 12/31/12	-	-	
Granted	52,500	$13.30	
Outstanding at 12/31/13	52,500	13.30	
Granted	90,700	15.25	
Outstanding at 12/31/14	143,200	$14.53	9.08 years

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

	Year Ended December 31, 2014	2013
Risk-free interest rate	1.92-2.11%	0.85 - 1.66%
Dividend yield	-	-
Expected stock volatility	11.30-13.50%	11.25%
Expected life in years	6	6
Per share grant-date fair value of options issued during the year	$2.11-2.72	$1.78 to 2.05

All stock options granted in 2014 and 2013 were to employees under the plans discussed above. The Company used the guidance of the Securities and Exchange Commission to determine the estimated life of options issued. Expected volatility is based on historical volatility of similar financial institutions. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield assumption is based on the Company's history and expectation of dividend payments.

(continued)

(12) Stock-Based Compensation Plans, continued

In 2012, the Company granted 3,000 restricted stock awards to employees. These awards cliff vest after four years. The fair value of this restricted stock was determined to be $33,000. At December 31, 2014, 500 shares were forfeited. At December 31, 2014, there was $9,000 of total unrecognized compensation expense related to nonvested restricted stock awards. In 2014 and 2013, $8,000 and $8,000, respectively, of compensation expense was recognized with a related income tax benefit of $3,000 and $3,000, respectively.

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 2014 and 2013, 149,250 and 232,000 options were exercised respectively; 12,500 options had been forfeited prior to 2012. At December 31, 2014, 193,150 options were outstanding.

(13) Related Party Transactions and Economic Dependence

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

The following summarizes these transactions (in thousands):

	At or for the Year Ended December 31, 2014	2013
Loans:		
Beginning balance	$ 13,320	9,809
Additions	2,326	4,618
Repayments	(2,724)	(1,107)
Ending balance	$ 12,922	13,320
Deposits at end of year	$ 50,761	50,873

In 2008, the Company entered into a 25 year lease agreement with a director to lease certain premises. This transaction was 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, had 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. At December 31, 2014 the interest rate was 1%. 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 Company (on a consolidated basis) 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 and the Bank's 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 their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and 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, 2014, that the Company and the Bank meets all capital adequacy requirements to which it is subject.

(continued)

(15) Regulatory Matters, continued

As of December 31, 2014, 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 Company's and 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, 2014:						
Total Capital to Risk-Weighted Assets-Bank	$ 78,169	14.43 %	$ 43,324	8.00 %	$ 54,155	10.00 %
Tier I Capital to Risk-Weighted Assets-Bank	71,398	13.18	21,662	4.00	32,493	6.00
Tier I Capital to Average Assets-Bank	71,398	8.31	34,366	4.00	27,077	5.00
Total Capital to Risk-Weighted Assets-Company	82,815	15.25	43,430	8.00	N/A	N/A
Tier I Capital to Risk-Weighted Assets-Company	76,029	14.00	21,715	4.00	N/A	N/A
Tier I Capital to Average Assets-Company	76,029	8.84	34,420	4.00	N/A	N/A
As of December 31, 2013:						
Total Capital to Risk-Weighted Assets-Bank	63,359	15.56	32,583	8.00	40,729	10.00
Tier I Capital to Risk-Weighted Assets-Bank	58,267	14.31	16,292	4.00	24,438	6.00
Tier I Capital to Average Assets-Bank	58,267	8.32	28,004	4.00	35,006	5.00
Total Capital to Risk-Weighted Assets-Company	71,302	17.39	32,802	8.00	N/A	N/A
Tier I Capital to Risk-Weighted Assets-Company	66,177	16.14	16,401	4.00	N/A	N/A
Tier I Capital to Average Assets-Company	66,177	9.42	28,115	4.00	N/A	N/A

(continued)

(16) Parent Company Only Financial Information

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

Condensed Balance Sheets

	At December 31,	
Assets	**2014**	**2013**
Cash and Due From Banks	$ 2,588	5,173
Loans	1,438	2,724
Other Assets	625	13
Investment in subsidiary	71,158	57,255
Total Assets	$ 75,809	65,165
Liabilities and Shareholders' Equity		
Accounts Payable	20	-
Shareholders' Equity	75,789	65,165
Total liabilities and shareholders' equity	$ 75,809	65,165

(continued)

(16) Parent Company Only Financial Information, continued

Condensed Statements of Shareholders' Equity

	Year Ended December 31, 2014	2013
Shareholders beginning balance	$ 65,165	47,812
Net earnings	3,581	1,521
Stock-based compensation	209	213
Proceeds from sale of common stock	4,453	14,459
Repurchase of common stock	(151)	-
Proceeds from exercise of stock options	1,765	2,700
Tax benefit from stock options exercised	52	69
Preferred stock dividends	(57)	(57)
Change in accumulated other comprehensive income (loss)	772	(1,552)
Shareholders ending balance	$ 75,789	65,165

Condensed Statements of Earnings

	Year Ended December 31, 2014	2013
Revenue	$ 68	94
Expenses	409	682
Loss before earnings of subsidiary	(341)	(588)
Earnings of subsidiary	3,922	2,109
Net earnings	$ 3,581	1,521

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(16) Parent Company Only Financial Information, continued

Condensed Statements of Cash Flows

	Year Ended December 31, 2014	2013
Cash flows from operating activities:		
Net earnings	$ 3,581	1,521
Adjustments to reconcile net earnings to net cash used in operating activities:		
Equity in undistributed earnings of subsidiary	(3,922)	(2,109)
Increase in other assets	(612)	-
Increase (decrease) in accounts payable	6	(117)
Net cash used in operating activities	(947)	(705)
Cash flows from investing activities:		
Net decrease in loans	1,286	131
Capital infusion to subsidiary	(9,000)	(14,563)
Net cash used in investing activities	(7,714)	(14,432)
Cash flows from financing activities:		
Preferred stock dividends paid	(43)	(71)
Repurchase of common stock	(151)	-
Proceeds from sale of common stock	4,453	14,459
Proceeds from exercise of stock options	1,765	2,700
Tax benefit from stock options exercised	52	69
Net cash provided by financing activities	6,076	17,157
Net (decrease) increase in cash	(2,585)	2,020
Cash at beginning of the year	5,173	3,153
Cash at end of year	$ 2,588	5,173
Noncash transactions:		
Net change in investment in subsidiary due to change in accumulated other comprehensive income (loss)	$ 772	(1,552)
Stock-based compensation expense of subsidiary	$ 209	213
Dividends payable	$ 14	-

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To our clients, associates, shareholders, and board members who helped make 2014 a great year, **Thank You!**

FineMark National Bank & Trust

FineMark Holdings, Inc.