FINEMARK HOLDINGS, INC.

DEAR VALUED SHAREHOLDERS

FineMark Holdings, Inc. (OTCQX: FNBT), the parent company of FineMark National Bank & Trust, today announced second quarter 2019 net income of $3.4 million, or $0.37 per diluted share, compared to net income of $4.1 million, or $0.46 per diluted share, reported for the second quarter of 2018.

FineMark continues to experience robust organic growth in loans, deposits and assets under management and administration. The decrease in year-over-year net earnings is largely the result of two factors: a flattening yield curve that has compressed net interest margin, and interest payments on $30 million of subordinated debt that FineMark issued in June 2018. The debt, which was issued to fund future growth and augment the bank's already healthy capital levels, adds a quarterly interest expense of $441,000. Of the $30 million of capital raised by the debt, $24 million has been added to the bank's balance sheet to maintain its strong Tier 1 leverage ratio. FineMark chose to raise this capital via debt rather than equity to avoid diluting existing shareholders.

FineMark's board of directors and executive management team are pleased with the growth and continued profitability of the company. FineMark remains committed to expanding relationships with existing clients, adding new clients through referrals and building its presence steadily and opportunistically. Furthermore, in a highly competitive lending environment, FineMark has consistently grown its loan portfolio while maintaining its conservative lending standards.

FineMark's strong performance in the second quarter of 2019, and the continued growth of our business, are a reflection of the quality of the team we have built and our commitment to act in the best interests of our clients. In a very competitive industry, I believe our commitment to maintaining a high-quality balance sheet and our relationship-based approach to banking and wealth management, will continue to serve our clients and shareholders well.

Highlights of second-quarter 2019 performance on a year-over-year basis include:

- Wealth management fees increased 9% to $4.4 million.
- Assets under administration increased 15% to $3.9 billion; this includes $125 million of net asset flows in the second quarter, a 13% year-over-year increase.
- Loans, net of allowance, increased 14% to $1.5 billion.
- Net interest income declined 2% to $11.3 million, and net interest margin compressed by 36 basis points due to the higher cost of funds in an environment of rising interest rates and a flattening yield curve.

SECOND QUARTER FINANCIAL HIGHLIGHTS

FineMark's assets totaled $2.0 billion as of June 30, 2019, compared to $1.7 billion a year earlier. This 15% increase, which was driven almost entirely by expanding relationships with existing clients and adding new clients through referrals, is a robust pace in an industry that typically sees assets grow at a 4% to 8% annual rate. Pre-tax operating income declined 14% to $4.4 million, as the costs associated with the subordinated debt, along with the compression of the net interest margin, hurt profitability.

NET INTEREST INCOME AND MARGIN

Despite a 14% increase in net loans year-over-year, net interest income declined 2% in the second quarter. As previously mentioned, this is the result of two primary factors: the cost of servicing the subordinated debt issued in June 2018, and the higher cost of funds in a macroeconomic environment defined by rising short-term interest rates and a flattening yield curve. In fact, the yield curve reached the point of inversion during much of the second quarter, as short-term (three-month) rates were higher than long-term (10-year) rates. The margin compression between short-term and long-term rates impacts profitability for “liability sensitive” banks such as FineMark.

The bank’s net interest margin—essentially the cumulative spread between the interest rate we receive for loans and the interest rate we pay on deposits—was 2.48% as of June 30, 2019, compared with 2.84% a year ago. The bank’s cost of funds increased 76% over the past year, going from 0.84% to 1.48%. Meanwhile, the yield on earning assets increased just 7% during that span, going from 3.64% to 3.90%.

Much of the increase in the cost of funds was driven by the fact that our borrowing from the Federal Home Loan Bank, which is a more expensive source of funding than client deposits, nearly doubled (+94%) over the past year. This is the result of net loans growing at a much faster rate than our deposits.

That said, we are still pleased with the growth of our deposits, which grew 8% year-over-year, ending the first quarter at $1.5 billion. We believe this strong growth is a result of the bank’s outstanding level of client service and commitment to knowing the needs of our clients.

NONINTEREST INCOME

One important aspect of FineMark’s growth has been the impressive expansion of the trust and investment business, which is measured by assets under management and administration. This figure grew to $3.9 billion as of June 30, 2019, a 15% year-over-year increase. As a result, noninterest income, which is predominantly generated from trust fees, increased 9% year-over-year to $5.0 million in the second quarter.

The growth of our trust and investment business is a result of our commitment to providing advice and services, tailored to our clients’ unique needs. This approach is resonating with our clients, allowing us to expand and further develop existing relationships while also fostering new relationships. Over the past year, we have experienced net client asset flows of $414 million, including $125 million in the second quarter, which represents a 13% year-over-year increase. In the second quarter of 2019, equity markets continued to build on the robust gains of the previous quarter, resulting in net asset appreciation of $34 million.

NONINTEREST EXPENSE

As our business grows, we continue to invest in the people and tools needed to provide outstanding service for our clients. We hired nine people in the first half of 2019, which is in line with our hiring pace in recent years. We also made several significant technology investments, which will allow us to remain at the leading edge of providing robust and—most importantly—secure service for our clients. Some of these investments are client-facing, such as becoming part of the Zelle network, a service that provides a simple and convenient way to send money electronically between users. We also made several investments to our technology infrastructure and software to enhance our cybersecurity. Noninterest expense totaled $11.8 million in the second quarter of 2019, a 4% year-over-year increase. Much of the increase can be attributed to the need to hire additional associates.

CREDIT QUALITY

Since its founding in 2007, FineMark has been committed to maintaining the bank’s high credit standards through a relationship-based approach to lending. Because FineMark conducts its underwriting based on an in-depth understanding of each potential borrower’s needs and financial situation, the bank has experienced very low defaults on loans across market cycles.

In the second quarter, the overall credit quality of the bank's loan portfolio remained strong, with very low levels of nonperforming loans relative to capital and total assets. As of June 30, 2019, nonperforming loans totaled $410,000, or just 0.03% of total loans and 0.02% of total assets, which compares favorably to the industry average. Our net charge-offs in the second quarter totaled just $11,000. Our allowance for loan loss reserve was just over $15 million, or 1.04% of the total loans outstanding as of June 30, 2019. Management continues to believe this level of reserve is sufficient to support the bank's loan portfolio risk.

CAPITAL

All of the bank's capital ratios continue to be in excess of regulatory requirements for "well-capitalized" banks. The bank's Tier 1 capital ratio was 9.52% as of June 30, 2019, down from 9.55% for the second quarter of 2018. This slight decrease is largely attributable to a change in accounting standards that required FineMark to add an $8 million right of use asset to the bank's balance sheet in the first quarter of 2019. Additionally, FineMark Holdings has just under $12 million of capital to support future growth.

SECOND QUARTER 2019 COMPANY HIGHLIGHTS

KROLL RATINGS AFFIRMED

In June 2018, we decided to have the Kroll Bond Rating Agency (KBRA) rate the bank and holding company, in conjunction with FineMark's subordinated debt offering. KBRA gave both entities a rating of investment grade, with the bank receiving a BBB+ rating and the holding company receiving a BBB rating. In June 2019, we had KBRA reevaluate both entities; the agency affirmed the bank's BBB+ rating and the holding company's BBB rating and maintained the "stable" outlook for all long-term ratings.

PROGRESS OF NEW BUILDING

As noted in previous quarterly letters, we are building a new 60,000 square foot location in Fort Myers, Florida, that will consolidate our operations center and current Fort Myers office, which is half a mile from the new site. Demolition began in June and construction of the new building is expected to begin in September, with a projected completion date of November 2020.

5-STAR RATING

FineMark National Bank & Trust has been awarded a 5-Star Superior Rating for the past 33 consecutive quarters. Bauer Financial, the nation's leading independent bank rating and research firm, rates banks on a scale from 0-5. Ratings are based on capital ratios, profitability trends, levels of delinquent loans, charge-offs, repossessed assets, liquidity and other historical data.

On behalf of our entire team, I thank you for your continued support, confidence and commitment to FineMark. Your contribution is an integral part of the bank's success.

Kind regards,

Joe

Joseph R. Catti
President & CEO

Background

FineMark Holdings, Inc., is the parent company of FineMark National Bank & Trust. Founded in 2007, FineMark National Bank & Trust is a nationally chartered bank, headquartered in Florida. FineMark offers a full range of financial services, including personal and business banking, lending services, wealth management and trust services through its offices in Florida, Arizona and South Carolina. The Corporation’s common stock trades on OTCQX under the symbol FNBT. Investor information is available on the Corporation’s website at www.finemarkbank.com.

Forward-Looking Statements

This press release contains statements that are “forward-looking statements.” You can identify forward-looking statements by the use of the words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “assume,” “outlook,” “will,” “should” and other expressions that predict or indicate future events and trends and which do not relate to historical matters. You should not rely on forward-looking statements, because they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. These risks, uncertainties and other factors may cause our actual results, performance or achievements to be materially different from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements.

Some of the factors that might cause these differences include: weakness in national, regional or international economic conditions or conditions affecting the banking or financial services industries or financial capital markets; volatility in national and international financial markets; reductions in net interest income resulting from interest rate volatility as well as changes in the balance and mix of loans and deposits; reductions in the market value or outflows of wealth management assets under administration; changes in the value of securities and other assets; reductions in loan demand; changes in loan collectability, default and charge-off rates; changes in the size and nature of our competition; changes in legislation or regulation and accounting principles, policies and guidelines; occurrences of cyberattacks, hacking and identity theft; natural disasters; and changes in the assumptions used in making such forward-looking statements. You should carefully review all of these factors and you should be aware that there might be other factors that could cause these differences. These forward-looking statements were based on information, plans and estimates at the date of this report, and we assume no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

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

	At June 30,	
Assets	**2019**	**2018**
Cash and due from banks	$ 90,822	39,935
Securities available for sale	333,798	327,882
Securities held to maturity	28,152	28,686
Loans, net of allowance for loan losses of $15,167 in 2019 and $13,134 in 2018	1,448,152	1,266,084
Federal Home Loan Bank stock	12,641	7,091
Federal Reserve Bank stock	3,806	3,080
Premises and equipment, net	31,515	17,213
Accrued interest receivable	6,290	5,216
Deferred tax asset	2,188	4,435
Bank-owned life insurance	33,675	33,042
Other assets	6,813	4,933
Total assets	$ 1,997,852	1,737,597
Liabilities and Shareholders' Equity		
Liabilities:		
Noninterest-bearing demand deposits	202,045	202,731
Savings, NOW and money-market deposits	1,228,399	967,535
Time deposits	90,517	241,596
Total deposits	1,520,961	1,411,862
Official checks	3,235	6,549
Fed funds purchased/repurchase agreements	1,661	1,801
Federal Home Loan Bank advances	258,142	133,397
Lease liability	7,713	-
Subordinated debt	29,562	29,550
Other liabilities	5,841	7,112
Total liabilities	1,827,115	1,590,271
Shareholders' equity:		
Common stock, $.01 par value; 50,000,000 shares authorized, 8,863,319 and 8,614,179 shares issued and outstanding in 2019 and 2018	89	86
Additional paid-in capital	120,807	118,654
Retained earnings	49,317	35,515
Accumulated other comprehensive loss	524	(6,929)
Total shareholders' equity	170,737	147,326
Total liabilities and shareholders' equity	$ 1,997,852	1,737,597
Book Value per Share	19.26	17.10

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

($ in thousands, except per share amounts)

Unaudited

		June 30, 2019	June 30, 2018
Interest income:			
Loans	$	30,105	24,585
Securities		4,720	4,108
Other		169	583
Total interest income		34,994	29,276
Interest expense:			
Deposits		8,851	5,018
Borrowings		3,583	1,222
Total interest expense		12,434	6,240
Net interest income		22,560	23,036
Provision for loan losses		826	705
Net interest income after provision for loan losses		21,734	22,331
Noninterest income:			
Trust fees		8,623	8,020
Income from bank-owned life insurance		443	454
Income from solar farms		165	140
Gain on sale of securities available for sale		494	4
Gain on extinguishment of debt		-	686
Other fees and service charges		531	464
Total noninterest income		10,256	9,768
Noninterest expenses:			
Salaries and employee benefits		14,220	13,767
Occupancy		2,882	2,413
Information systems		2,201	1,760
Professional fees		678	584
Marketing and business development		933	959
Regulatory assessments		598	712
Other		2,082	2,161
Total noninterest expense		23,594	22,356
Earnings before income taxes		8,396	9,743
Income taxes		2,035	2,210
Net earnings	$	6,361	7,533
Basic earnings per common share		0.72	0.88
Diluted earnings per common share		0.70	0.85

FineMark Holdings, Inc.

Consolidated Financial Highlights
Second Quarter 2019
Unaudited

$ in thousands except for share data		2nd Qtr 2019	1st Qtr 2019	4th Qtr 2018	3rd Qtr 2018	2nd Qtr 2018	Year to Date 2019	Year to Date 2018
$ Earnings								
Net Interest Income	$	11,330	11,229	11,364	11,079	11,585	22,560	23,036
Provision for loan loss	$	354	472	911	413	343	826	705
Noninterest Income	$	5,001	4,761	4,797	5,042	4,574	9,762	9,078
Securities gains/(losses)	$	262	233	-	-	4	494	4
Debt extinguishment gains/(losses)	$	-	(0)	226	236	688	(0)	686
Noninterest Expense	$	11,792	11,802	12,012	11,363	11,334	23,594	22,356
Earnings before income taxes	$	4,447	3,949	3,464	4,581	5,174	8,396	9,743
Taxes	$	1,095	940	(662)	1,128	1,061	2,035	2,210
Net Income	$	3,352	3,009	4,126	3,453	4,113	6,361	7,533
Basic earnings per share	$	0.38	0.34	0.47	0.40	0.48	0.72	0.88
Diluted earnings per share	$	0.37	0.33	0.46	0.39	0.46	0.70	0.85
Performance Ratios								
Return on average assets*		0.69%	0.64%	0.91%	0.78%	0.96%	0.67%	0.87%
Return on average equity*		8.07%	7.48%	10.80%	9.22%	11.36%	7.78%	10.46%
Yield on earning assets*		3.90%	3.85%	3.82%	3.67%	3.64%	3.86%	3.53%
Cost of funds*		1.48%	1.40%	1.26%	1.10%	0.84%	1.44%	0.79%
Net Interest Margin*		2.48%	2.52%	2.61%	2.63%	2.84%	2.49%	2.78%
Efficiency ratio		71.07%	72.75%	73.30%	69.47%	67.26%	71.90%	68.15%
Capital								
Tier 1 leverage capital ratio		8.80%	8.88%	8.95%	8.99%	9.04%	8.80%	9.04%
Common equity risk-based capital ratio		13.85%	13.78%	13.78%	13.92%	14.11%	13.85%	14.11%
Tier 1 risk-based capital ratio		13.85%	13.78%	13.78%	13.92%	14.11%	13.85%	14.11%
Total risk-based capital ratio		17.49%	17.44%	17.51%	17.70%	18.02%	17.49%	18.02%
Book value per share	$	19.26	18.48	17.97	17.47	17.10	19.26	17.10
Tangible book value per share	$	19.26	18.48	17.97	17.47	17.10	19.26	17.10
Outstanding shares		8,863,319	8,871,050	8,805,399	8,629,710	8,614,179	8,863,319	8,614,179
Average outstanding shares (diluted)		8,962,731	9,023,646	8,969,565	8,897,948	8,879,594	9,035,823	8,864,429
Asset Quality								
Net charge-offs (recoveries)	$	11	114	(5)	(2)	382	125	382
Net charge-offs (recoveries) to average total loans		0.00%	0.01%	0.00%	0.00%	0.03%	0.01%	0.03%
Allowance for loan losses	$	15,167	14,823	14,466	13,550	13,134	15,167	13,134
Allowance to total loans		1.04%	1.04%	1.05%	1.02%	1.03%	1.04%	1.03%
Nonperforming loans	$	410	1,898	2,762	1,284	416	410	416
Other real estate owned	$	-	-	-	-	-	-	-
Nonperforming loans to total loans		0.03%	0.13%	0.20%	0.10%	0.03%	0.03%	0.03%
Nonperforming assets to total assets		0.02%	0.10%	0.15%	0.07%	0.02%	0.02%	0.02%
Loan Composition (% of Total Gross Loans)								
1-4 Family		55.0%	54.2%	55.0%	55.6%	56.3%	55.0%	56.3%
Commercial Loans		10.6%	11.2%	11.0%	10.8%	10.6%	10.6%	10.6%
Commercial Real Estate		21.7%	20.8%	20.9%	20.2%	19.8%	21.7%	19.8%
Construction Loans		6.7%	7.6%	7.1%	7.5%	7.2%	6.7%	7.2%
Other Loans		5.9%	6.2%	6.1%	5.9%	6.1%	5.9%	6.1%
End of Period Balances								
Assets	$	1,997,852	1,931,114	1,859,885	1,781,841	1,737,597	1,997,852	1,737,597
Investments	$	361,950	372,381	371,450	369,879	356,568	361,950	356,568
Loans, net of allowance	$	1,448,152	1,415,911	1,367,489	1,312,386	1,266,084	1,448,152	1,266,084
Deposits	$	1,520,961	1,569,294	1,460,713	1,456,353	1,411,862	1,520,961	1,411,862
Fed Funds and Repurchase Agreements	$	1,661	1,821	2,076	2,614	1,801	1,661	1,801
Subordinate Debt	$	29,562	29,549	29,537	29,525	29,550	29,562	29,550
FHLB Advances	$	258,142	151,328	196,514	132,324	133,397	258,142	133,397
Shareholders Equity	$	170,737	163,940	158,649	150,794	147,326	170,737	147,326
Wealth Management								
Fee Income	$	4,407	4,216	4,264	4,405	4,054	8,623	8,020
Assets Under Administration								
Balance at beginning of period	$	3,771,473	3,391,455	3,654,247	3,406,991	3,253,793	3,391,455	3,006,024
Net investment appreciation (depreciation) & income	$	34,298	248,930	(320,664)	146,864	42,951	283,228	22,955
Net client asset flows	$	124,548	131,088	57,872	100,392	110,247	255,636	378,012
Balance at end of period	$	3,930,319	3,771,473	3,391,455	3,654,247	3,406,991	3,930,319	3,406,991
Percentage of AUA that are managed		90%	89%	91%	91%	89%		
Stock Valuation								
Closing Market Price (OTCQX)	$	24.80	29.50	-	-	-	24.80	-
Multiple of Tangible Book Value		1.29	1.60	-	-	-	1.29	-

*annualized