FineMark National Bank & Trust

2012 Annual Report

TABLE OF CONTENTS

Mission Statement

To Build Extraordinary Relationships by Going Above and Beyond

TO OUR SHAREHOLDERS:

In 2012, we continued our mission to deliver unparalleled service, develop deep relationships and do what's right for our clients. As a result of our unwavering commitment to FineMark's mission, we expanded our client base, maintained a high quality balance sheet with strong capital ratios, and for the third consecutive year, generated positive earnings. FineMark celebrated 5 years of service in February and by year end, we surpassed the $500 million milestone in total bank assets and exceeded $900 million in assets under administration and management.

FineMark took the first step in creating a national footprint by expanding into Scottsdale, Arizona. Under the leadership of David Highmark, we opened a temporary location in April of 2012. The team recently moved into its permanent office with more than 10,000 square feet of space. We believe this move will support our continued efforts to build meaningful relationships and deliver the highest level of service.

Along with opening in Arizona, we established Highmark Sports Management (HSM) as a division of FineMark. HSM, also run by David Highmark, provides highly personalized business management services to professional athletes. FineMark currently works with 50 athletes, predominantly in golf and baseball.

We also opened offices in Palm Beach and Naples. In late summer, both locations became full service banks and further expansion plans are underway.

The Bank realized significant loan growth in 2012 without compromising the high quality of its loan portfolio. This is due in large part to our client centered nature, along with our careful credit culture. At year end, our loan portfolio totaled $361 million compared to $213 million at year end 2011.

2012 was not without challenges. We continued to experience a very low interest rate environment coupled with an economy struggling to hit its stride. However, looking forward, we believe we will see a period of steady economic improvement as well as favorable markets. We also believe if we remain steadfast to our mission of building extraordinary relationships by going above and beyond and we place our clients first everyday, we will realize continued success.

FineMark's success would not be possible without the talent, determination and enthusiasm of our people. They strive each day to deliver the best service possible. I personally thank them for their efforts and I thank each of you: our Shareholders, Board of Directors and Clients. Your commitment to FineMark is greatly appreciated and vital to our success.

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

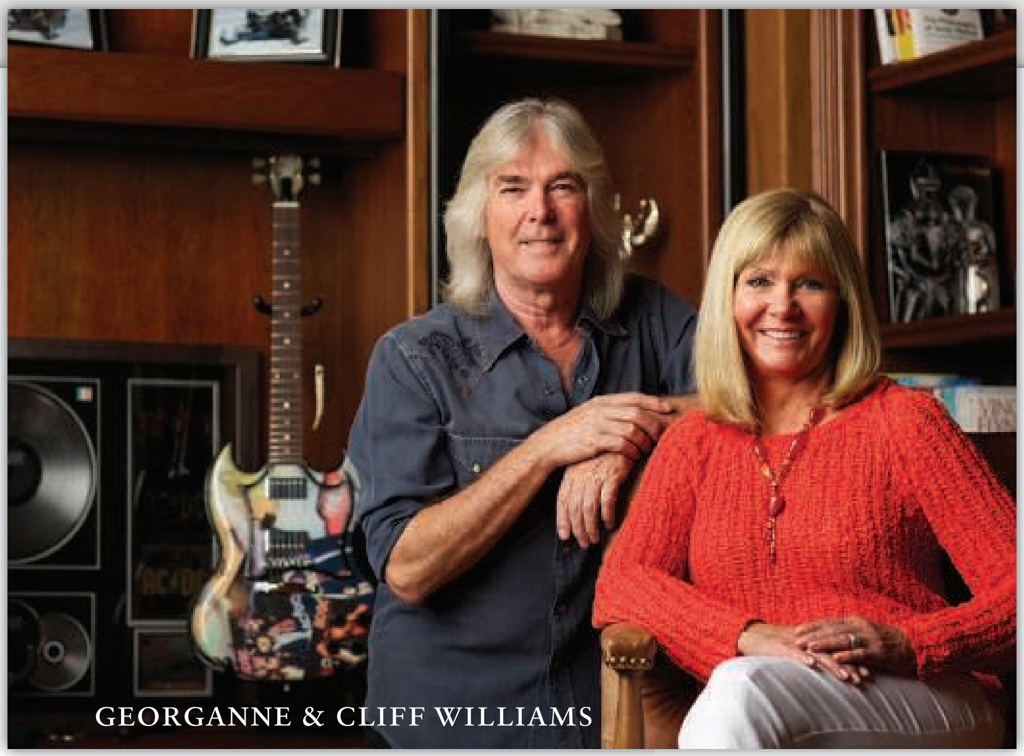
CLIENT TESTIMONIALS

"At FineMark, we strive to build relationships that go beyond financial matters. We want to know our clients, their families and their wishes, only then can we truly serve them."

Joseph R. Catti, President & CEO

"FineMark takes relationships and service to a new level. They know our family and they care about our well-being. It's reassuring to know FineMark is there for our children and for us."

Georganne & Cliff Williams



GEORGANNE & CLIFF WILLIAMS

Whether it's traveling with his band AC/DC, visiting their children around the country or working with charitable organizations at home, ***Georganne*** and ***Cliff Williams*** are a couple on the go. That's why it's so important for them to work with a financial institution they can count on and trust. No matter what the need, this couple appreciates the support they receive from their bankers, private wealth advisors and trust professionals at FineMark.

"FineMark took the time to get to know us and understand our business. They found a way to make our financing work without any red tape."

Lance Allen & Matt Fancher

Lance Allen and ***Matt Fancher*** are the owners of ***Everglades Pinestraw, Inc.*** These entrepreneurs purchase in excess of 1.5 million bales of pine straw every year to spread over golf courses and private landscaping projects. The line of credit FineMark extended to Lance and Matt gives them the flexibility to purchase such large quantities of straw and ensures they're able to buy at an optimal price, greatly helping their margin and bottom line.

"Our family understands the importance of excellent service. We know first-hand, when it comes to financial matters, nobody does it better than FineMark. Whether it's taking care of our personal needs or our business, FineMark delivers."

Kathy & Sam Galloway, Jr.

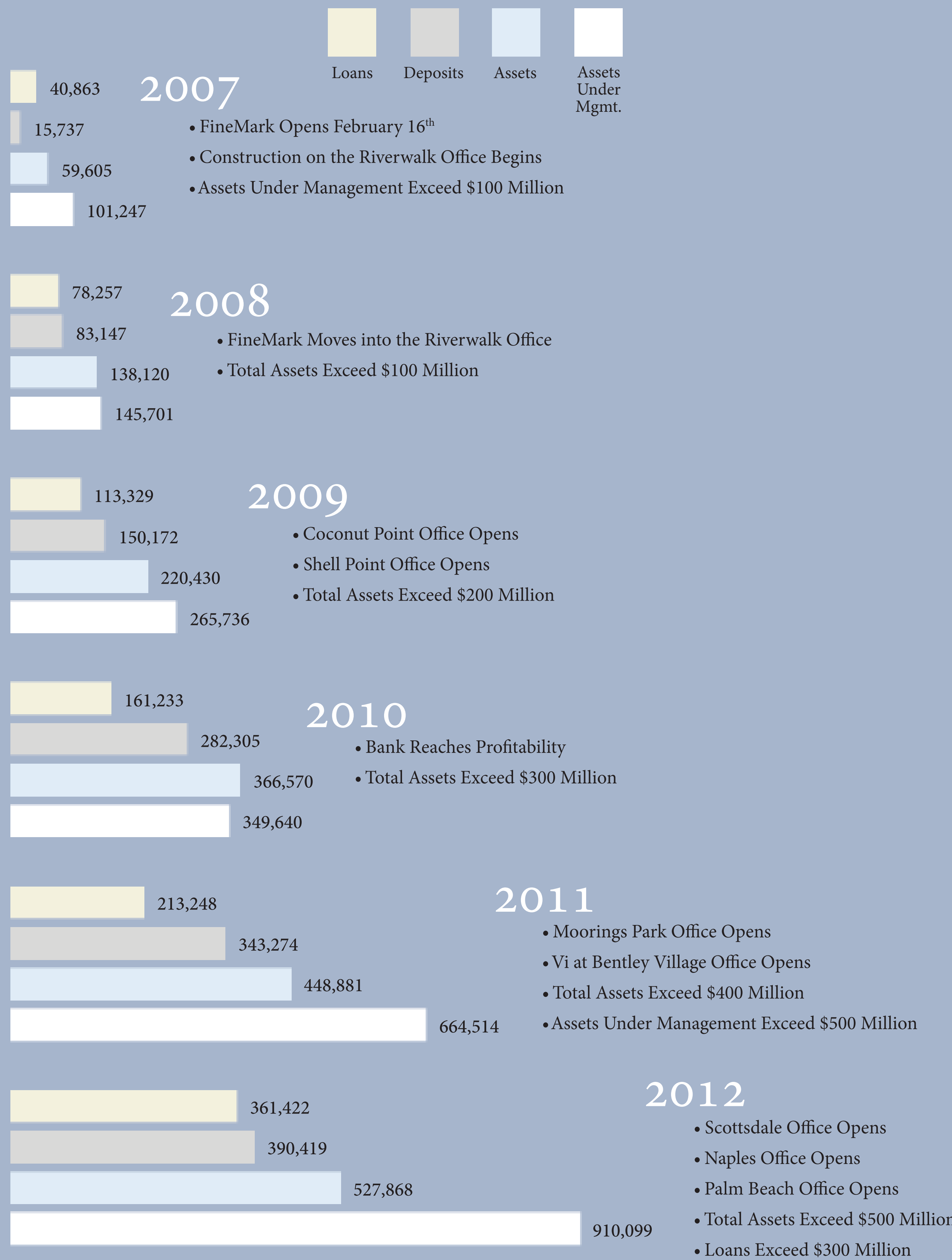
KATHY & SAM GALLOWAY, JR.

Kathy and ***Sam Galloway, Jr.*** own the ***Galloway Family of Dealerships***, one of the oldest and most respected businesses in Southwest Florida. Sam's grandparents started the company in 1927 and throughout the years the Galloway family has maintained its focus on honesty, integrity and excellent customer service. The Galloways and their family bank with FineMark because they receive the same service they deliver. They know FineMark is committed to going above and beyond and that means they'll get the banking and investment services best suited for their needs.

EVERGLADES PINESTRAW, INC.

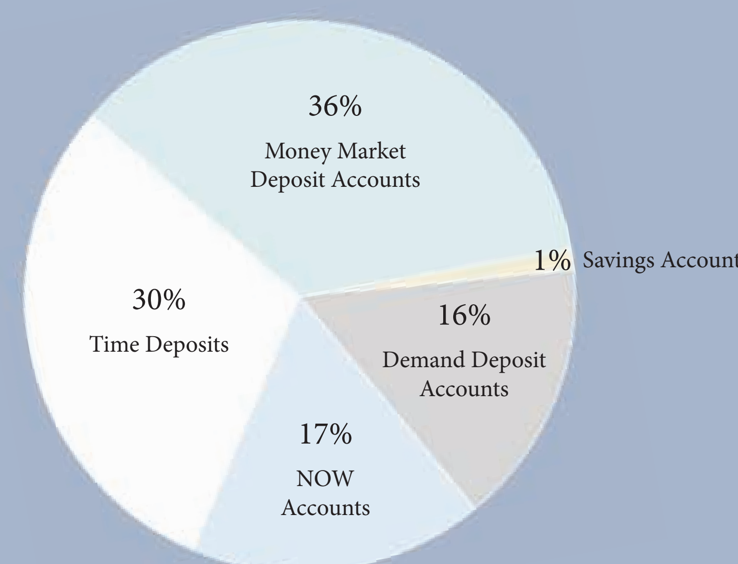
FINANCIAL GROWTH

NET LOANS, TOTAL DEPOSITS, TOTAL ASSETS AND ASSETS UNDER MANAGEMENT (IN $000s)

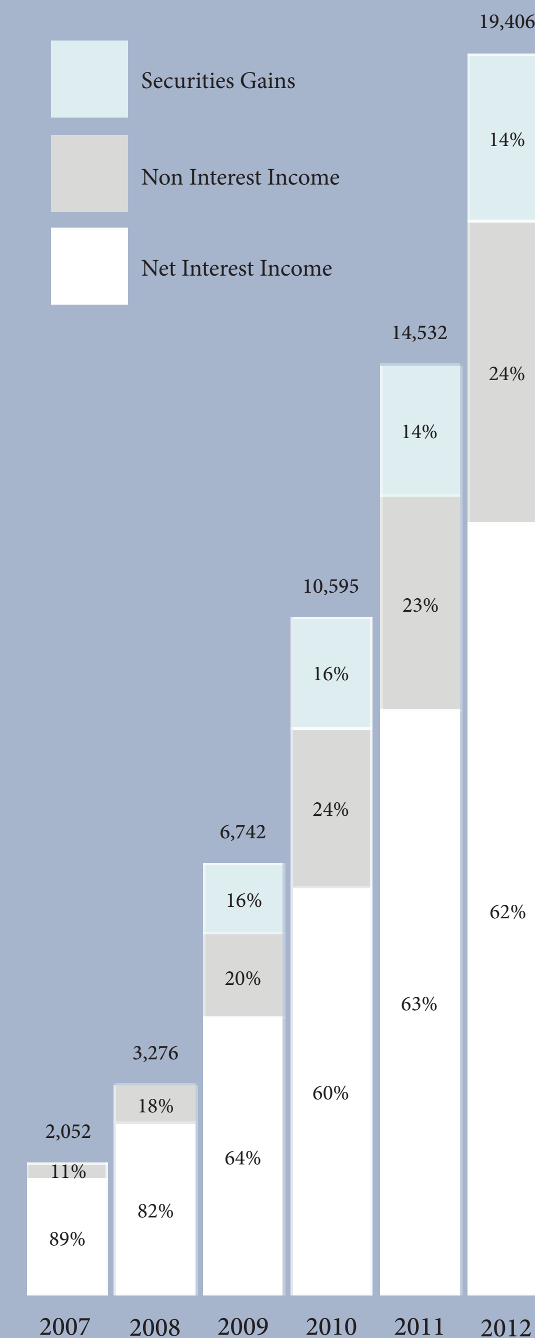


COMPOSITION OF TOTAL LOANS (IN $000s)
as of December 31, 2012

COMPOSITION OF DEPOSITS (IN $000s)
as of December 31, 2012



INCOME GROWTH & COMPOSITION (IN $000s)



5-STAR RATING

FineMark National Bank & Trust earned its seventh consecutive 5-Star Superior rating in 2012. Bauer Financial, the nation's leading independent bank rating and research firm, rates banks on a scale from zero to five. Ratings are based on capital ratios, profitability trends, levels of delinquent loans, charge offs, repossessed assets, liquidity and other historical data. FineMark is the only bank headquartered in Charlotte, Lee or Collier counties to receive the highest rating 7 consecutive quarters.

> ***Guiding Principles***
> *Deliver unparalleled and proactive service to our clients; Always do what is right; Be a positive role model in corporate and individual citizenship; Grow and mentor people from within*

NEW MARKETS

ARIZONA

FineMark National Bank & Trust opened its first out-of-state office in Scottsdale, Arizona in April 2012. David Highmark was named President of Arizona operations. Prior to FineMark, Highmark spent 26 years with Northern Trust in Arizona and Florida. He left the company in 2011 to develop Highmark Sports Management (HSM), a financial planning and business management company that caters to professional athletes. HSM merged with FineMark in late spring 2012.

Scottsdale Temporary Office: April 2012 - March 2013

By the end of the year, FineMark's Arizona team grew to 9 people and quickly out-grew its temporary location. In March of 2013, they moved to a 10,000 square foot office on East Doubletree Ranch Road.

FINANCIALS

as of December 31, 2012 (in $000s)

Net Loans	49,046
Deposits	7,428
Assets Under Management	84,086

Scottsdale Ad Campaign

PALM BEACH

FineMark opened a Palm Beach office in February 2012. The office, at 340 Royal Palm Way, became a full service bank in late summer 2012. David Scaff, a 20 year investment veteran on the island is President of the Palm Beach Office. He's joined by Michael Roscoe and Nancy Kellogg.

FINANCIALS

as of December 31, 2012 (in $000s)

Net Loans	13,629
Deposits	5,718
Assets Under Management	200,411

Palm Beach Office and Ad Campaign

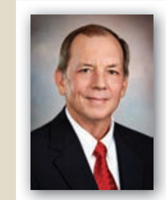
NAPLES

In April 2012, FineMark established a presence in Naples with an office on 5th Avenue South. Senior Vice President, Keith Embree, is working from this office. Embree has been in the Naples area more than 20 years, cultivating and developing relationships. FineMark is looking for a larger space to expand this office and its staff in 2013.

FINANCIALS

as of December 31, 2012 (in $000s)

Net Loans	25,322
Deposits	2,728



Keith Embree

Naples Temporary Office

MOBILE BANKING

FineMark launched mobile banking in July 2012. With the FineMark Mobile Baking Application, clients can check balances, transfer funds between accounts and pay bills. The App is available for iPhone and Android devices.

The second phase of mobile banking will include a remote check deposit function that will be launched during the second quarter of 2013.

SURCHARGE FREE ATMS

In June, FineMark became a member of the Allpoint™ Network, giving clients access to more than 55,000 surcharge free ATMs in the United States and worldwide.

In addition to the Allpoint™ Network, FineMark continues to be a member of the Presto® Network, with ATMs located in every Publix® Super Market.

COMMUNITY INVOLVEMENT HIGHLIGHTS

FineMark National Bank & Trust ranked in the top 5 givers to the United Way of Lee, Hendry and Glades in 2012, alongside much larger companies like Publix® Super Markets and Chico's FAS, Inc. Once again, FineMark had 100% participation from employees. The total amount given to the United Way of Lee, Hendry and Glades from FineMark was $174,886.

For the 6th consecutive year FineMark collected money to ensure several local families had a Merry Christmas. Employees donated more than $4,000 that went toward gifts and groceries during the holiday season.

In December, FineMark committed to the Community Contribution Tax Program with Habitat for Humanity. FineMark agreed to partner with Habitat by participating in two corporate tax credit donations to sponsor two homes. The sponsorship also includes volunteering. Nearly 50 employees spent two weekends in January building the first home and a weekend in March on the second.

The Voices for Kids Organization named President & CEO, Joseph R. Catti, 2012 Voice of the Year. The award recognizes exemplary leadership, advocacy and commitment to the most vulnerable, neglected and abandoned children in our community. Joe helped create and develop two initiatives that led to this award.

Vision Statement

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

FINEMARK HOLDINGS, INC. BOARD OF DIRECTORS

Edward G. Beimfohr
Windels Marx Lane & Mittendorf, LLP

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

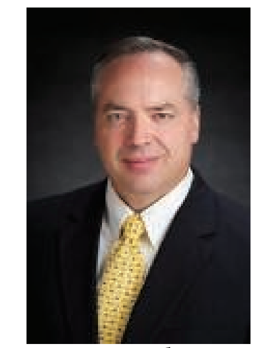
John F. Blais, Jr.‡
BlaisCo.

Aurelia J. Bell
Arrowhead Partners, Inc.

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

Thomas D. Case II
The Case Companies

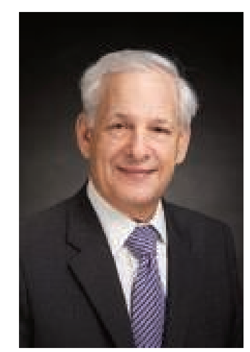
Joseph R. Catti*
President
Chief Executive Officer



Brian J. Eagleston*
Executive Vice President
Chief Financial Officer

Scott A. Edmonds
Bellfield Investment Partners

Tracey U. Galloway
Community Cooperative Ministries Inc.



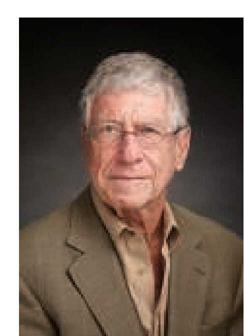
William N. Horowitz
Cummings & Lockwood, LLC

Clive Lubner
Clive Daniel Home

David H. Lucas†
The Bonita Bay Group

Vito Manone
Manone Investments, Inc.

Alan D. Reynolds
Stantec



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

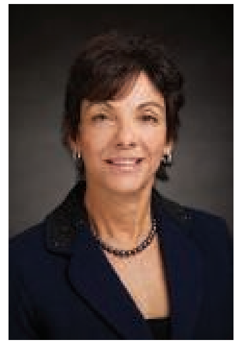
William H. Turner
Retired Vice Chairman
Chase Bank

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

FINEMARK NATIONAL BANK & TRUST BOARD OF DIRECTORS

Shelley D. Anderson*
Managing Executive,
Coconut Point Office

Robert M. Arnall*
Executive Vice President
Senior Lending Officer



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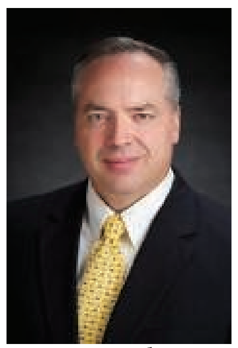
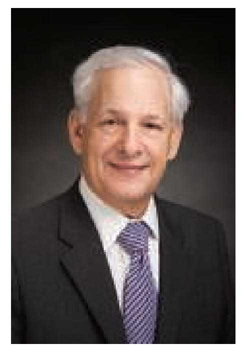


Brian J. Eagleston*
Executive Vice President
Chief Financial Officer

David A. Highmark*
President, Arizona Office
President, Sports Management



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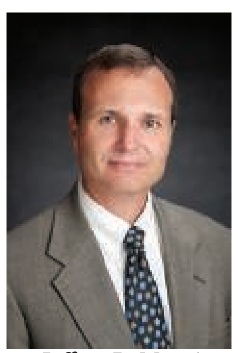


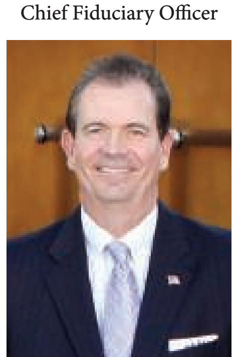
Jeffrey B. Moes*
Executive Vice President
Chief Fiduciary Officer

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

David H. Scaff*
President, Palm Beach Office

Malinda Schneider*
Vice President
Loan Operations

Jennifer L. Stevens*
Senior Vice President
Human Resources Director



Christopher C. Wilkinson*
Executive Vice President
Chief Investment Officer

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

FineMark Holdings, Inc.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 and 2011 and the Years then Ended
(Together with Independent Auditor's Report)

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HACKER, JOHNSON & SMITH PA

Fort Lauderdale
Fort Myers
Orlando
Tampa

Certified Public Accountants

Independent Auditors' Report

FineMark Holdings, Inc.
Fort Myers, Florida:

We have audited the accompanying consolidated financial statements of FineMark Holdings, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, 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 consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and the results of their operations, comprehensive income and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Fort Myers, Florida
March 20, 2013

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

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Balance Sheets

($ in thousands, except per share amounts)

	At December 31, 2012	2011
Assets		
Cash and due from banks	$ 10,387	7,157
Federal funds sold	-	335
Total cash and cash equivalents	10,387	7,492
Securities available for sale	124,763	199,487
Time Deposits	1,245	1,245
Loans held-for-sale	639	-
Loans, net of allowance for loan losses of $3,608 in 2012 and $3,184 in 2011	360,783	213,248
Federal Home Loan Bank stock	4,382	3,074
Federal Reserve Bank stock	1,220	1,189
Premises and equipment, net	11,325	10,742
Accrued interest receivable	1,605	1,669
Deferred tax asset	1,225	1,328
Bank-owned life insurance	8,690	8,403
Other assets	1,604	1,004
Total assets	$ 527,868	448,881
Liabilities and Shareholders' Equity		
Liabilities:		
Noninterest-bearing demand deposits	60,746	43,643
Savings, NOW and money-market deposits	212,365	208,317
Time deposits	117,308	91,314
Total deposits	390,419	343,274
Official checks	3,667	898
Other borrowings	2,942	3,707
Federal Home Loan Bank advances	81,993	54,727
Other liabilities	1,035	459
Total liabilities	480,056	403,065
Commitments (Notes 4 and 10)		
Shareholders' equity:		
Preferred stock, 9,994,335 shares authorized,$.01 par value, none issued or outstanding	-	-
Preferred stock, Series A, $.01 par value; $1,000 liquidation preference; 5,665 shares authorized, issued and outstanding	5,665	5,665
Common stock, $.01 par value; 50,000,000 shares authorized, 3,922,834 and 3,924,005 shares issued and outstanding in 2012 and 2011	39	39
Additional paid-in capital	42,674	42,513
Accumulated deficit	(1,106)	(3,057)
Accumulated other comprehensive income	540	656
Total shareholders' equity	47,812	45,816
Total liabilities and shareholders' equity	$ 527,868	448,881

See Accompanying Notes to Consolidated Financial Statements.

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Earnings

(in thousands)

	Year Ended December 31, 2012	2011
Interest income:		
Loans	$ 11,835	8,777
Securities	3,714	4,723
Other	35	20
Total interest income	15,584	13,520
Interest expense:		
Deposits	1,725	3,023
Borrowings	1,780	1,344
Total interest expense	3,505	4,367
Net interest income	12,079	9,153
Provision for loan losses	779	381
Net interest income after provision for loan losses	11,300	8,772
Noninterest income:		
Trust fees	3,898	2,429
Brokerage fees	29	429
Gain on sale of securities available for sale	2,601	2,041
Income from bank-owned life insurance	287	187
Gain on sale of loans held-for-sale	87	48
Other fees and service charges	425	245
Total noninterest income	7,327	5,379
Noninterest expenses:		
Salaries and employee benefits	9,229	6,856
Occupancy and equipment	1,908	1,620
Data processing	806	622
Professional fees	625	659
Marketing	768	522
Office supplies	192	138
Other	1,970	1,809
Total noninterest expense	15,498	12,226
Earnings before income taxes	3,129	1,925
Income taxes	1,115	689
Net earnings	2,014	1,236
Preferred stock dividends	63	15
Earnings available to common shareholders	$ 1,951	1,221

See Accompanying Notes to Consolidated Financial Statements.

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income
(in thousands)

	Year Ended December 31, 2012	2011
Net Earnings	$ 2,014	1,236
Other comprehensive (loss) income:		
Unrealized holding gains on available for sale securities	2,415	3,375
Holding gains related to transfer of securities from held to maturity to available for sale	-	1,183
Reclassification adjustment for gains realized in operations	(2,601)	(2,041)
Net change in unrealized gain	(186)	2,517
Income tax effect	70	(942)
Change in unrealized gain on available for sale securities	(116)	1,575
Amortization of unrealized loss on securities transferred from available for sale to held to maturity, net of tax of $67 in 2011	-	112
Total other comprehensive (loss) income	(116)	1,687
Comprehensive income	$ 1,898	2,923

See Accompanying Notes to Consolidated Financial Statements

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Shareholders' Equity

For the Years Ended December 31, 2012 and 2011
($ in thousands)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2010	-	$ -	3,442,176	$ 34	36,312	(4,278)	(1,031)	31,037
Stock-based compensation	-	-	-	-	74	-	-	74
Net Earnings	-	-	-	-	-	1,236	-	1,236
Change in unrealized loss on securities available for sale, net of tax	-	-	-	-	-	-	1,575	1,575
Amortization of transferred unrealized loss on securities held to maturity	-	-	-	-	-	-	112	112
Stock issued as compensation	-	-	2,175	-	-	-	-	-
Dividends declared	-	-	-	-	-	(15)	-	(15)
Proceeds from sale of preferred stock, net of issuance costs of $23	5,665	5,665	-	-	(23)	-	-	5,642
Proceeds from sale of common stock, net of issuance costs of $62	-	-	479,654	5	6,150	-	-	6,155
Balance at December 31, 2011	5,665	5,665	3,924,005	39	42,513	(3,057)	656	45,816
Stock-based compensation	-	-	-	-	211	-	-	211
Net Earnings	-	-	-	-	-	2,014	-	2,014
Change in unrealized gain on securities available for sale, net of tax	-	-	-	-	-	-	(116)	(116)
Stock issued as compensation	-	-	2,675	-	-	-	-	-
Dividends declared	-	-	-	-	-	(63)	-	(63)
Repurchase of common stock	-	-	(19,230)	-	(250)	-	-	(250)
Proceeds from sale of common stock	-	-	15,384	-	200	-	-	200
Balance at December 31, 2012	5,665	$ 5,665	3,922,834	$ 39	42,674	(1,106)	540	47,812

See Accompanying Notes to Consolidated Financial Statements.

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended December 31, 2012	2011
Cash flows from operating activities:		
Net earnings	$ 2,014	1,236
Adjustments to reconcile net earnings to net cash provided by operating		
Depreciation and amortization	853	730
Provision for loan losses	779	381
Amortization of deferred loan fees and costs	146	113
Amortization of premiums and discounts on securities	2,526	1,501
Gain on sale of securities available for sale	(2,601)	(2,041)
Decrease (increase) in accrued interest receivable	64	(415)
(Increase) Decrease in other assets	(600)	308
Deferred income taxes	173	639
Income from bank-owned life insurance	(287)	(187)
Increase (decrease) in other liabilities	577	(49)
Increase in official checks	2,769	447
Stock-based compensation	211	74
Loans held-for-sale:		
Loan originations	(9,411)	(4,343)
Proceeds from loan sales	8,859	4,929
Gain on sale of loans held-for-sale	(87)	(48)
Net cash provided by operating activities	5,985	3,275
Cash flows from investing activities:		
Net increase in loans	(148,460)	(53,047)
Purchase of premises and equipment	(1,436)	(676)
Purchase of time deposits	-	(1,245)
Securities available for sale:		
Purchases	(116,060)	(227,555)
Proceeds from sales	108,783	104,243
Proceeds from maturities and calls	43,942	83,281
Proceeds from principal repayments	37,948	21,884
Securities held to maturity:		
Proceeds from principal repayments	-	834
Purchase of Federal Home Loan Bank stock	(1,308)	(196)
Purchase of Federal Reserve Bank stock	(31)	(245)
Purchase of bank-owned life insurance	-	(4,000)
Net cash used in investing activities	(76,622)	(76,722)
Cash flows from financing activities:		
Net increase in deposits	47,145	60,969
Decrease in federal funds purchased	-	(1,500)
Net (decrease) increase in other borrowings	(765)	1,874
Net proceeds from Federal Home Loan Bank advances	27,266	5,776
Proceeds from sale of common stock, net of offering expenses	200	6,155
Repurchase of common stock	(250)	-
Proceeds from sale of preferred stock, net of offering expenses	-	5,642
Preferred stock dividends paid	(64)	-
Net cash provided by financing activities	73,532	78,916
Net increase in cash and cash equivalents	2,895	5,469
Cash and cash equivalents at beginning of year	7,492	2,023
Cash and cash equivalents at end of year	$ 10,387	7,492

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows, Continued

(In thousands)

	Year Ended December 31, 2012	2011
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 3,497	4,370
Income taxes	$ 648	-
Noncash transactions:		
Transfer of securities held to maturity to available for sale	$ -	49,465
Accumulated other comprehensive income, net change in unrealized gain on securities available for sale, net of tax	$ (116)	1,575
Accumulated other comprehensive income, amortization of unrealized loss on securities transferred from available for sale to held to maturity, net of tax	$ -	112
Dividends payable	$ 14	15

See Accompanying Notes to Consolidated Financial Statements.

(1) Summary of Significant Accounting Policies

Organization. FineMark Holdings, Inc. (the "Holding Company") was incorporated on May 31, 2006 and owns 100% of the outstanding common stock of FineMark National Bank & Trust (the "Bank") (collectively, the "Company"). The Holding Company's primary activity is the operation of the Bank. The Bank is a nationally-chartered commercial bank. The Bank offers a variety of banking and financial services to individual and corporate clients through its eight banking offices located in Lee, Collier and Palm Beach County, Florida, and Maricopa County, Arizona. The deposit accounts of the Bank are insured up to the applicable limits by the Federal Deposit Insurance Corporation. The Bank also has a trust department which offers investment management, trust administration, estate planning and financial planning services. The assets under advice by the trust department, as well as the obligations associated with those assets, are not included as part of the consolidated financial statements of the Company.

Management has evaluated all significant events occurring subsequent to the consolidated balance sheet date through March 20, 2013, 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 and Cash Equivalents. For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, balances due from banks and federal funds sold, all of which have an original maturity of less than ninety days.

The Bank is required by law or regulation to maintain cash reserves with the Federal Reserve Bank, in accounts with other banks or cash in the vault. The required reserve is predominately based upon the level of demand deposit accounts average balances. At December 31, 2012 and 2011, the Bank had no required reserve balance.

(continued)

(1) Summary of Significant Accounting Policies, Continued

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

Loans Held-for-Sale. Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to earnings. As of December 31, 2012, fair value exceeded book value for loans held-for-sale.

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

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

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

(continued)

(1) Summary of Significant Accounting Policies, Continued

Allowance for Loan Losses. The allowance for credit losses represents the amount which, in management's judgment, will be adequate to absorb credit losses inherent in the loan portfolio as of the consolidated balance sheet date. The adequacy of the allowance is determined by management's evaluation of the loan portfolio based on such factors as the differing economic risks associated with each loan category, the current financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any are credited to the allowance. There were no changes in the Company's accounting policies or methodology during the years ended December 31, 2012 or 2011.

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

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

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

(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 for commercial, commercial real estate, construction and land development loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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

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

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

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

(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, 2012, management is not aware of any uncertain tax positions that would have a material effect on the Company's consolidated financial statements.

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

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

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

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

(continued)

(1) Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued.

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

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

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

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

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

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

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

(continued)

(1) Summary of Significant Accounting Policies, Continued

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

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

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

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

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

Loans Held-For-Sale. The fair values of loans held-for-sale are based on the framework for measuring fair value.

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

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

Federal Home Loan Bank Advances. Fair values for Federal Home Loan Bank advances are estimated using discounted cash flow analysis based on current borrowing rates of the Federal Home Loan Bank.

Other Borrowings. The carrying amount of other borrowings approximates fair value.

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

(continued)

(1) Summary of Significant Accounting Policies, Continued

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

Marketing. The Company expenses all marketing as incurred.

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

Recent Pronouncements. In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, *Comprehensive Income* (Topic 220). The amendments in this update remove the option to present the components of other comprehensive income as part of the consolidated statements of shareholders' equity. ASU No. 2011-05 was effective for annual periods, beginning on January 1, 2012. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In December 2011, ASU No. 2011-12 *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05* was issued. In order to defer only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this ASU supersede certain pending paragraphs in ASU 2011-05. The amendments were made to allow the FASB time to re-deliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the FASB is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities are required to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by this ASU, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The adoption of this guidance had no effect on the Company's consolidated financial statements.

Reclassifications. Certain amounts in the 2011 Consolidated Financial Statements have been reclassified to conform to the 2012 Consolidated Financial Statement presentation.

(continued)

(2) Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31 ,2012:				
U.S. Government agency securities	$ 2,000	4	-	2,004
Corporate securities	8,504	70	(3)	8,571
Mortgage-backed securities	76,611	374	(173)	76,812
Municipal securities	10,226	156	-	10,382
Taxable municipal securities	26,559	435	-	26,994
Total	$ 123,900	1,039	(176)	124,763
At December 31 ,2011:				
U.S. Government agency securities	34,136	80	0	34,216
Corporate securities	16,122	35	(380)	15,777
Mortgage-backed securities	95,010	795	(79)	95,726
Municipal securities	14,957	72	(26)	15,003
Taxable municipal securities	38,213	565	(13)	38,765
Total	$ 198,438	1,547	(498)	199,487

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

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(2) Securities, Continued

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

		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 ,2012:				
U.S. Government agency securities	$ 2,004	-	2,004	-
Corporate securities	8,571	-	8,571	-
Mortgage-backed securities	76,812	-	76,812	-
Municipal securities	10,382	-	10,382	-
Taxable municipal securities	26,994	-	26,994	-
Total	$ 124,763	-	124,763	-
December 31 ,2011:				
U.S. Government agency securities	34,216	-	34,216	-
Corporate securities	15,777	-	15,777	-
Mortgage-backed securities	95,726	-	95,726	-
Municipal securities	15,003	-	15,003	-
Taxable municipal securities	38,765	-	38,765	-
Total	$ 199,487	-	199,487	-

During the years ended December 31, 2012 and 2011, no securities were transferred in or out of Level 1, Level 2 or Level 3.

The scheduled maturities of securities available-for-sale at December 31, 2012 are as follows (in thousands):

	Amortized Cost	Fair Value
Due in less than one year	$ 7,359	7,380
Due from one to five years	38,818	39,454
Due from five to ten years	15,419	15,529
Due in over ten years	62,304	62,400
Total	$ 123,900	124,763

(continued)

(2) Securities, Continued

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

	Year Ended December 31, 2012	2011
Proceeds from sales of securities	$ 108,783	104,243
Gross gains from sale of securities	$ 2,601	2,041

Securities available-for-sale with gross unrealized losses at December 31, 2012, aggregated by length of time that individual securities have been in a continuous loss position, is as follows (in thousands):

	Less Than Twelve Months: Gross Unrealized Losses	Less Than Twelve Months: Fair Value	More Than Twelve Months: Gross Unrealized Losses	More Than Twelve Months: Fair Value
Corporate securities	$ 1	2,505	$ 2	484
Mortgage-backed securities	173	28,266	-	-
Total	$ 174	30,771	$ 2	484

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

The unrealized losses of $176,000 on twenty-three investment securities available for sale were caused by market conditions. It is expected that the securities would not be settled at a price less than the par value of the investments. Because the decline in fair value is attributable to changes in market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than- temporarily impaired.

At December 31, 2012 and 2011, securities with a fair value of $71.6 million and $56.0 million, respectively, were pledged to secure repurchase agreements, deposit accounts, Federal Home Loan Bank advances, and to the State of Florida in order to secure public funds.

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(3) Loans

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

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

	At December 31, 2012	2011
Real estate mortgage loans:		
Commercial real estate	$ 50,004	35,832
Residential real estate	223,487	122,698
Construction and land development	31,512	17,649
Total real estate mortgage loans	305,003	176,179
Commercial	34,997	22,969
Personal	24,202	17,121
Total loans	364,202	216,269
Add (subtract):		
Deferred loan costs, net	189	163
Allowance for loan losses	(3,608)	(3,184)
Loans, net	$ 360,783	213,248

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

Real Estate Mortgage Loans. Real estate mortgage loans are typically segmented into three classes: Commercial real estate, Residential real estate and Construction and land development. Commercial real estate loans are secured by the subject property and are underwritten based upon standards set forth in the policies approved by the Bank's board of directors (the "Board").

(continued)

(3) Loans, Continued

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

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

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

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

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

	Real Estate Mortgage Loans	Commercial	Personal	Total
Year ended December 31, 2012:				
Beginning balance	$ 2,835	225	124	3,184
Provision for loan losses	648	114	17	779
Charge-offs	(355)	-	-	(355)
Recoveries	-	-	-	-
Ending balance	$ 3,128	339	141	3,608
Individually evaluated for impairment:				
Recorded investment	$ 3,610	-	9	3,619
Balance in allowance for loan losses	$ 409	-	9	418
Collectively evaluated for impairment:				
Recorded investment	$ 301,393	34,997	24,193	360,583
Balance in allowance for loan losses	$ 2,719	339	132	3,190
Year Ended December 31, 2011:				
Beginning balance	2,647	215	124	2,986
Provision for loan losses	281	100	-	381
Charge-offs	(264)	(90)	-	(354)
Recoveries	171	-	-	171
Ending balance	$ 2,835	225	124	3,184
Individually evaluated for impairment:				
Recorded investment	$ 3,739	-	-	3,739
Balance in allowance for loan losses	$ 415	-	-	415
Collectively evaluated for impairment:				
Recorded investment	$ 172,440	22,969	17,121	212,530
Balance in allowance for loan losses	$ 2,420	225	124	2,769

(continued)

(3) Loans, Continued

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

	Real Estate Mortgage Loans					
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial	Personal	Total
At December 31, 2012:						
Credit Risk Profile by Internally Assigned Grade:						
Pass	$ 46,596	222,957	26,148	34,997	24,043	354,741
Special mention	2,311	72	-	-	150	2,533
Substandard	1,097	458	5,364	-	9	6,928
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 50,004	223,487	31,512	34,997	24,202	364,202
At December 31, 2011:						
Credit Risk Profile by Internally Assigned Grade:						
Pass	35,534	122,149	14,684	22,969	16,951	212,287
Special mention	-	73	-	-	166	239
Substandard	298	476	2,965	-	4	3,743
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 35,832	122,698	17,649	22,969	17,121	216,269

The allowance for loan losses is management's best estimate of inherent risk of loss in the loan portfolio as of the consolidated balance sheet date. We make various assumptions and judgments about the collectability of our loan portfolio and provide an allowance for potential losses based on several factors including economic uncertainty. If our assumptions are wrong, our allowance for loan losses may not be sufficient to cover our losses and may cause us to increase the allowance in the future. Among the factors that could affect our ability to collect our loans and require us to increase the allowance in the future are: general real estate and economic conditions; regional credit concentration; and industry concentration, for example, in the health care industry. In addition, various regulatory agencies periodically review the allowance for loan losses. Such agencies may require additions to the allowance based on their judgments about information available to them at the time of their examination.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors.

(continued)

(3) Loans, Continued

The Company analyzes loans individually by classifying the loans as to credit risk. Loans classified as substandard or special mention over $50,000 are reviewed regularly by the Company for further deterioration or improvement to determine if they are appropriately classified and whether there is any impairment. All loans are graded upon initial issuance. Further, commercial and commercial real estate loans are typically reviewed at least annually to determine the appropriate loan grading. In addition, during the renewal process of any loan, as well as if a loan becomes past due, the Company will determine the appropriate loan grade.

Loans excluded from the review process above are generally classified as pass credits until: (a) they become past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Company for a modification. In these circumstances, the loan is specifically evaluated for potential classification as to special mention, substandard or even charged-off. The Company uses the following definitions for risk ratings:

Pass – A Pass loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary.

Special Mention – A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard – A Substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

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

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

(continued)

(3) Loans, Continued

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

	Accruing Loans						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Nonaccrual Loans	Total Loans
At December 31, 2012:							
Real estate mortgage loans							
Commercial real estate	$ -	-	-	-	49,707	297	50,004
Residential real estate	-	-	-	-	223,161	326	223,487
Construction and land development	-	-	-	-	31,512	-	31,512
Commercial	-	-	-	-	34,997	-	34,997
Personal	-	-	-	-	24,202	-	24,202
Total	$ -	-	-	-	363,579	623	364,202
At December 31, 2011:							
Real estate mortgage loans							
Commercial real estate	-	-	-	-	35,535	297	35,832
Residential real estate	-	-	-	-	122,362	336	122,698
Construction and land development	-	-	-	-	17,649	-	17,649
Commercial	-	-	100	100	22,869	-	22,969
Personal	-	-	-	-	17,121	-	17,121
Total	$ -	-	100	100	215,536	633	216,269

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

(continued)

(3) Loans, Continued

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

	With No Related Allowance Recorded		With Related Allowance Recorded		
	Recorded Investment	Unpaid Contractual Principle Balance	Recorded Investment	Unpaid Contractual Principle Balance	Recorded Allowance
At December 31, 2012:					
Real estate mortgage loans:					
Commercial real estate	$ 297	649	-	-	-
Residential real estate	458	920	-	-	-
Construction and land development	-	-	2,855	2,855	409
Commercial	-	17	-	-	-
Personal	-	-	9	9	9
Total	$ 755	1,586	2,864	2,864	418
At December 31, 2011:					
Real estate mortgage loans:					
Commercial real estate	298	649	-	-	-
Residential real estate	476	911	-	-	-
Construction and land development	-	-	2,965	2,965	415
Commercial	-	17	-	-	-
Personal	-	-	-	-	-
Total	$ 774	1,577	2,965	2,965	415

(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
At December 31, 2012:			
Real estate mortgage loans:			
Commercial real estate	$ 301	-	-
Residential real estate	315	8	8
Construction and land development	2,791	148	148
Total	$ 3,407	156	156
At December 31, 2011:			
Real estate mortgage loans:			
Commercial real estate	305	-	13
Residential real estate	172	-	8
Construction and land development	2,726	182	182
Total	$ 3,203	182	203

There were no troubled debt restructurings during the year ended December 31, 2012. Troubled debt restructurings during the year ended December 31, 2011 are as follows (dollars in thousands):

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

(continued)

(3) Loans, Continued

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

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, 2012:						
Commercial real estate	$ 297	-	-	297	242	-
Residential real estate	458	-	-	458	409	-
Personal	-	-	-	-	9	9
	$ 755	-	-	755	660	9
At December 31, 2011:						
Commercial real estate	298	-	-	298	242	90
Residential real estate	476	-	-	476	409	264
	$ 774	-	-	774	651	354

(4) Premises and Equipment

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

	At December 31, 2012	2011
Land	$ 1,630	1,630
Building	6,098	5,490
Leasehold Improvements	3,076	2,937
Furniture, fixtures and equipment	2,839	2,420
Data processing equipment and software	735	465
Total, at cost	14,378	12,942
Less accumulated depreciation and amortization	(3,053)	(2,200)
Premises and equipment, net	$ 11,325	10,742

(continued)

(4) Premises and Equipment, Continued

The Company has a land lease agreement for the Coconut Point office location. This lease expires in 2034 and has two renewal options and rent adjustment clauses during the term of the lease. Rent expense under this operating lease for the years ended December 31, 2012 and 2011 was approximately $242,000 and $226,000 respectively.

The Company has a building lease agreement for the Shell Point office location. The lease expires in 2014 and has five renewal options of three years each and rent adjustment clauses during the term of the lease. The lease also provides for a fifty percent rent discount for the first eighteen months of the term in consideration of renovation costs undertaken by the Company. Rent expense under this operating lease for the years ended December 31, 2012 and 2011 was approximately $27,000 and $25,000 respectively.

In 2011, the Company entered into a building lease agreement for the Moorings Park office location. The lease expires in 2016 and has five renewal options of three years each and rent adjustment clauses during the term of the lease. The commencement date was May 1, 2011. Rent expense under this operating lease for the years ended December 31, 2012 and 2011 was approximately $10,000 and $8,000 respectively.

In 2011, the Company entered into a building lease agreement for the Bentley Village office location. The lease expires in 2019 and has four renewal options of three years each. The commencement date was July 14, 2011. Rent expense under this operating lease for the years ended December 31, 2012 and 2011 was approximately $2,500 and $1,000 respectively.

In 2011, the Company entered into a building lease agreement for the Palm Beach office location. The lease expires in 2013 and includes rent adjustment clauses during the term of the lease. The commencement date was December 1, 2011. Rent expense under this operating lease for the years ended December 31, 2012 and 2011 was approximately $91,000 and $7,000 respectively.

In 2012, the Company entered into a building lease agreement for the Naples office location. The lease expires in 2013 and includes rent adjustment clauses during the term of the lease. The commencement date was February 1, 2012. Rent expense under this operating lease for the year ended December 31, 2012 was approximately $14,000.

In 2012, the Company entered into a building lease agreement for the Scottsdale office location. The lease expires in 2013 and includes rent adjustment clauses during the term of the lease. The commencement date was February 13, 2012. The lease was amended to include extra space on the office premises as of November 1, 2012. Rent expense under this operating lease for the year ended December 31, 2012 was approximately $29,000. The Company entered into a building lease agreement that is scheduled to commence on March 1, 2013. The lease includes rent adjustment clauses during the term of the lease and extends for a term of 65 months.

(continued)

(4) Premises and Equipment, Continued

Future minimum rental commitments under these noncancelable leases at December 31, 2012 are approximately as follows (in thousands):

Year Ending December 31,	Minimum Annual Rental Payment
2013	$ 484
2014	442
2015	453
2016	478
2017	481
Thereafter	4,140
	$ 6,478

(5) Investment in Bank-Owned Life Insurance ("BOLI")

The Company enters into agreements to acquire life insurance on key employees by purchasing BOLI. BOLI amounted to $8,690,000 and $8,403,000 at December 31, 2012 and 2011, 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, 2012. 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.

(6) Deposits

The aggregate amount of time deposits with a denomination of $100,000 or more was approximately $104.4 million and $77.7 million at December 31, 2012 and 2011, respectively.

A schedule of maturities of time deposits at December 31, 2012 follows (in thousands):

Year Ending December 31,	Amount
2013	$ 47,994
2014	56,912
2015	6,939
2016	3,057
2017	2,406
	$ 117,308

(continued)

(6) Deposits, continued

At December 31, 2012, securities with a carrying value of $37,685,000 and $33,915,000 were pledged to secure deposits totaling $37,014,000 for seventeen depositors and four Qualified Public Depositors totaling $25,615,000, 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, 2012 and 2011, the balance totaled $2,942,000 and $3,707,000, respectively, and the Company had pledged securities as collateral for these agreements with a carrying value of $3,303,000 and $4,475,000, respectively.

(8) Federal Home Loan Bank Advances

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

Maturing in the Year Ending December 31,	Fixed or Variable Rate	Call Date	Interest Rate	At December 31, 2012	2011
2012	Fixed	-	.55-3.30 %	$ -	2,100
2013	Fixed	-	1.81-2.23	-	6,000
2014	Fixed	-	2.54-2.70	-	6,000
2015	Fixed	-	1.22-2.65	15,588	17,627
2016	Fixed	-	0.18-1.79	19,000	10,000
2017	Fixed	-	4.71-4.87	11,000	5,000
2018	Fixed	2013	3.63-3.70	8,000	8,000
2022	Fixed	-	1.86-3.99	18,762	-
2026	Fixed	-	2.01	9,643	-
				$ 81,993	54,727

In 2012, the Company restructured its FHLB advance portfolio to take advantage of low interest rates. The restructured advances have a fixed rate and extended maturity dates.

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

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(9) Income Taxes

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

	Year Ended December 31, 2012	2011
Current:		
Federal	$ 751	50
State	191	-
Total current	942	50
Deferred:		
Federal	194	533
State	(21)	106
Total deferred	173	639
Total	$ 1,115	689

The reasons for the difference between the statutory Federal income tax rate of 34% and the effective tax rates are summarized as follows (dollars in thousands):

	2012 Amount	2012 % of Pretax Earnings	2011 Amount	2011 % of Pretax Earnings
Income tax expense at statutory rate	$ 1,064	34.0 %	$ 655	34.0 %
Increase (decrease) resulting from:				
State taxes, net of Federal tax benefit	112	3.6	70	3.6
Share-based compensation	47	1.5	16	0.8
Tax-exempt income	(85)	(2.7)	(80)	(4.2)
Other, net	(23)	(0.8)	28	1.6
	$ 1,115	35.6 %	$ 689	35.8 %

(continued)

(9) Income Taxes, continued

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

	At December 31, 2012	2011
Deferred tax assets:		
Net operating loss carryforwards	$ -	293
Allowance for loan losses	1,179	1,072
Organizational and start-up costs	200	222
Share-based compensation	558	530
Other	18	6
Deferred tax assets	1,955	2,123
Deferred tax liabilities:		
Accrual to cash conversion	(138)	(97)
Unrealized gain on securities available for sale	(323)	(393)
Premises and equipment	(269)	(305)
Deferred tax liabilities	(730)	(795)
Net deferred tax asset	$ 1,225	1,328

The Company's Federal and state income tax returns filed prior to 2009 are no longer subject to examination by the respective taxing authorities.

(10) Financial Instruments

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

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Under the standby letters of credit, the Company is required to make payments to the beneficiary of the letters of credit upon request by the beneficiary contingent upon the customer's failure to perform under the terms of the underlying contract with the beneficiary. Standby letters of credit extend up to one year. At December 31, 2012 and 2011, there was no liability to beneficiaries resulting from standby letters of credit. At December 31, 2012, a substantial portion of the standby letters of credit were supported by pledged collateral. Should the Company be required to make payments to the beneficiary, repayment from the customer to the Company is required.

(continued)

(10) Financial Instruments, continued

Commitments to extend credit, unused lines of credit and standby letters of credit typically result in loans with a market interest rate when funded. A summary of the amounts of the Company's financial instruments with off-balance sheet risk at December 31, 2012, follows (in thousands):

Commitments to extend credit	$ 14,384
Unused lines of credit	$ 50,935
Standby letters of credit	$ 2,180

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

	At December 31, 2012 Carrying Amount	2012 Fair Value	2011 Carrying Amount	2011 Fair Value
Financial assets:				
Cash and cash equivalents	$ 10,387	10,387	7,492	7,492
Time Deposits	1,245	1,245	1,245	1,245
Securities available for sale	124,763	124,763	199,487	199,487
Loans held-for-sale	639	640	-	-
Loans, net	360,783	357,635	213,248	213,650
Federal Home Loan Bank stock	4,382	4,382	3,074	3,074
Federal Reserve Bank stock	1,220	1,220	1,189	1,189
Accrued interest receivable	1,605	1,605	1,669	1,669
Financial liabilities:				
Deposits	390,419	390,765	343,274	344,825
Federal Home Loan Bank advances	81,993	83,702	54,727	57,577
Other borrowings	2,942	2,942	3,707	3,707
Off-balance-sheet financial instruments	-	-	-	-

(11) Employee Benefit Plan

The Company has a 401 (k) plan (the "Plan") which is available to all employees electing to participate after meeting certain length-of-service requirements. The Company's expense related to the Plan was approximately $223,000 and $168,000 for the years ended December 31, 2012 and 2011, respectively.

(12) Stock-Based Compensation Plans

The Company has a stock incentive plan for directors and employees. Under the plan, 713,100 shares (amended) have been reserved for the granting of stock options or restricted stock awards. All stock options and restricted stock awards must be granted at a price not less than the fair market value of the common stock on the date of grant. Some stock options are fully vested when granted while the majority vests over a three to five year period. All options expire ten years from the date of grant. At December 31, 2012, 62,900 shares remain available for grant. A summary of the stock option activity under this plan is as follows:

(continued)

(12) Stock-Based Compensation Plans, continued

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at December 31, 2010	244,200	$ 10.50	
Granted	80,500	9.82	
Forfeited	(2,500)	11.00	
Outstanding at December 31, 2011	322,200	10.33	
Granted	324,500	11.00	
Forfeited	(6,500)	10.31	
Outstanding at December 31, 2012	640,200	$ 10.67	7.87 years
Exercisable at December 31, 2012	229,475	$ 10.43	5.59 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, 2012	2011
Risk-free interest rate	.85-1.58%	2.55-2.73%
Dividend yield	-	-
Expected stock volatility	11.52%	9.67%
Expected life in years	5.5-7.0	6
Per share grant-date fair value of options issued during the year	$1.52-1.92	$1.58-2.32

All stock options granted in 2012 and 2011 were to employees under the plan discussed above. The Company used the guidance of the Securities and Exchange Commission to determine the estimated life of options issued. Expected volatility is based on historical volatility of similar financial institutions. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield assumption is based on the Company's history and expectation of dividend payments.

At December 31, 2012, there was $562,000 of total unrecognized compensation expense related to nonvested stock options granted under the plan. The cost is expected to be recognized over the next 2.97 years. The total fair value of shares vesting and recognized as compensation expense was $204,000 and $67,000 for the years ended December 31, 2012 and 2011, respectively.

(continued)

(12) Stock-Based Compensation Plans, continued

In 2007, the Company granted 10,000 restricted stock awards to employees. These awards vest 50% after three years and 25% in each of the next two years. The fair value of this restricted stock was determined to be $100,000. During 2012 and 2011, no shares were forfeited. In 2012 and 2011, 2,675 and 2,175 shares, respectively, were fully vested and were issued to employees. The total fair value of shares vested and recognized as compensation expense in 2012 and 2011 was $1,000 and $7,000, respectively, with a related income tax benefit of $3,000 in 2011.

In 2012, the Company granted 3,000 restricted stock awards to employees. These awards cliff vest after four years. The fair value of this restricted stock was determined to be $33,000. At December 31, 2012, there was $27,000 of total unrecognized compensation expense related to nonvested restricted stock awards. In 2012, $6,000 of compensation expense was recognized with a related income tax benefit of $2,000.

In addition, in connection with the initial common stock offering, the organizing directors of the Company were granted one common stock option for every two shares purchased. A total of 586,900 stock options were granted to the organizing directors and were fully vested at December 31, 2007. The stock options expire ten years from date of grant and have an exercise price of $10 per share. As of December 31, 2012, no options had been exercised and 12,500 options had been forfeited.

(13) Related Party Transactions and Economic Dependence

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

The following summarizes these transactions (in thousands):

	Year Ended December 31, 2012	2011
Loans:		
Beginning balance	$ 10,879	13,005
Additions	1,504	2,137
Repayments	(2,574)	(4,263)
Ending balance	$ 9,809	10,879
Deposits at end of year	$ 49,079	50,448

In 2012, the Company purchased a substantial amount of office furniture from a company controlled by a director. In 2011, a director acted as agent in the acquisition of bank owned life insurance and in the acquisition and administration of the Bank's employee insurance plans and 401k plan. Finally, in 2008, the Company entered into a lease agreement with a director to lease certain premises. All transactions were evaluated to ensure that the terms and conditions are comparable to transactions with other persons, including where appropriate obtaining independent appraisals.

(continued)

(14) Senior Non-Cumulative Perpetual Preferred Stock

On September 21, 2011, the Company entered into a Securities Purchase Agreement with the Secretary of the Treasury, pursuant to which the Company issued and sold to the Treasury 5,665 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of $1,000 per share (the "Series A Preferred Stock"), for proceeds of $5,642,000, net of offering costs of $23,000. The issuance was pursuant to the Treasury's Small Business Lending Fund ("SBLF") program. The Series A Preferred Stock is entitled to receive non-cumulative dividends payable quarterly on each January 1, April 1, July 1 and October 1, commencing October 1, 2011. The dividend rate, which is calculated on the aggregate Liquidation Amount, has been initially set at 5% per annum based upon the current level of "Qualified Small Business Lending" ("QSBL") by the Bank. The dividend rate for future dividend periods will be set based upon the percentage change in qualified lending between each dividend period and the baseline QSBL level established at the time the Agreement was entered into. Such dividend rate may vary from 1% per annum to 5% per annum for the second through tenth dividend periods, and from 1% per annum to 7% per annum for the eleventh through the first half of the nineteenth dividend periods. At December 31, 2012 the interest rate was 1%. If the Series A Preferred Stock remains outstanding for more than four-and-one-half years, the dividend rate will be fixed at 9%. Prior to that time, in general, the dividend rate decreases as the level of the Company's QSBL increases. Such dividends are not cumulative, but the Company may only declare and pay dividends on its common stock (or any other equity securities junior to the Series A Preferred Stock) if it has declared and paid dividends for the current dividend period on the Series A Preferred Stock, and will be subject to other restrictions on its ability to repurchase or redeem other securities.

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

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

(continued)

(15) Regulatory Matters

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

Beginning in 2012, the Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and percents (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2012, that the Company and the Bank meets all capital adequacy requirements to which it is subject.

(continued)

(15) Regulatory Matters, continued

As of December 31, 2012, the most recent notification from the regulatory authorities categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage percents as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category. The Company's and Bank's actual capital amounts and percents are also presented in the table ($ in thousands):

	Actual		For Capital Adequacy Purposes		For Well Capitalized Purposes	
	Amount	Percent	Amount	Percent	Amount	Percent
As of December 31, 2012:						
Total Capital to Risk-Weighted Assets- Bank	$ 44,990	13.93 %	$ 25,831	8.00 %	$ 32,288	10.00 %
Tier I Capital to Risk-Weighted Assets- Bank	41,382	12.82	12,915	4.00	19,373	6.00
Tier I Capital to Average Assets- Bank	41,382	8.22	20,130	4.00	25,163	5.00
Total Capital to Risk-Weighted Assets- Company	50,880	15.65	26,011	8.00	N/A	N/A
Tier I Capital to Risk-Weighted Assets- Company	47,272	14.54	13,005	4.00	N/A	N/A
Tier I Capital to Average Assets- Company	47,272	9.35	20,220	4.00	N/A	N/A
As of December 31, 2011 (Bank only):						
Total Capital to Risk-- Weighted Assets	41,420	16.46	20,132	8.00	25,165	10.00
Tier I Capital to Risk- Weighted Assets	38,274	15.21	10,066	4.00	15,099	6.00
Tier I Capital to Average Assets- to Average Assets	38,274	8.82	17,349	4.00	21,687	5.00

(continued)

(16) Parent Company Only Financial Information

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

Condensed Balance Sheets

	At December 31,	
Assets	**2012**	**2011**
Cash	$ 3,153	6,598
Loans	2,855	-
Accrued interest receivable	13	-
Investment in subsidiary	41,922	39,352
Total Assets	$ 47,943	45,950
Liabilities and Shareholders' Equity		
Accounts Payable	117	-
Dividend Payable	14	15
Deferred taxes	-	119
Shareholders' Equity	47,812	45,816
Total liabilities and shareholders' equity	$ 47,943	45,950

(continued)

(16) Parent Company Only Financial Information, continued

Condensed Statements of Shareholders' Equity

	Year Ended December 31, 2012	2011
Shareholders beginning balance	$ 45,816	31,037
Net earnings	2,014	1,236
Shares issued for services rendered	-	-
Stock-based compensation	211	74
Proceeds from sale of common stock, net of offering expenses	200	6,155
Repurchase of common stock	(250)	-
Proceeds from sale of preferred stock, net of offering expenses	-	5,642
Preferred stock dividends	(63)	(15)
Change in accumulated other comprehensive income	(116)	1,687
Shareholders ending balance	$ 47,812	45,816

Condensed Statements of Operations

	Year Ended December 31, 2012	2011
Revenue	$ 126	-
Expenses	586	-
Loss before earnings of subsidiary	(460)	-
Earnings of subsidiary	2,474	1,236
Net earnings	$ 2,014	1,236

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(16) Parent Company Only Financial Information, continued

Condensed Statements of Cash Flows

	Year Ended December 31, 2012	2011
Cash flows from operating activities:		
Net earnings	$ 2,014	1,236
Adjustments to reconcile net earnings to net cash used in operating activities:		
Equity in undistributed earnings of subsidiary	(2,474)	(1,236)
Increase in accrued interest receivable	(13)	-
Decrease in other liabilities	(3)	-
Net cash used in operating activities	(476)	-
Cash flows from investing activity:		
Net increase in loans	(2,855)	-
Capital infusion to subsidiary	-	(6,476)
Net cash used in investing activities	(2,855)	(6,476)
Cash flows from financing activities:		
Dividends paid to preferred shareholders	(64)	-
Purchase of common stock	(250)	-
Proceeds from sale of common stock, net of offering expenses	200	6,155
Proceeds from sale of preferred stock, net of offering expenses	-	5,642
Net cash (used in) provided by financing activities	(114)	11,797
Net (decrease) increase in cash	(3,445)	5,321
Cash at beginning of the year	6,598	1,277
Cash at end of year	$ 3,153	6,598
Noncash transactions:		
Net change in investment in subsidiary due to change in accumulated other comprehensive income	$ (116)	1,687
Stock-based compensation expense of subsidiary	$ 211	74
Dividends payable	$ 14	15

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