FineMark Holdings, Inc.

2018
ANNUAL REPORT

2018

DEAR SHAREHOLDERS,

On behalf of the associates and directors of FineMark Holdings, Inc., and FineMark National Bank & Trust, I sincerely thank you for your dedication to this company. We are proud of what we have achieved since the bank's opening in 2007, and we could not have accomplished this without your commitment.

In 2018, FineMark experienced another year of double-digit growth in loans, deposits, net income and assets under management and administration. The bank reached $1.86 billion in total assets, which includes loans, bonds and other assets on the bank's balance sheet, and $3.4 billion in assets under management and administration. For the five-year period ending in 2018, FineMark's compound annual growth rates were 20% for total bank assets, 22% for loans, 20% for deposits, and 18% for assets under management and administration.

Net income for 2018 totaled $15.1 million, a record since the bank's inception and a 57% increase from 2017. Pre-tax income totaled $17.8 million, up 14% from 2017. Due to tax code changes, FineMark wrote off $1.7 million in 2017; excluding this one-time tax write-off, net income in 2017 would have been $11.2 million, and 2018's net income would have been a 34% year-over-year increase.

We attribute FineMark's steady and broad-based growth, first and foremost, to the dedication and expertise of our people. By providing exceptional service and building long-term relationships with our loyal client base, FineMark has been able to achieve robust growth in the bank's trust and investment business as well as steady, organic growth in our loan portfolio.

Looking more closely at FineMark's 2018 financial performance, the first half of the year saw significant improvements on a year-over-year basis, but that success was tempered by the effects of a softening economy in the second half of the year. The continued rise in short-term interest rates has resulted in a flattening yield curve. Narrowing spreads between short-term and long-term rates are a challenge to any bank's profitability—and FineMark is no different. Within this environment, FineMark's funding costs increased 17 basis points in the fourth quarter, ending the year at 1.16%. This caused net interest margin to compress.

The margin compression was somewhat offset by higher non-interest income, resulting from substantial growth in our trust asset management business. Fifty three percent of the growth in this business came from existing clients adding assets to their accounts, and the remaining 47% came from clients who were new to the bank.

FineMark's loan portfolio grew 14% in 2018. This represents a healthy rate of growth relative to the industry average, but it is a decrease from the 21% growth we experienced in 2017. This slowdown in net loan growth was primarily driven by an increase in current clients paying down loans by selling off encumbered assets, rather than a contraction of our client base.

Company Highlights

OTCQX®

FineMark Holdings, Inc., completed the process of posting its shares on the OTCQX market in December 2018, and shares began trading in January 2019. OTC Markets Group operates the OTCQX and enables investors to more easily trade privately held stock through their asset manager or stockbroker. The OTCQX provides accessibility and liquidity for the investment community; for FineMark's shareholders, it offers an efficient, transparent, and cost-effective trading experience. As part of this effort, FineMark engaged Computershare to be the company's registrar and transfer agent.

KROLL RATING & SUBORDINATED DEBT

FineMark made the decision in June to have the Kroll Bond Rating Agency (KBRA) rate the bank and holding company, in conjunction with FineMark's subordinated debt offering. Both entities received an investment-grade rating—BBB+ for the bank and BBB for the holding company.

To address the need for additional capital, and in lieu of selling stock, FineMark issued $30 million in subordinated debt, in the second quarter of 2018. The debt has a 10-year maturity with a five-year fixed interest rate of 5.875%. After five years, the rate can reset quarterly at the three-month LIBOR (London Interbank Offered Rate) plus 2.97%. Proceeds of this debt will be used to support the bank's capital position, along with general corporate purposes.

NEW BUILDING

In the third quarter of 2018, FineMark purchased a six-acre parcel of land in Fort Myers to build a new, 60,000 square-foot building. The bank has outgrown its existing Fort Myers location at Riverwalk and its operations center at nearby World Plaza. Our new building will provide ample room for both groups to work together in one location, as well as provide for future growth.

PEOPLE

Across the bank, our number of associates grew to 186 in 2018, an increase of 15 associates during the year. The new hires include three veteran wealth advisors in our Palm Beach office—Paul Blatz, Dean Borland, and Kim Bagatell—who each have more than a decade of experience at GenSpring Family Offices. In addition, FineMark opened a small office in the Cypress Cove Retirement Community at Health Park in Fort Myers.

RISK MANAGEMENT

In an increasingly complex banking environment, risk management is vitally important. While credit quality will always be a focus from a risk standpoint, net interest margin compression—especially in the current interest rate environment—as well as cybersecurity, continue to pose significant risks.

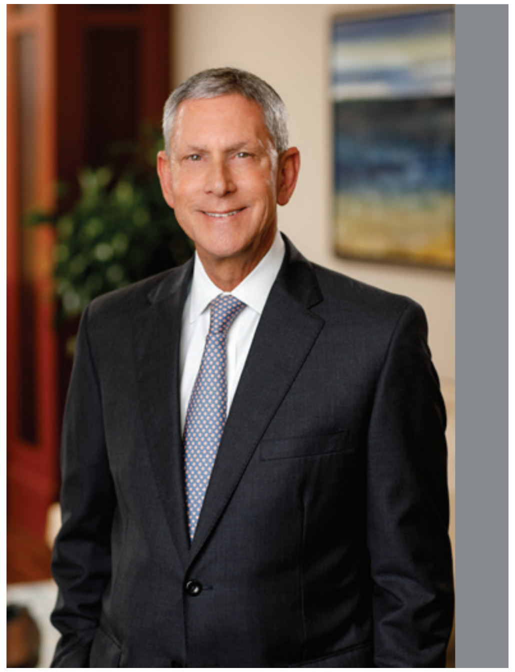
FineMark remains committed to maintaining the bank's high credit standards by practicing prudent lending to people with whom we have established deep relationships. At the end of 2018, FineMark's nonperforming loans totaled $2.8 million or 0.20% of the bank's total loans. Classified loans totaled $4.1 million, which represents 2.16% of total capital and reserves; this level compares favorably to the industry average of 16.2%. For 2018, the bank's capital position remained strong with a tier 1 leverage ratio of 9.55% for the bank and 8.95% for the holding company.

Cybersecurity continues to be an elevated risk in the financial services industry. We believe the key to managing this risk is to maintain a heightened awareness of it while being deliberate and diligent in applying proper security controls across our entire business. We continually evaluate our security measures and are constantly looking for ways to improve our systems and educate our associates and clients on fraud prevention.

FUTURE

We believe 2019 will be a challenging year. The most prominent headwinds are continued margin compression resulting from a flat—and potentially inverted—yield curve, volatility in equity markets, and a softening real estate market. Despite these challenges, we believe that by staying committed to our core values, culture, mission, and vision, FineMark will experience continued success.

From all of us at FineMark, thank you for your continued commitment and support.



Joseph R. Catti
President & CEO

NEW FORT MYERS BUILDING

In September 2018, FineMark closed on six acres of prime real estate in Fort Myers, with plans to build a new, three-story, 60,000 square foot office. Located at the corner of College Parkway and Winkler Avenue, the property is occupied by a building formerly known as "The Atrium." In 2019, FineMark expects to raze the structure and break ground on the new building.

Compared to our Riverwalk office—FineMark's first location, the new building will provide three times the space and four times the parking. Architectural and interior design plans are underway, and we anticipate the construction process to extend approximately two years.

The new site's proximity to the Riverwalk office off College Parkway was an important factor in selecting the property. "We really like the location," said FineMark President and CEO Joseph R. Catti. "It is a short walk from our current location and, from a client's standpoint; it's almost as if we're not relocating."

Similar to the bank's current location, the new building will feature private dining rooms with an on-site executive chef for client meetings. It will also feature a large community room that will be available to organizations that do not have or cannot afford to rent space for functions. We believe the bank should do more than provide financial services. We want to make a positive impact on people's lives, and the new space will allow us to continue doing this.

The expansion is an outcome of the growth FineMark has experienced over the past 12 years, and its anticipated future growth. Since the bank's inception in 2007, the number of associates has grown from 10 to almost 200, while also adding offices in Southwest Florida, Palm Beach, Scottsdale and Charleston.

"The bank's growth has never been our focus, but rather an *outcome* of our commitment to building sincere and genuine relationships," says Catti.

Google. (n.d.) [Google Maps Fort Myers, Florida, Atrium].
Retrieved March 27, 2019 from https://goo.gl/maps/WMRm9mueQuj

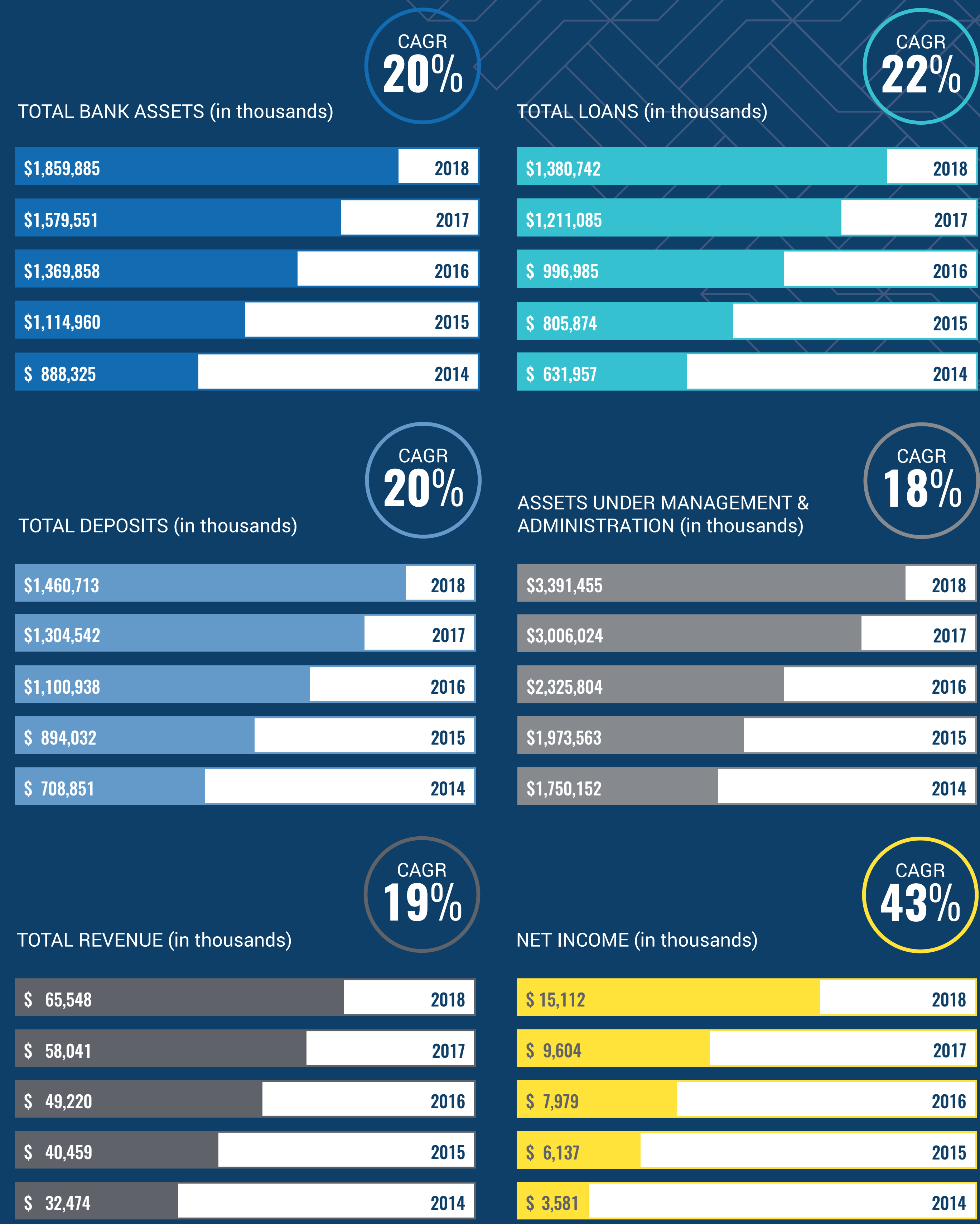
> *We aren't driven by growth. We're driven by taking care of people, and that has resulted in growth.*
>
> JOSEPH R. CATTI
> PRESIDENT & CEO

FINEMARK HOLDINGS, INC. FINANCIAL HIGHLIGHTS

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

FOR THE YEARS ENDED DECEMBER 31,	2018	2017	2016	2015	2014
FINANCIAL CONDITION					
Total Bank Assets	$1,859,885	$1,579,551	$1,369,858	$1,114,960	$ 888,325
Total Securities	371,450	299,605	304,253	252,090	203,092
Total Loans	1,380,742	1,211,085	996,985	805,874	631,957
Allowance for Loan & Lease Losses	14,466	12,812	11,147	8,848	6,922
Total Deposits	1,460,713	1,304,542	1,100,938	894,032	708,851
Total Shareholders' Equity	158,649	142,604	130,563	121,605	75,789
Book Value per Share	18.02	16.70	15.53	14.76	12.21
Total Risk-Based Capital Ratio	17.51%	15.27%	16.41%	18.52%	15.25%
Equity to Total Bank Assets	8.53%	9.03%	9.53%	10.91%	8.53%
CLIENT ASSETS					
Assets Under Management & Administration	$3,391,455	$3,006,024	$2,325,804	$1,973,563	$1,750,152
OPERATING RESULTS					
Net Interest Income	$ 45,479	$ 41,572	$ 34,785	$ 28,301	$ 21,665
Provision for Loan & Lease Losses	2,029	2,119	2,186	2,162	2,192
Trust Fees	16,689	13,998	11,463	10,883	8,750
Net Income	15,112	9,604	7,979	6,137	3,581
Diluted Earnings per Common Share	1.70	1.10	0.94	1.00	0.62
Return on Average Assets	0.86%	0.65%	0.64%	0.61%	0.45%
Return on Average Equity	10.23%	6.96%	6.33%	6.22%	5.08%
Net Interest Margin (Taxable Equivalent Basis)	2.70%	2.96%	2.92%	3.00%	2.89%
ASSET QUALITY					
Nonperforming Assets to Total Bank Assets	0.15%	0.00%	0.27%	0.37%	0.17%
Total Past Due Loans to Total Loans	0.24%	0.04%	0.38%	0.54%	0.25%
Allowance for Loan & Lease Losses to Total Loans	1.05%	1.06%	1.12%	1.10%	1.10%
Net Loan Charge-Offs to Average Loans	0.03%	0.04%	(0.01)%	0.03%	0.09%

FIVE-YEAR FINANCIAL OVERVIEW



It is great to be with a company that embraces giving back. I am on the community board of Big Brothers Big Sisters and FineMark is part of its corporate one-to-one mentoring program. From spending time with these kids on the basketball court, to helping them fill out a college application, I believe we are making a difference.

CHRIS SMITH
Vice President & Private Wealth Advisor
Big Brother

Photo (left to right): Johnathan Delices, Carlens Etienne, David Delices and Chris Smith

GIVING BACK

FineMark associates personally contributed $163,000 to the 2018 United Way campaign and the company gave another $50,000 totaling $213,000 for the year.

> **THE ENTHUSIASM FOR GIVING AT FINEMARK IS CONTAGIOUS. WE ARE SO THANKFUL FOR ALL THEY DO TO MAKE OUR COMMUNITY A BETTER PLACE.**
>
> CLIFF SMITH, PRESIDENT
> *United Way of Lee, Hendry, Glades & Okeechobee Counties*

As a company and as individuals, FineMark is dedicated to investing time and resources in the communities we serve. In 2018, the bank's 12 offices collectively supported 176 charitable organizations, and for the first time in our company's history, FineMark exceeded $1 million in sponsorships and donations in a single year.

Moreover, our community outreach extends well beyond financial support. All our associates are encouraged to take a half day of paid time off to volunteer at the nonprofit organization of their choice. For many, these four hours represent only a fraction of their charitable work.

We are proud of the strong partnerships we have built with a wide range of organizations that embody the very best of our communities. They educate, feed, heal, protect and shelter, and they are essential to everyone's quality of life. FineMark is fortunate to be in the position to give our time and resources generously. We believe it is simply the right thing to do.

$1,065,493
CHARITABLE CONTRIBUTIONS

176
ORGANIZATIONS

30% Social Services **$323,335**	23% Health **$248,150**	22% Education **$235,521**
18% Community Development **$186,904**	6% Arts **$57,833**	1% Global Aid **$13,750**

The Heights Foundation supports education and wellness in the Harlem Heights neighborhood in Fort Myers, Florida. In 2018, FineMark contributed $40,000 to this grassroots organization.

CLIENT TESTIMONIALS

FineMark has supported our business through a hurricane, forest fires and winter freezes. Through every challenge, FineMark has been there to support us in every way possible.

TAYLOR CURRY & DAPHNE TAYLOR
Owners, Taylor Made Growers

Over the past five years, FineMark has earned all of our banking and investment business. Our professional FineMark financial team has also gained our trust, friendship and strong recommendation.

I am grateful to have the FineMark team in my life. I travel 35 weeks out of the year and they are always available. From bill paying to organizing my taxes and managing my money, FineMark simplifies my life, allowing me to focus on playing golf.

LINDA & FRANK GERTCHER, PH. D.
Retired School Teacher & Retired Scientist

AZAHARA MUÑOZ
Professional Golfer

MARKET PRESIDENTS

DAVID A. HIGHMARK
President & CEO, Arizona

MICHAEL E. DROHAN
President, Charleston

HARLAN C. PARRISH
President, Lee County

ADRIA D. STARKEY
President, Collier County

DAVID H. SCAFF
President, Palm Beach

ARIZONA

SCOTTSDALE - DC RANCH
20909 N 90th Pl, Ste 102
Scottsdale, AZ 85255
(480) 333-3950

SCOTTSDALE - GAINEY RANCH
7600 E Doubletree Ranch Rd, Ste 100
Scottsdale, AZ 85258
(480) 607-4860

SOUTH CAROLINA

CHARLESTON - DANIEL ISLAND
865 Island Park Dr
Charleston, SC 29492
(843) 998-6400

FLORIDA

BONITA SPRINGS - BONITA BAY
26800 S Tamiami Trail, Ste 100
Bonita Springs, FL 34134
(239) 405-6790

ESTERO - COCONUT POINT
10010 Coconut Rd
Bonita Springs, FL 34135
(239) 405-6700

FORT MYERS
12681 Creekside Ln
Fort Myers, FL 33919
(239) 461-5900

FORT MYERS - CYPRESS COVE
10200 Cypress Cove Dr
Fort Myers, FL 33908
(239) 461-3880

FORT MYERS - SHELL POINT
14990 Shell Point Blvd, Ste 110
Fort Myers, FL 33908
(239) 461-5999

NAPLES
800 Laurel Oak Dr, Ste 101
Naples, FL 34108
(239) 963-0700

NAPLES - BENTLEY VILLAGE
701 Retreat Dr
Naples, FL 34110
(239) 405-6780

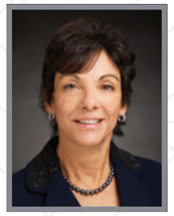
NAPLES - MOORINGS PARK
120 Moorings Park Dr
Naples, FL 34105
(239) 405-6770

PALM BEACH
340 Royal Palm Way
Palm Beach, FL 33480
(561) 273-1500

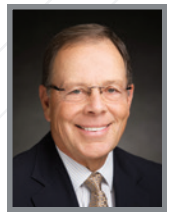
FINEMARK NATIONAL BANK & TRUST BOARD OF DIRECTORS

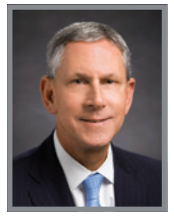

Robert M. Arnall*
Executive Vice President
Chief Credit Officer

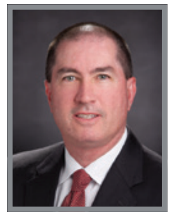

Christopher T. Battifarano*
Executive Vice President
Chief Investment Officer

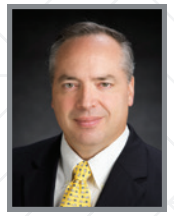

Aurelia J. Bell
Arrowhead Partners, Inc.


Michael J. Carron
Radiology Regional
Center (Ret.)

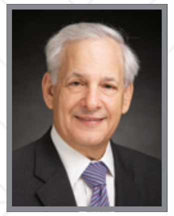

Thomas D. Case, II
Case Pearlman
Corporate Benefits


Joseph R. Catti*
President
Chief Executive Officer


Michael E. Drohan*
Senior Vice President
President, Charleston

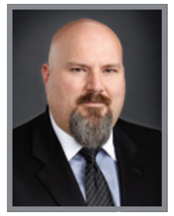

Brian J. Eagleston*
Executive Vice President
Chief Financial Officer

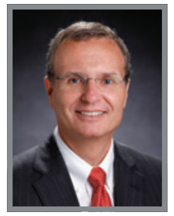

David A. Highmark*
Executive Vice President
President & CEO, Arizona


William N. Horowitz
Cummings & Lockwood, LLC


David H. Lucas†
The Bonita Bay Group

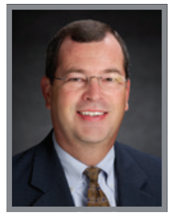

Vito S. Manone‡
Manone Investments,
Inc.


Jason L. Manwell*
Senior Vice President
Information Technology
Manager


Jeffrey B. Moes*
Executive Vice President
Chief Fiduciary Officer

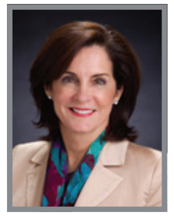

Robert A. Parimore*
Executive Vice President
Chief Risk & Compliance
Officer


Harlan C. Parrish*
Executive Vice President
President, Lee County


Gerald M. Roberts*
Executive Vice President
Private Wealth Advisor


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

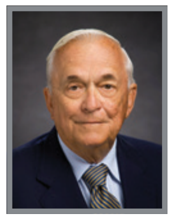

Malinda L. Schneider*
Executive Vice President
Loan Administration
Manager

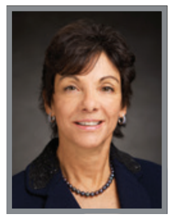

Adria D. Starkey*
Executive Vice President
President, Collier County


Jennifer L. Stevens*
Executive Vice President
Human Resources
Director

FINEMARK HOLDINGS BOARD OF DIRECTORS


Richard E. Beightol
RJB Investment, Inc.


Edward G. Beimfohr
Windels Marx Lane &
Mittendorf, LLP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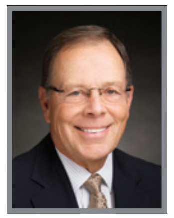
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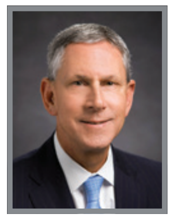
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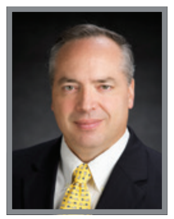
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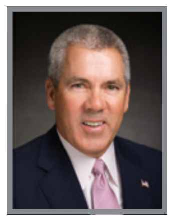
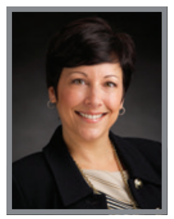
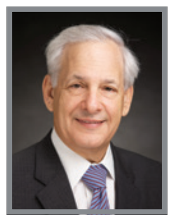
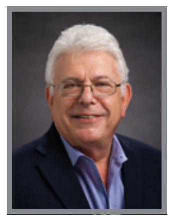
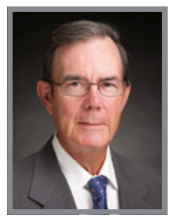

Scott A. Edmonds‡
Bellfield Investment
Partners


Tracey U. Galloway
Community Cooperative, Inc.


William N. Horowitz
Cummings & Lockwood, LLC


Hale S. Irwin
PGA Tour Champions
Hall of Fame Golfer


Clive L. Lubner
Clive Daniel Home


David H. Lucas†
The Bonita Bay Group


Vito S. Manone
Manone Investments, Inc.


Alan D. Reynolds
Stantec


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


William H. Turner
Chase Bank (Ret.)


Martin M. Wasmer
Wasmer, Schroeder &
Company

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

FINEMARK HOLDINGS, INC.

Audited Consolidated Financial Statements

December 31, 2018 and 2017 and the Years then Ended
(Together with Independent Auditor's Report)

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FINEMARK HOLDINGS, INC.

2018 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 Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of earnings, comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, 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.

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

Other Matters

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 15, 2019 expressed an unmodified opinion.

Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Tampa, Florida
February 15, 2019

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

($ in thousands, except per share amounts)

Assets	**At December 31, 2018**	**2017**
Cash and due from banks	$ 33,687	11,933
Securities available for sale	343,008	270,525
Securities held to maturity	28,442	29,080
Loans, net of allowance for loan losses of $14,466 in 2018 and $12,812 in 2017	1,367,489	1,199,030
Federal Home Loan Bank stock	9,772	5,374
Federal Reserve Bank stock	3,728	3,014
Premises and equipment, net	23,636	16,058
Accrued interest receivable	5,884	4,523
Deferred tax asset	3,562	3,470
Bank-owned life insurance	33,232	32,588
Other assets	7,445	3,956
Total assets	$ 1,859,885	1,579,551
Liabilities and Shareholders' Equity		
Liabilities:		
Noninterest-bearing demand deposits	191,306	172,403
Savings, NOW and money-market deposits	1,124,120	923,414
Time deposits	145,287	208,725
Total deposits	1,460,713	1,304,542
Official checks	4,734	13,028
Federal funds purchased	-	12,000
Other borrowings	2,076	398
Federal Home Loan Bank advances	196,514	97,473
Subordinated debt, net	29,537	-
Other liabilities	7,662	9,506
Total liabilities	1,701,236	1,436,947
Commitments and contingencies (notes 11 and 16)		
Shareholders' equity:		
Preferred stock, $.01 par value; 10,000,000 shares authorized none issued or outstanding	-	-
Common stock, $.01 par value; 50,000,000 shares authorized, 8,805,399 and 8,536,680 shares issued and outstanding in 2018 and 2017	88	85
Additional paid-in capital	119,653	117,191
Retained earnings	43,094	27,982
Accumulated other comprehensive loss	(4,186)	(2,654)
Total shareholders' equity	158,649	142,604
Total liabilities and shareholders' equity	$ 1,859,885	1,579,551

See Accompanying Notes to Consolidated Financial Statements

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

($ in thousands, except per share amounts)

	December 31, 2018	**2017**
Interest income:		
Loans	$ 51,911	43,152
Securities	8,627	5,677
Other	806	180
Total interest income	61,344	49,009
Interest expense:		
Deposits	11,791	5,191
Borrowings	4,074	2,246
Total interest expense	15,865	7,437
Net interest income	45,479	41,572
Provision for loan losses	2,029	2,119
Net interest income after provision for loan losses	43,450	39,453
Noninterest income:		
Trust fees	16,689	13,998
Income from bank-owned life insurance	915	952
Income from solar farms	272	137
Gain on sale of securities available for sale	4	290
Gain on extinguishment of debt	1,148	381
Other fees and service charges	1,041	711
Total noninterest income	20,069	16,469
Noninterest expenses:		
Salaries and employee benefits	28,407	25,710
Occupancy	4,932	4,359
Information systems	3,654	3,122
Professional fees	1,214	777
Marketing and business development	1,930	1,632
Regulatory assessments	1,226	1,215
Other	4,368	3,537
Total noninterest expense	45,731	40,352
Earnings before income taxes	17,788	15,570
Income taxes	2,676	5,966
Net earnings	$ 15,112	9,604
Basic earnings per common share	1.75	1.13
Diluted earnings per common share	1.70	1.10

See Accompanying Notes to Consolidated Financial Statements

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
(in thousands)

	Year Ended December 31, 2018	2017
Net Earnings	$ 15,112	9,604
Other comprehensive loss:		
Unrealized holding (loss) gain on available for sale securities	(2,054)	234
Reclassification adjustment for gains realized in earnings	(4)	(290)
Net change in unrealized loss	(2,058)	(56)
Income tax effect	526	(414)
One-time reclassification for newly enacted corporate tax rate	-	434
Total other comprehensive loss	(1,532)	(36)
Comprehensive income	$ 13,580	9,568

See Accompanying Notes to Consolidated Financial Statements

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

For the Years Ended December 31, 2018 and December 2017
($ In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Compre-hensive Loss	Total Shareholders' Equity
Balance at December 31, 2016	8,409,122	$ 84	114,719	17,944	(2,184)	130,563
Stock-based compensation	-	-	846	-	-	846
Net earnings	-	-	-	9,604	-	9,604
Change in unrealized loss on securities available for sale, net of tax	-	-	-	-	(36)	(36)
One-time reclassification for newly enacted corporate tax rate				434	(434)	-
Stock grants vested	8,750	-	-	-	-	-
Proceeds from exercise of stock options	87,800	1	877	-	-	878
Proceeds from issuance of common stock	31,008	-	749	-	-	749
Balance at December 31, 2017	8,536,680	85	117,191	27,982	(2,654)	142,604
Stock-based compensation	-	-	1,210	-	-	1,210
Net earnings	-	-	-	15,112	-	15,112
Change in unrealized loss on securities available for sale, net of tax	-	-	-	-	(1,532)	(1,532)
Stock grants vested	8,750	-	-	-	-	-
Proceeds from exercise of stock options	248,300	3	927	-	-	930
Repurchase of common stock	(20,000)	-	(580)	-	-	(580)
Proceeds from issuance of common stock	31,669	-	905	-	-	905
Balance at December 31, 2018	8,805,399	$ 88	119,653	43,094	(4,186)	158,649

See Accompanying Notes to Consolidated Financial Statements.

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31, 2018	2017
Cash flows from operating activities:		
Net earnings	$ 15,112	9,604
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,855	1,644
Provision for loan losses	2,029	2,119
Amortization of deferred loan fees and costs	375	255
Amortization of premiums and discounts on securities	1,668	3,211
Gain on sale of securities available for sale	(4)	(290)
Increase in accrued interest receivable	(1,361)	(628)
Increase in other assets	(3,489)	(62)
Deferred income taxes	434	1,008
Income from bank-owned life insurance	(915)	(952)
(Decrease) increase in other liabilities	(1,844)	4,743
(Decrease) increase in official checks	(8,294)	8,201
Stock-based compensation	1,210	846
Net cash provided by operating activities	6,776	29,699
Cash flows from investing activities:		
Net increase in loans	(170,863)	(214,938)
Purchase of premises and equipment, net	(9,433)	(4,963)
Securities available for sale:		
Purchases	(107,571)	(141,917)
Proceeds from sales	1,004	33,869
Proceeds from maturities and calls	13,860	44,726
Proceeds from principal repayments	16,504	94,226
Securities held to maturity:		
Purchases	-	(29,233)
Proceeds from maturities and calls	636	-
Bank owned life insurance proceeds	271	-
(Purchase) redemption of Federal Home Loan Bank stock	(4,398)	782
Purchase of Federal Reserve Bank stock	(714)	(11)
Net cash used in investing activities	(260,704)	(217,459)
Cash flows from financing activities:		
Net increase in deposits	156,171	203,604
Net increase (decrease) in other borrowings	1,678	(7,049)
Net proceeds (repayment) from Federal Home Loan Bank advances	99,041	(23,847)
Net (decrease) increase in Federal funds purchased	(12,000)	12,000
Net increase in subordinated debt	29,537	-
Proceeds from sale of common stock, net	905	749
Repurchase of common stock	(580)	-
Proceeds from exercise of stock options	930	878
Net cash provided by financing activities	275,682	186,335
Net increase (decrease) in cash and due from banks	21,754	(1,425)
Cash and due from banks at beginning of year	11,933	13,358
Cash and due from banks at end of year	$ 33,687	11,933

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued
(In thousands)

	Year Ended December 31, 2018	2017
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 15,430	7,366
Income taxes	$ 3,989	4,201
Noncash transaction:		
Accumulated other comprehensive loss, net change in unrealized loss on securities available for sale, net of tax	$ (1,532)	(36)
One-time reclassification for newly enacted corporate tax rate	$ -	434

See Accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

At December 31, 2018 and 2017 and for the Years then Ended

(1) Summary of Significant Accounting Policies

Organization. FineMark Holdings, Inc. (the "Holding Company") was incorporated on May 31, 2006 and owns 100% of the outstanding common stock of FineMark National Bank & Trust (the "Bank") (collectively, the "Company"). The Holding Company's primary activity is the operation of the Bank. The Bank is a nationally-chartered commercial bank and trust company. The Bank offers a variety of banking and financial services to individual and corporate clients through its thirteen banking offices located in Lee, Collier and Palm Beach County, Florida, Maricopa County, Arizona, and Berkeley County, South Carolina. The deposit accounts of the Bank are insured up to the applicable limits by the Federal Deposit Insurance Corporation "FDIC." The Bank also has a trust department which offers investment management, trust administration, estate planning and financial planning services. In 2017, the bank formed FineMark Solar, LLC ("Solar"), a South Carolina Limited Liability Company. The purpose of Solar is to own solar farms located in South Carolina. The bank owns 100% of Solar which operates twelve solar farms that generate renewable energy that is sold to local electric companies. In 2018, the bank formed 8695, LLC, which was created in connection with acquisition and construction of property to be used for the Bank's future headquarters.

Management has evaluated all significant events occurring subsequent to the consolidated balance sheet date through February 15, 2019, 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, 2018 and 2017, the Bank's required reserve balance was $1,446,000 and $1,512,000 respectively.

(continued)

(1) Summary of Significant Accounting Policies, Continued

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

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

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

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

(continued)

(1) Summary of Significant Accounting Policies, Continued

Allowance for Loan Losses. The allowance for loan losses represents the amount which, in management's judgment, will be adequate to absorb loan losses inherent in the loan portfolio as of the consolidated balance sheet date. The adequacy of the allowance is determined by management's evaluation of the loan portfolio on a regular basis based on such factors as the differing economic risks associated with each loan category, the current financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. This evaluation requires estimates that are susceptible to significant revision as more information becomes available. Subsequent recoveries, if any, are credited to the allowance. There were no changes in the Company's accounting policies or methodology during the years ended December 31, 2018 or 2017.

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

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

(continued)

(1) Summary of Significant Accounting Policies, Continued

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

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

Trust Assets and Fees. Client assets, totaling $3.4 billion and $3 billion at December 31, 2018 and 2017 are not included in the consolidated balance sheets as such, these items are not assets of the Company. The Company charges fees for trustee, custodian, and investment management services. These fees are recognized as income over the period the services are provided.

Comprehensive Income. Accounting principles generally require that recognized revenue, expenses, gains and losses be included in earnings. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheet. Such items, along with net earnings and the one-time reclassification for newly enacted corporate tax rate, are components of comprehensive income. The tax effects of items included in accumulated other comprehensive loss are released as each individual item matures, sold or disposed of.

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

(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, 2018, management is not aware of any uncertain tax positions that would have a material effect on the Company's consolidated financial statements.

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

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

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

(continued)

(1) Summary of Significant Accounting Policies, Continued

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

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

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

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

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

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

Securities Available for Sale. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds, certain mortgage products and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include certain collateralized mortgage and debt obligations. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Securities classified within Level 3 include certain residual interests in securitizations and other less liquid securities.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Fair Value Measurements, continued.

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

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

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

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

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

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

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

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

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

(continued)

(1) Summary of Significant Accounting Policies, Continued

Fair Value of Financial Instruments, continued.

Federal Funds Purchased and Other Borrowings. The carrying amount of Federal funds purchased and other borrowings approximates fair value.

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.

Subordinated Debt. The fair value of the subordinated debt is estimated using discounted cash flow analysis based on the current rate of similar debt.

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

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

Marketing. The Company expenses all marketing as incurred.

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

(continued)

(1) Summary of Significant Accounting Policies, Continued

Earnings Per Share. Earnings per share ("EPS") has been computed on the basis of the weighted-average number of shares of common stock outstanding. In 2018 and 2017, outstanding stock options and restricted stock are considered dilutive securities for purposes of calculating diluted EPS which was computed using the treasury stock method (dollars in thousands, except per share amounts):

	2018			2017		
	Earnings	Weighted-Average Shares	Per Share Amount	Earnings	Weighted-Average Shares	Per Share Amount
Year Ended December 31:						
Basic EPS:						
Net earnings available to common shareholders	$15,112	8,633,812	$1.75	$9,604	8,493,701	$1.13
Effect of dilutive securities- Incremental shares from restricted stock and assumed conversion of options		238,666			213,105	
Diluted EPS:						
Net earnings available to common shareholders	$15,112	8,872,478	$1.70	$9,604	8,706,806	$1.10

Recent Pronouncements. In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* The ASU requires equity investments to be measured at fair value with changes in fair value recognized in net earnings, simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment and eliminates the requirement to disclose fair values, the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost. The ASU also clarifies that the Company should evaluate the need for a valuation allowance on a deferred tax asset related to the available-for-sale debt securities in combination with the Company's other deferred tax assets. The ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Recent Pronouncements, continued.

In February 2016, the FASB issued ASU No. 2016-2, *Leases (Topic 842)* which will require lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with terms of more than twelve months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. The new ASU will require both types of leases to be recognized on the balance sheet. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The ASU is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2018. The Company estimates that the effect of the ASU will increase assets by $8,059,000, liabilities by $8,196,000 and reduce retained earnings by $137,000.

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

(continued)

(1) Summary of Significant Accounting Policies, Continued

Recent Pronouncements, continued.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The ASU shortens the amortization period for certain callable debt securities held at a premium, the ASU requires the premium to be amortized to the earliest call date. No accounting change is required for securities held at a discount. The ASU was effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2018. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedge Activities*. The ASU better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the ASU expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The ASU was effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Reclassification. Certain amounts in the 2017 consolidated financial statements have been reclassified to conform to the 2018 consolidated financial statement presentation.

(continued)

(2) Securities

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

Securities available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2018:				
U.S. Government agency securities	$ 82,809	69	(1,050)	81,828
Corporate debt securities	15,363	14	(239)	15,138
Mortgage-backed securities	50,573	6	(1,822)	48,757
Collateralized mortgage obligations	75,825	-	(1,384)	74,441
Municipal securities	22,404	59	(123)	22,340
Taxable municipal securities	101,640	108	(1,244)	100,504
Total	$ 348,614	256	(5,862)	343,008
At December 31, 2017:				
U.S. Government agency securities	54,773	1	(646)	54,128
Corporate debt securities	11,962	13	(93)	11,882
Mortgage-backed securities	64,066	1	(1,163)	62,904
Collateralized mortgage obligations	52,041	-	(850)	51,191
Municipal securities	23,044	115	(123)	23,036
Taxable municipal securities	68,187	30	(833)	67,384
Total	$ 274,073	160	(3,708)	270,525
Securities held to maturity				
At December 31, 2018:				
Collateralized mortgage obligations	4,618	0	(137)	4,481
Taxable municipal securities	23,824	0	(751)	23,073
Total	$28,442	0	(888)	27,554
At December 31, 2017:				
Collateralized mortgage obligations	4,632	8	-	4,640
Taxable municipal securities	24,448	1	(341)	24,108
Total	$29,080	9	(341)	28,748

(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, 2018:				
U.S. Government agency securities	$ 81,828	-	81,828	-
Corporate debt securities	15,138	-	15,138	-
Mortgage-backed securities	48,757	-	48,757	-
Collateralized mortgage obligations	74,441	-	74,441	-
Municipal securities	22,340	-	22,340	-
Taxable municipal securities	100,504	-	100,504	-
Total	$ 343,008	-	343,008	-
December 31, 2017:				
U.S. Government agency securities	54,128	-	54,128	-
Corporate debt securities	11,882	-	11,882	-
Mortgage-backed securities	62,904	-	62,904	-
Collateralized mortgage obligations	51,191	-	51,191	-
Municipal securities	23,036	-	23,036	-
Taxable municipal securities	67,384	-	67,384	-
Total	$ 270,525	-	270,525	-

During the years ended December 31, 2018 and 2017, no securities were transferred in or out of Level 1, Level 2 or Level 3.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Securities, Continued

The scheduled maturities of securities at December 31, 2018 are as follows (in thousands):

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in less than one year	$ 16,684	16,595	-	-
Due from one to five years	181,322	179,632	2,285	2,240
Due from five to ten years	24,210	23,583	18,122	17,607
Due in over ten years	-	-	3,417	3,226
Mortgage-backed securities	50,573	48,757	-	-
Collateralized mortgage obligations	75,825	74,441	4,618	4,481
Total	$ 348,614	343,008	28,442	27,554

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

	Year Ended December 31,	
	2018	2017
Proceeds from sales of securities	$ 1,004	33,869
Gross gains from sale of securities	$ 4	290

(continued)

(2) Securities, Continued

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

	Less Than Twelve Months		More Than Twelve Months	
Securities available for sale	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2018:				
U.S. Government agency securities	$ 162	17,822	888	48,941
Corporate debt securities	43	3,035	196	8,770
Mortgage-backed securities	4	259	1,818	48,212
Collateralized mortgage obligations	163	20,791	1,221	53,650
Municipal securities	18	4,254	105	6,823
Taxable Municipal securities	62	18,937	1,182	63,080
Total	$ 452	65,098	5,410	229,476
December 31, 2017:				
U.S. Government agency securities	118	19,733	528	29,500
Corporate debt securities	75	8,887	18	1,982
Mortgage-backed securities	188	16,840	975	45,624
Collateralized mortgage obligations	415	36,449	435	14,742
Municipal securities	122	10,535	-	-
Taxable Municipal securities	389	46,694	445	12,670
Total	$ 1,307	139,138	2,401	104,518
Securities held to maturity				
December 31, 2018:				
Collateralized mortgage obligations	-	-	137	4,481
Municipal securities	-	-	751	23,073
Total	$ -	-	888	27,554
December 31, 2017:				
Municipal securities	$ 341	23,607	-	-

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Securities, Continued

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.

At December 31, 2018 and 2017, the unrealized loss on two hundred and six investment securities available for sale and one hundred sixty six investment securities available for sale respectively, were caused by market conditions. It is expected that the securities would not be settled at a price less than the par value of the investments. Because the decline in fair value is attributable to changes in market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

At December 31, 2018 and 2017, securities with a fair value of $240.1 million and $221.3 million, respectively, were pledged to secure repurchase agreements, State of Florida deposits and trust operations.

(continued)

(3) Loans

A significant portion of the loan portfolio is concentrated among borrowers in South West Florida, Scottsdale, Arizona, and Charleston, South Carolina and a substantial portion of the portfolio is collateralized by real estate in these areas. In general, the ability of single family residential and consumer borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity within the market area and real estate values. The ability of commercial borrowers to honor their repayment commitments is dependent on the general economy as well as the health of the real estate economic sector in the Company's market areas.

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

	At December 31, 2018	At December 31, 2017
Real estate mortgage:		
Commercial real estate	$ 215,714	156,148
Residential real estate	851,559	777,798
Construction and land development	135,619	132,122
Total real estate mortgage	1,202,892	1,066,068
Commercial	97,372	76,217
Personal	80,478	68,800
Total loans	1,380,742	1,211,085
Add (subtract):		
Deferred loan costs, net	1,213	757
Allowance for loan losses	(14,466)	(12,812)
Loans, net	$ 1,367,489	1,199,030

(continued)

(3) Loans, Continued

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

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

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

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

(continued)

(3) Loans, Continued

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

	Real Estate Mortgage	Commercial	Personal	Total
Year ended December 31, 2018:				
Beginning balance	$ 11,645	670	497	12,812
Provision for loan losses	1,658	351	20	2,029
(Charge-offs)/recoveries	(377)	-	2	(375)
Ending balance	$ 12,926	1,021	519	14,466
Individually evaluated for impairment:				
Recorded investment	$ 2,914	-	-	2,914
Balance in allowance for loan losses	$ 90	-	-	90
Collectively evaluated for impairment:				
Recorded investment	$ 1,199,978	97,372	80,478	1,377,828
Balance in allowance for loan losses	$ 12,836	1,021	519	14,376
Year Ended December 31, 2017:				
Beginning balance	10,136	506	505	11,147
Provision for loan losses	1,945	174	-	2,119
Charge-offs	(436)	(10)	(8)	(454)
Ending balance	$ 11,645	670	497	12,812
Individually evaluated for impairment:				
Recorded investment	$ 1,857	-	-	1,857
Balance in allowance for loan losses	$ -	-	-	-
Collectively evaluated for impairment:				
Recorded investment	$ 1,064,211	76,217	68,800	1,209,228
Balance in allowance for loan losses	$ 11,645	670	497	12,812

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

The allowance for loan losses is management's best estimate of inherent risk of loss in the loan portfolio as of the consolidated balance sheet date. The Company makes various assumptions and judgments about the collectability of the loan portfolio and provide an allowance for potential losses based on several factors including economic uncertainty. If the assumptions are wrong, the allowance for loan losses may not be sufficient to cover losses and may cause the Company to increase the allowance in the future. Among the factors that could affect the Company’s ability to collect its loans and require it to increase the allowance in the future are: general real estate and economic conditions; regional credit concentration; and industry concentration. 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					
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial	Personal	Total
At December 31, 2018:						
Credit Risk Profile by Internally Assigned Grade:						
Pass	$ 215,714	845,826	135,619	96,257	80,475	1,373,891
Special Mention	-	1,840	-	958	-	2,798
Substandard	-	3,893	-	157	3	4,053
Total	$ 215,714	851,559	135,619	97,372	80,478	1,380,742
At December 31, 2017:						
Credit Risk Profile by Internally Assigned Grade:						
Pass	156,148	774,032	131,378	75,194	68,690	1,205,442
Special Mention	-	524	744	998	-	2,266
Substandard	-	3,242	-	25	110	3,377
Total	$ 156,148	777,798	132,122	76,217	68,800	1,211,085

(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, 2018:							
Real estate mortgage:							
Commercial real estate	$ -	-	-	-	215,714	-	215,714
Residential real estate	559	-	-	559	848,238	2,762	851,559
Construction and land development	-	-	-	-	135,619	-	135,619
Commercial	-	-	-	-	97,372	-	97,372
Personal	-	-	-	-	80,478	-	80,478
Total	$ 559	-	-	559	1,377,421	2,762	1,380,742
At December 31, 2017:							
Real estate mortgage:							
Commercial real estate	-	-	-	-	156,148	-	156,148
Residential real estate	156	283	-	439	777,334	25	777,798
Construction and land development	-	-	-	-	132,122	-	132,122
Commercial	-	25	-	25	76,192	-	76,217
Personal	10	-	-	10	68,790	-	68,800
Total	$ 166	$ 308	$ -	474	1,210,586	25	1,211,085

(continued)

(3) Loans, Continued

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

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

	With No Related Allowance Recorded		With Related Allowance Recorded		
	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Allowance
At December 31, 2018:					
Real estate mortgage -					
Residential real estate	$ 2,044	2,209	870	870	90
At December 31, 2017:					
Real estate mortgage -					
Residential real estate	$ 1,857	2,010	-	-	-

(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, 2018:			
Real estate mortgage -			
Residential real estate	$ 1,275	4	17
Year Ended December 31, 2017:			
Real estate mortgage -			
Residential real estate	$ 1,866	$ 67	$ 68

TDR's entered into during the years ended December 31, 2018 and December 31, 2017 are as follows (dollars in thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Year Ended December 31, 2018:			
Real estate mortgage -			
Residential real estate -			
Modified Payment Terms	2	$ 1,266	1,255
Year Ended December 31, 2017:			
Real estate mortgage -			
Residential real estate -			
Modified Payment Terms	1	$ 1,676	1,676

There were no TDR's that subsequently defaulted during the years ended December 31, 2018, or 2017 which were restructured during the same period.

(continued)

(3) Loans, Continued

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

	Fair Value	Level 1	Level 2	Level 3	Total Losses	Losses Recorded During the Year
At December 31, 2018:						
Residential real estate	$ 932	-	-	932	255	110
At December 31, 2017:						
Residential real estate	$ 156	-	-	156	145	-

(4) Premises and Equipment

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

	At December 31, 2018	At December 31, 2017
Land	$ 7,855	1,630
Building	7,341	7,341
Leasehold Improvements	5,132	4,653
Furniture, fixtures, solar farms and equipment	12,945	10,296
Data processing equipment and software	1,899	1,839
Total, at cost	35,172	25,759
Less accumulated depreciation and amortization	(11,536)	(9,701)
Premises and equipment, net	$23,636	16,058

(continued)

(4) Premises and Equipment, Continued

At December 31, 2018, the Company was committed to rent premises used in banking operations under non-cancellable operating leases. Rental expense under the operating leases was approximately $1.4 million and $1.3 million for 2018 and 2017, respectively. Lease expiration dates range from 1 year to 25 years, with renewal options on certain leases of 1 year to 25 years.

Future minimum rental commitments under these non-cancellable leases at December 31, 2018 are approximately as follows (in thousands):

Year Ending December 31,	Minimum Annual Rental Payment
2019	$ 1,514
2020	1,360
2021	1,269
2022	989
2023	816
Thereafter	3,586
	$ 9,534

(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 $33,232,000 and $32,588,000 at December 31, 2018 and 2017, 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, 2018. BOLI is included in the consolidated balance sheets at its cash surrender value. Increases in BOLI's cash surrender value are reported as a component of noninterest income in the consolidated statements of earnings.

(continued)

(6) Deposits

The aggregate amount of time deposits with a denomination of $250,000 or more was approximately $119.8 million and $175.5 million at December 31, 2018 and 2017, respectively. A schedule of maturities of time deposits at December 31, 2018 follows (in thousands):

Year Ending December 31,	Amount
2019	$ 101,760
2020	32,083
2021	3,506
2022	3,624
2023	4,314
	$ 145,287

At December 31, 2018 and 2017, securities with a carrying value of $24,797,000 and $43,624,000, and letters of credit of $50 million and $60 million, respectively were pledged to secure Qualified Public Depositors totaling $103,257,000 and $167,392,000 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, 2018 and 2017, the balance totaled $2,076,000 and $398,000 respectively, and the Company had pledged securities as collateral for these agreements with a carrying value of $4,932,085 and $1,234,0000 respectively.

(continued)

(8) Federal Home Loan Bank Advances and Other Available Credit

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

Maturing in the Year Ending December 31,	Fixed or Variable Rate	Weighted-Average Interest Rate	At December 31, 2018	2017
2018	Fixed	1.82%	-	38,000
2019	Fixed	2.32%	65,000	10,000
2020	Fixed	2.14%	5,000	5,000
2021	Fixed	1.95%	8,750	9,250
2022	Fixed	3.08%	17,764	29,151
2023	Fixed	3.05%	90,000	-
2025	Fixed	3.31%	10,000	-
2026	Fixed	2.01%	-	6,072
			$ 196,514	97,473

The Company has entered into a collateral agreement with the FHLB which consists of a blanket lien on qualifying real estate loans. As of December 31, 2018 and 2017, the Company had remaining available borrowing capacity of $455.4 million and $453.5 million, respectively.

The Company has secured Standby Letters of Credit with the FHLB that are used to collateralize Qualified Public Deposits with the State of Florida. As of December 31, 2018 and 2017, the Letters of Credit were $50 million and $60 million, respectively.

In 2018 and 2017, the Company prepaid certain FHLB advances with a total carrying amount of $66.2 million and $65.7 million, respectively, and recorded a net gain on extinguishment of debt of $1,148,000 and $381,000, respectively. The gains resulted from the difference in interest rates between the current market rate and the interest rate on the debt obligations.

At December 31, 2018, the Company had $26 million available under an unsecured federal funds purchase facility and $15 million available under a secured revolving line of credit. The Company also has a line of credit with the Federal Reserve Bank under which the Company may draw up to $186 million. The line is secured by $286.7 million in loans. There were no borrowings outstanding under these lines at December 31, 2018. At December 31, 2017, the Company had $12 million outstanding.

(continued)

(9) Subordinated Debt

The Company has issued $30,000,000 face value of subordinated debt (the "Subordinated Debt") due June 30, 2028. The Subordinated Debt bears a fixed annual interest rate of 5.875% until June 30, 2023, at which time the rate will become an annual floating rate equal to three-month LIBOR, determined quarterly, plus 297 basis points. Interest is payable in arrears on March 31, June 30, September 30 and December 31, of each year through the maturity date, unless redeemed. The Company may, at its option, beginning June 29, 2023, and on any scheduled interest payment date thereafter, redeem the Subordinated Debt, in whole or in part, at 100% of the principal amount of the Subordinated Debt plus any accrued and unpaid interest. The Subordinated Debt was structured to comply with certain regulatory requirements which provide for qualification as Tier 2 Capital. The Subordinated Debt is subject to certain affirmative and negative covenants and at December 31, 2018, the Company was in compliance with the covenants.

The following summarized the Subordinated Debt during the years end December 31, 2018 and 2017, (in thousands).

Subordinated debt at December 31, 2017	$	-
Face value of subordinated debt issued		30,000
Expenses related to issuance		(487)
Amortization of issuance expenses		24
Subordinated debt at December 31, 2018	$	29,537

(10) Income Taxes

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

	Year Ended December 31, 2018	2017
Current:		
Federal	$ 1,507	4,128
State	735	830
Total current	2,242	4,958
Deferred:		
Federal	401	1,156
State	33	(148)
Total deferred	434	1,008
Income tax expense	$ 2,676	5,966

The reasons for the difference between the statutory Federal income tax rate of 21% and the effective tax rates are summarized as follows (dollars in thousands):

	2018 Amount	2018 % of Pretax Earnings	2017 Amount	2017 % of Pretax Earnings
Income taxes at statutory rate	$ 3,735	21.0 %	$ 5,294	34.0 %
Increase (decrease) resulting from:				
State taxes, net of Federal tax benefit	607	3.4	450	2.9
Share-based compensation	(604)	(3.4)	44	0.3
Tax-exempt income	(292)	(1.6)	(545)	(3.5)
Reduction in federal rate	-	-	1,657	1.3
Tax credits from solar farms	(528)	(3.0)	(1,133)	10.6
Other, net	(242)	(1.4)	199	(7.3)
Income tax expense	$ 2,676	15.0 %	$ 5,966	38.3 %

(10) 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, 2018	2017
Deferred tax assets:		
Allowance for loan losses	$ 3,666	3,247
Organizational and start-up costs	46	61
Share-based compensation	104	103
Unrealized loss on securities available for sale	1,420	894
Deferred tax assets	5,236	4,305
Deferred tax liabilities:		
Prepaid expenses	(95)	(94)
Premises and equipment	(1,179)	(741)
Deferred loan costs	(400)	-
Deferred tax liabilities	(1,674)	(835)
Net deferred tax asset	$ 3,562	3,470

The Company's Federal and state income tax returns filed prior to 2015 are no longer subject to examination by the respective taxing authorities.

(11) Financial Instruments

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

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

(continued)

(11) Financial Instruments, continued

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

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Under the standby letters of credit, the Company is required to make payments to the beneficiary of the letters of credit upon request by the beneficiary contingent upon the customer's failure to perform under the terms of the underlying contract with the beneficiary. Standby letters of credit extend up to one year. At December 31, 2018 and 2017, there was no liability to beneficiaries resulting from standby letters of credit. At December 31, 2018, a substantial portion of the standby letters of credit were supported by pledged collateral. Should the Company be required to make payments to the beneficiary, repayment from the customer to the Company is required.

Commitments to extend credit, unused lines of credit and standby letters of credit typically result in loans with a market interest rate when funded. A summary of the amounts of the Company's financial instruments with off-balance sheet risk at December 31, 2018, follows (in thousands):

Commitments to extend credit	$ 82,352
Unused lines of credit	$ 272,810
Standby letters of credit	$ 50

(continued)

(11) Financial Instruments, continued

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

	At December 31,			
	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	$ 33,687	33,687	11,933	11,933
Securities available for sale	343,008	343,008	270,525	270,525
Securities held to maturity	28,442	27,554	29,080	28,748
Loans, net	1,367,489	1,363,251	1,199,030	1,198,682
Federal Home Loan Bank stock	9,772	9,772	5,374	5,374
Federal Reserve Bank stock	3,728	3,728	3,014	3,014
Accrued interest receivable	5,884	5,884	4,523	4,523
Financial liabilities:				
Deposits	1,460,713	1,462,001	1,304,542	1,305,281
Federal funds purchased	-	-	12,000	12,000
Other borrowings	2,076	2,076	398	398
Federal Home Loan Bank advances	196,514	194,957	97,473	97,679
Subordinated debt, net	29,537	28,916	-	-
Off-balance-sheet financial instruments	-	-	-	-

(12) 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 $633,000 and $588,000 for the years ended December 31, 2018 and 2017, respectively.

(continued)

(13) Stock-Based Compensation Plans

The Company has a stock incentive plan for directors and employees. Under the plan, 1,213,100 shares (amended) have been reserved for the granting of stock options or restricted stock awards. All stock options and restricted stock awards must be granted at a price not less than the fair market value of the common stock on the date of grant. Some stock options are fully vested when granted while the majority vests over a one to four year period. All options expire ten years from the date of grant. At December 31, 2018, 124,783 shares remain available for grant. In 2018 and 2017, $302,000 and $203,000 of compensation expense was recognized. At December 31, 2018, there was $700,000 of unrecognized compensation expense related to the nonvested stock options granted under this plan. The remaining cost is expected to be recognized over the next 2.56 years. A summary of the stock option activity under this plan is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at December 31, 2016	671,879	$ 12.04	
Granted	90,288	25.00	
Forfeited	(4,450)	20.30	
Exercised	(78,400)	10.00	
Outstanding at December 31, 2017	679,317	14.03	
Granted	76,500	29.00	
Forfeited	(15,500)	22.80	
Exercised	(241,000)	10.96	
Outstanding at December 31, 2018	499,317	$ 17.72	5.35 years
Exercisable at December 31, 2018	264,129	$ 11.75	2.92 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,	
	2018	2017
Risk-free interest rate	2.77%	2.12%
Dividend yield	-	-
Expected stock volatility	16.42%	17.50%
Expected life in years	6	6
Per share grant-date fair value of options issued during the year	$ 6.98	$ 5.78

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

(continued)

(13) Stock-Based Compensation Plans, continued

On April 25, 2013, the Company adopted a Non-Qualified Stock Option Plan and made 150,000 options available. All stock options must be granted at a price not less than the fair market value of the common stock on the date of grant. Stock options cliff vest after a four year period. At December 31, 2018, 13,075 shares remain available for grant. In 2018 and 2017, $25,000 and $63,000 of compensation expense was recognized with a related income tax benefit of $6,000 and $22,000, in 2018 and 2017, respectively. All options expire ten years from the date of grant. At December 31, 2018, there was not any unrecognized compensation expense. 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 December 31, 2017	137,675	$14.55	
Forfeited	(750)	16.00	
Exercised	(7,300)	13.91	
Outstanding/exercisable at December 31, 2018	129,625	$14.55	5.08 years

The Company issued restricted stock grants that vest monthly over 48 months. At December 31, 2018, there was $2,027,000 of total unrecognized compensation expense related to restricted stock awards, which will be recognized over the next 4 years. In 2018 and 2017, $882,000 and $580,000, respectively, of compensation expense was recognized with a related income tax benefit of $224,000 and $199,000 for 2018 and 2017, respectively. A summary of the restricted stock grant activity is as follows:

	Number of Grants	Price	Fair Value (in thousands)
Outstanding at December 31, 2016	76,542	$ 18.50	1,416
Granted	38,000	25.00	950
Vested and issued	(8,750)	18.50	(162)
Outstanding at December 31, 2017	105,792	20.83	2,204
Granted	45,650	29.00	1,324
Vested and issued	(8,750)	18.50	(162)
Outstanding at December 31, 2018	142,692	$ 23.59	3,366

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. The stock options expired ten years from date of grant and had an exercise price of $10 per share. In 2017, 168,750 were exercised. At December 31, 2017, no options were outstanding.

(continued)

(14) Related Party Transactions and Economic Dependence

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

The following summarizes these transactions (in thousands):

	At or for the Year Ended December 31, 2018	2017
Loans:		
Beginning balance	$ 16,703	17,336
Additions	6,553	8,544
Repayments	(2,212)	(9,177)
Ending balance	$ 21,044	16,703
Deposits at end of year	$ 32,646	34,338
Trust accounts under administration	$ 128,876	154,728

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

In 2018 and 2017, a director acted as agent in the acquisition of bank-owned life insurance, and acted as agent in the acquisition of long term disability insurance, receiving commission on both. The transaction was evaluated next to independent third parties.

In 2018 and 2017, the Company purchased furniture through a company owned by several directors.

(continued)

(15) Regulatory Matters

During the year ended December 31, 2018, the Federal Reserve raised the threshold from $1 billion to $3 billion in total consolidated assets to be considered a small bank holding company. As a result of this change, the Company is excluded from consolidated capital requirements.

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

Under Basel III, the Bank became subject to the capital conservation buffer rules which places limitations on distributions, including dividend payments, and certain discretionary bonus payments to executive officers. In order to avoid these limitations, an institution must hold a capital conservation buffer above its minimum risk-based capital requirements. As of December 31, 2018, the Bank’s capital conservation buffer exceeds the minimum requirements of 1.875%. The conservation buffer increased to the required amount of 2.50% on January 1, 2019.

As of December 31, 2018, the Bank was well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain a minimum Common equity tier 1 capital ratio, Tier 1 capital ratio, Total capital ratio and Tier 1 leverage ratio as set forth in the table. Management believes, as of December 31, 2018, that the Bank meets all capital adequacy requirements to which it is subject. The Company’s and the Bank's actual capital amounts and percentages are presented in the table ($ in thousands):

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(15) Regulatory Matters, continued

	Actual		For Capital Adequacy Purposes		For Well Capitalized Purposes	
	Amount	Percent	Amount	Percent	Amount	Percent
As of December 31, 2018:						
Common equity tier 1 capital ratio Bank	$173,513	14.75 %	$52,944	4.50 %	$76,475	6.50 %
Total Capital to Risk-Weighted Assets- Bank	187,979	15.98	94,123	8.00	117,654	10.00
Tier I Capital to Risk-Weighted Assets- Bank	173,513	14.75	70,592	6.00	94,123	8.00
Tier I Capital to Average Assets- Bank	173,513	9.55	72,677	4.00	90,847	5.00
Common equity tier 1 capital ratio Company	162,835	13.78	53,171	4.50	N/A	N/A
Total Capital to Risk-Weighted Assets- Company	206,838	17.51	94,526	8.00	N/A	N/A
Tier I Capital to Risk-Weighted Assets- Company	162,835	13.78	70,894	6.00	N/A	N/A
Tier I Capital to Average Assets- Company	162,835	8.95	72,879	4.00	N/A	N/A
As of December 31, 2017:						
Common equity tier 1 capital ratio Bank	133,254	12.88 %	46,561	4.50 %	67,254	6.50
Total Capital to Risk-Weighted Assets- Bank	146,066	14.12	82,774	8.00	103,468	10.00
Tier I Capital to Risk-Weighted Assets- Bank	133,254	12.88	62,081	6.00	82,774	8.00
Tier I Capital to Average Assets- Bank	133,254	8.57	62,187	4.00	77,734	5.00
Common equity tier 1 capital ratio Company	145,258	14.02	46,616	4.50	N/A	N/A
Total Capital to Risk-Weighted Assets- Company	158,207	15.27	82,873	8.00	N/A	N/A
Tier I Capital to Risk-Weighted Assets- Company	145,258	14.02	62,155	6.00	N/A	N/A
Tier I Capital to Average Assets- Company	145,258	9.34	62,240	4.00	N/A	N/A

(continued)

(16) Contingencies

Various legal claims arise from time to time in the normal course of business. In the opinion of management, none have occurred through December 31, 2018, that will have a material effect on the Company's consolidated financial statements.

(17) Parent Company Only Financial Information

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

Condensed Balance Sheets

	At December 31, 2018	At December 31, 2017
Assets		
Cash and due from banks	$ 14,047	10,820
Other assets	5,036	1,276
Investment in subsidiaries	169,326	130,600
Total assets	$ 188,409	142,696
Liabilities and Shareholders' Equity		
Accounts payable	223	92
Subordinated debt	29,537	-
Shareholders' equity	158,649	142,604
Total liabilities and shareholders' equity	$ 188,409	142,696

(continued)

(17) Parent Company Only Financial Information, continued

Condensed Statements of Shareholders' Equity

	Year Ended December 31, 2018	Year Ended December 31, 2017
Shareholders beginning balance	$ 142,604	130,563
Net earnings	15,112	9,604
Stock-based compensation	1,210	846
Proceeds from sale of common stock	905	749
Repurchase of common stock	(580)	-
Proceeds from exercise of stock options	930	878
Change in accumulated other comprehensive loss	(1,532)	(36)
Shareholders ending balance	$ 158,649	142,604

Condensed Statements of Earnings

	Year Ended December 31, 2018	Year Ended December 31, 2017
Revenue	$ 14	-
Expenses	(950)	(526)
Loss before earnings of subsidiaries	(936)	(526)
Earnings of subsidiaries	16,048	10,130
Net earnings	$ 15,112	9,604

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(17) Parent Company Only Financial Information, continued

Condensed Statements of Cash Flows

	Year Ended December 31,	
	2018	2017
Cash flows from operating activities:		
Net earnings	$ 15,112	9,604
Adjustments to reconcile net earnings to net cash used in operating activities:		
Equity in undistributed earnings of subsidiaries	(16,048)	(10,130)
(Increase) decrease in other assets	(813)	23
Increase in accounts payable	131	-
Net cash used in operating activities	(1,618)	(503)
Cash flows from investing activities:		
Net (increase) decrease in loans	(2,947)	234
Capital infusion to subsidiaries	(23,000)	(1,500)
Net cash used in investing activities	(25,947)	(1,266)
Cash flows from financing activities:		
Repurchase of common stock	(580)	-
Proceeds from sale of common stock, net	905	749
Proceeds from exercise of stock options	930	879
Net increase in subordinated debt	29,537	-
Net cash provided by financing activities	30,792	1,628
Net increase (decrease) in cash	3,227	(141)
Cash at beginning of year	10,820	10,961
Cash at end of year	$ 14,047	10,820
Noncash transactions:		
Net change in investment in subsidiaries due to change in accumulated other comprehensive loss	$ (1,532)	(36)
Stock-based compensation expense of subsidiaries	$ 1,210	846

To our clients, associates, shareholders and board members who helped make 2018 a great year,

THANK YOU!