2020

annual report

FINEMARK HOLDINGS, INC.

FineMark

2020 ANNUAL REPORT




(Photos: top left to right)
Nateefah Jackson, *Fort Myers, FL*
Andrew Potter, Senior Portfolio Manager, *Fort Myers, FL*

(Photos: bottom left to right)
Angela Morris and Dennis Landfried, Relationship Banker and Private Wealth Advisor, *Fort Myers, FL*
Susana Crane and Carol DiFranco, Relationship Bankers, *Scottsdale, AZ*

CONTENTS

TO OUR CLIENTS, SHAREHOLDERS AND ASSOCIATES:

"During a very difficult year with COVID-19, our people once again went above and beyond. They were able to adapt to a rapidly changing environment, while staying true to our core values and commitment to serve our clients and the communities in which we live and work. I am grateful for their extraordinary efforts and for the successful year FineMark experienced as a result."

Joseph R. Catti
Chairman & CEO

In light of the past year's difficulties, it is important to begin this letter by acknowledging the struggles experienced within our communities, the nation, and around the globe. The U.S. arrival of COVID-19 seemed unimaginable, yet relying on our core values (which include anticipating our clients' needs, acting proactively, and maintaining a stable environment for all), we quickly implemented protocols to ensure the safety and security of our associates and those we serve.

Throughout 2020, our commitment to the people who bring purpose to everything we do—our associates, our clients, our community, and our shareholders— never wavered. Everyone within FineMark worked together to find creative, convenient solutions that allowed us to operate efficiently and effectively. While some processes may have changed due to the circumstances, the sincerity and authenticity we bring to every interaction remained constant.

We also welcomed new opportunities to serve our clients. When the Paycheck Protection Program (PPP) was announced as part of the CARES Act in late spring, we immediately applied for certification as a Small Business Administration lender. At year end, we were able to help more than 500 small businesses successfully obtain loans and keep their businesses operational. That effort has continued in 2021.

Although this crisis is not over, we are beginning to see a return to normalcy. Reflecting on our experiences over the past year, I am reminded that having the right people in place to support our company's mission—and live its values—is priceless. I am also very appreciative of our remarkable clients, who share their stories about FineMark with family and friends. Our primary source of growth continues to be through word of mouth, and for this, I am deeply grateful.

Joe Catti, *Chairman & CEO*
Tiffany Williams, *Chief Banking Officer*

2020 FINANCIAL PERFORMANCE

Despite obstacles that included unprecedented low interest rates and the global pandemic, FineMark achieved record financial performance for the year 2020. Total bank assets rose to $2.85 billion, a 31% increase over year-end 2019. This growth was fueled by a significant increase in our deposits, totaling $2.22 billion at year end compared to $1.67 billion for December 31, 2019. In the month of December, deposits grew by nearly $160 million.

Total loans, net of loan-loss provision, increased 22% year-over-year to $1.85 billion compared to $1.51 billion in December 2019. Excluding loans associated with the Paycheck Protection Program, our loan growth year-over-year was 17% and was funded primarily by our increase in deposits. This success is contributed to our associates and their commitment to providing exceptional service regardless of the circumstances.

Assets Under Management and Administration (AUMA) ended the year at $5.09 billion, a 14% increase from year-end 2019. We attribute this growth to the addition of new clients, expanded relationships with existing clients, and strong equity markets in the second half of 2020.

Net income increased 44% over 2019 to a record $21.96 million. Both net interest income (up 26%) and noninterest income (up 22%) increased substantially year-over-year. This increase in net income is the combined effect of significant loan volume, a robust growth in assets under management and administration, and the decline in the Bank's cost of funds.

RISK MANAGEMENT

Uncertainty surrounding the virus created significant risk while aggravating other high-risk concerns including credit quality, interest-rate volatility, and cybersecurity.

In 2020, we remained focused on maintaining our high credit standards through our relationship-centric approach to lending. By underwriting loans based on a deep understanding of each borrower's needs and unique situation, FineMark did not experience any credit related losses. As of December 31, 2020, classified loans (loans that may potentially default) totaled .94%, which compares favorably to the industry average of 6.3%.

As a proactive measure, the Bank's loan loss reserve was increased by an additional $2.5 million to cover potential COVID-related losses. We have worked closely with a handful of borrowers who struggled during the pandemic, and none of the reserve was deployed. Total loan loss reserves increased to $5 million in 2020, totaling $20.8 million (including the $2.5 million reserved for COVID), or 1.1% of outstanding loans. To date, there are no COVID related losses in the loan portfolio.

To protect against cyberattacks, we continued to invest in technologies that allow us to quickly detect, identify and mitigate threats. In 2020, we completed a new firewall installation for internal circuits and installed a new internal intrusion and detection monitoring system. We also collaborated with external partners to ensure that our associates are educated on current risks. In 2020, we also increased our communication efforts, sharing warnings and information to help clients spot and report stimulus check scams and other schemes by fraudsters hoping to benefit from the COVID-19 crisis. As we head into 2021, we continue to explore the best ways to keep our clients' personal information safe.

Another factor that presents added risk is FineMark's continued and fast-paced growth. As any company grows, maintaining the culture and high levels of personalized service, while attracting the very best people, becomes more challenging. We are resolute in preserving FineMark's way of doing business and will continue to make a conscious effort to act small, as we continue to grow. To reflect this commitment in 2020, we invested in new technology to support our client services and to protect our clients' personal information. We also hired additional talent to support increasing workloads across all areas of the bank. In 2021, we will continue to onboard top talent to sustain healthy growth, protect our resources, and safeguard our positive work environment.

OUR GIVING SPIRIT

For all its tumult, 2020 also inspired us to approach the way we give with a fresh perspective. As the world began to change with the onset of COVID, we temporarily stopped non-essential spending, particularly involving our marketing efforts. With so much uncertainty surrounding the pandemic, it was unclear how our business would be impacted. However, as the year progressed it became apparent FineMark would have the resources to help those severely affected by the virus. We provided funding in our local communities to benefit charities, organizations, and individuals with significant needs. This assistance included a substantial grant to help COVID-impacted families with rent, bills, and essential care. We also worked with non-profits to organize food drives and we partnered with local businesses to provide meals to first responders who were caring for patients in our hospitals.

Many of these opportunities were made possible through partnerships with clients who owned local businesses and had a desire to give back. These meaningful, collaborative efforts illustrate the strong connection between our associates, our clients, and our community.

FineMark donated gifts to several families through CCMI who struggled during the holiday season.

60,000
Square feet

96
Associates
on site
as of 12/31/20

"We aren't driven by growth. We're driven by taking care of people, and that has resulted in growth."

OUR NEW HEADQUARTERS OFFICE

In December 2020, our new office in Fort Myers, Florida, opened its doors. Built to support the bank's growth and serve as a home for our expanding team, this impressive 60,000 square-foot building features state-of-the-art videoconferencing technology and environmentally conscious attributes such as solar panels installed over covered parking. In addition to helping reduce carbon emissions, these panels also generated a $189,000 tax credit. I am hopeful in 2021, we can safely have a formal ribbon cutting, postponed due to the pandemic, and I look forward to entertaining our clients, as we have so often in years past.

LOOKING AHEAD

Through all the challenges of 2020, I am inspired by our dedicated associates and their unparalleled ability to find creative ways to serve our clients and our communities. I believe if we stay the course and remain true to our culture and our values, we will continue to achieve the goals we have set for FineMark in 2021. Of course, this would not be possible without your unwavering support of — and belief in—our vision. Thank you for all you do to make FineMark a success. We look forward to serving you in 2021 and beyond.

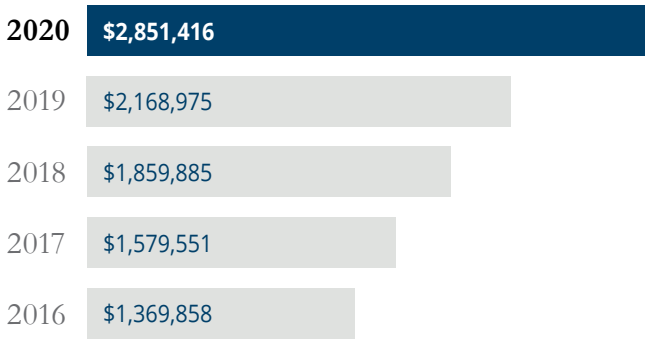
Joseph R. Catti
Chairman & CEO

FINEMARK HOLDINGS, INC. FINANCIAL HIGHLIGHTS

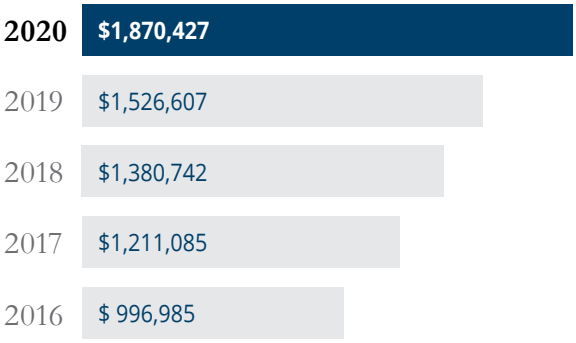
DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

For the years ended December 31,	2020	2019	2018	2017	2016
FINANCIAL CONDITION					
Total Bank Assets	$ 2,851,416	$ 2,168,975	$ 1,859,885	$ 1,579,551	$ 1,369,858
Total Securities	654,141	505,170	371,450	299,605	304,253
Total Loans	1,870,427	1,526,607	1,380,742	1,211,085	996,985
Allowance for Loan & Lease Losses	20,782	15,838	14,466	12,812	11,147
Total Deposits	2,224,954	1,670,419	1,460,713	1,304,542	1,100,938
Total Shareholders' Equity	211,057	178,453	158,649	142,604	130,563
Book Value per Share	23.57	20.15	18.02	16.70	15.53
Total Risk-Based Capital Ratio	17.45%	17.15%	17.51%	15.27%	16.41%
Equity to Total Bank Assets	7.40%	8.23%	8.53%	9.03%	9.53%
CLIENT ASSETS					
Assets Under Management & Administration	$ 5,091,408	$ 4,472,585	$ 3,391,455	$ 3,006,024	$ 2,325,804
OPERATING RESULTS					
Net Interest Income	$ 58,174	$ 46,044	$ 45,479	$ 41,572	$ 34,785
Provision for Loan & Lease Losses	4,986	1,488	2,029	2,119	2,186
Trust Fees	20,880	18,614	16,689	13,998	11,463
Net Income	21,956	15,207	15,112	9,604	7,979
Diluted Earnings per Common Share	2.42	1.69	1.70	1.10	0.94
Return on Average Assets	0.89%	0.76%	0.86%	0.65%	0.64%
Return on Average Equity	11.20%	8.97%	10.23%	6.96%	6.33%
Net Interest Margin (Taxable Equivalent Basis)	2.45%	2.43%	2.70%	2.96%	2.92%
ASSET QUALITY					
Nonperforming Assets to Total Bank Assets	0.04%	0.08%	0.15%	0.00%	0.27%
Total Past Due Loans to Total Loans	0.27%	0.15%	0.24%	0.04%	0.38%
Allowance for Loan & Lease Losses to Total Loans	1.11%	1.04%	1.05%	1.06%	1.12%
Net Loan Charge-Offs to Average Loans	0.00%	0.01%	0.03%	0.04%	-0.01%

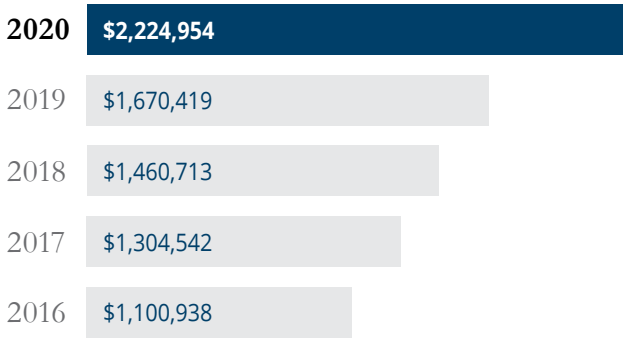
20%
CAGR
Total Bank Assets



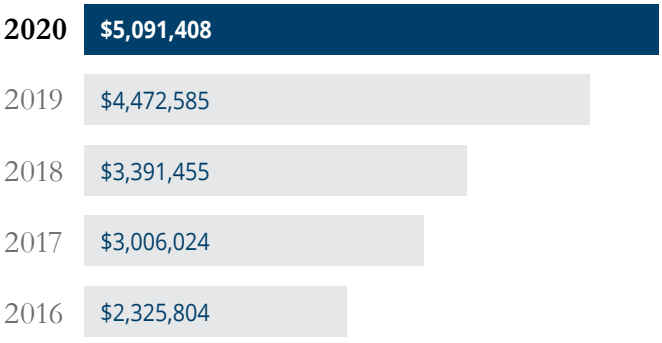
17%
CAGR
Total Loans



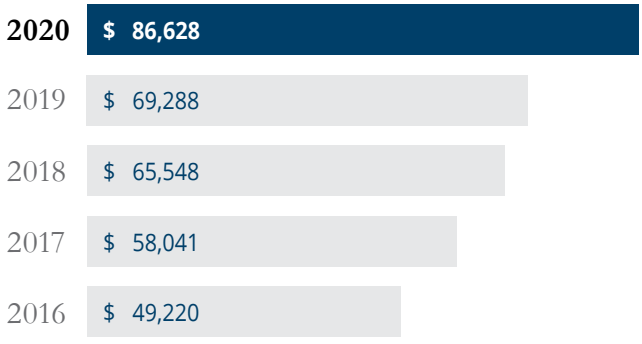
19%
CAGR
Total Deposits



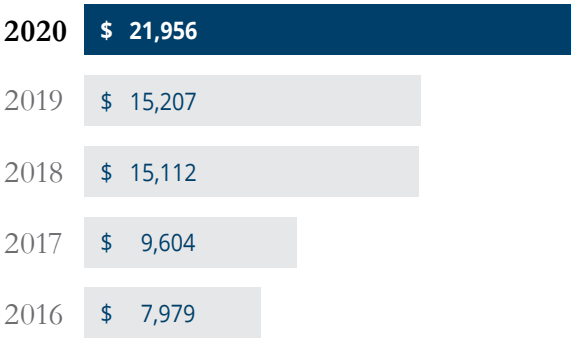
22%
CAGR
Assets Under Management & Administration



15%
CAGR
Total Revenue



29%
CAGR
Net Income



Dollars in thousands

Bob Parimore, President

MARKET PRESIDENTS

We often speak about FineMark being autonomous when describing our culture. Each of our markets in Arizona, Florida and South Carolina is run by a market president.

They are encouraged to be independent thinkers, empowered to make the best decisions for the clients they serve.

This gives our clients direct access, while preventing bureaucracy and layers of red tape.

While we still believe in collaboration, we also understand no one knows our clients better, than the people who serve them directly.

FLORIDA

Harlan C. Parrish, *President, Lee County*

Adria D. Starkey, *President, Collier County*

David H. Scaff, *President, Palm Beach*

SOUTH CAROLINA

Michael E. Drohan, *President, South Carolina*

ARIZONA

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

BENEVOLENCE

[be·nev·o·lence], *noun*
We're inspired to do good for our clients, our colleagues and our communities.

HARLAN C. PARRISH
PRESIDENT, LEE COUNTY

BONITA SPRINGS & ESTERO MARKETS

COVID-19 brought new challenges to communities across America and Lee County was no exception.

Our offices brought comfort and support to our local communities through monetary donations, food drive participation, Paycheck Protection Program (PPP) funding for our business clients, and student mentorship via virtual visits. We were also able to provide financial support to purchase Personal Protective Equipment (PPE) for Lee County schools. I also accepted an appointment to serve on the Lee County Public School District's COVID Reopening Task Force. Our clients and our communities are important to us; we're always willing to step up and lend a hand whenever we can.

Despite the pandemic, the Lee County market experienced historic growth in 2020 due to our continued, unwavering commitment to providing exceptional client service.

Harlan C. Parrish
President, Lee County

42%
increase in
Loan Growth

27%
increase in
Total Deposit Growth

16%
increase in Assets
Under Management

Billie Porter, *Private Wealth Advisor, Trust*

Dallas Revord, *Relationship Banker*

GROWTH

[growth], *noun*

We will seek growth opportunities but will never grow at the expense of our culture. While we are humbled by our financial success, we understand that the true value of any accomplishment will be measured by our clients' satisfaction.

ADRIA D. STARKEY
PRESIDENT, COLLIER COUNTY

Nick Diodati, *Investment Officer*

Jonathan Perrera, *Relationship Banker*

Christi Lundford, *Banking Manager*

In alignment with our corporate values, Collier County associates found ways to continue working and serving our clients at the highest level throughout 2020.

The positive can-do attitudes of our team members was met by the kindness and graciousness of our clients, proving once again that exceptional people are what sets FineMark apart. In the face of the global pandemic, our market continued to grow and our 2020 revenue was outstanding.

19%
increase in
Loan Growth

26%
increase in
Total Deposit Growth

16%
increase in Assets
Under Management

NEW OFFICE SPACE IN NAPLES

We are delighted to share that we will be opening a new office at 275 8th Street South in Downtown Naples in early 2022. The project is being developed by Naples Redevelopment, designed by MHK Architecture and Planning, and the 2200 sq. ft. of ground floor office space will be designed by Clive Daniel Home.

Adria D. Starkey
President, Collier County

TRANSPARENCY

[trans·par·en·cy], *noun*

Keeping one's word is crucial in our business. We want our clients and colleagues to know we are dependable; when we say we're going to do something, we do it.

DAVID H. SCAFF
PRESIDENT, PALM BEACH

Ana Hammer, *Relationship Banker*

Andres Salcedo , *Relationship Banker*

Consistent with FineMark's extraordinary overall performance in 2020, the Palm Beach Market also experienced tremendous growth. Our focus on always doing what is right and operating with full transparency is something that we take to heart. Our clients appreciate these qualities and rely on us to advise them honestly and act in their best interests, always.

NEW OFFICE SPACE IN JUPITER

With multiple golf club and boating communities, the Palm Beach market is recognized as a top residence choice for PGA and LPGA players and is the spring training home to four Major League Baseball teams. Like much of Florida, Palm Beach County has also benefitted from a rise in relocations from the Northeastern U.S. and California.

To accommodate our rapid growth in the Jupiter area, we're excited to announce the Third Quarter 2021 opening of our new office. This spacious location will allow our associates to conveniently serve our many clients residing nearby, as well as the Jupiter Medical Center and the large concentration of medical practices in the surrounding area.

David H. Scaff
President, Palm Beach

FIDELITY

[fi·del·i·ty], noun

We're loyal to our clients and unfailing in our commitment to go above and beyond for them.

MICHAEL E. DROHAN
PRESIDENT, CHARLESTON, SC

Known for its hospitality and tourism driven economy, the City of Charleston and the Lowcountry were hit hard by the Covid-19 pandemic. As soon as lockdown restrictions eased, our associates focused their efforts on activities that would make a difference.

Upon receiving certification as a Small Business Administration lender, we provided Paycheck Protection Plan (PPP) loans to Covid distressed businesses in our community. To support those working on the pandemic frontlines, we provided meals to Covid testing centers and distributed Target, Publix, and Walmart gift cards to workers in frontline healthcare positions such as hospital emergency rooms and ICU's.

These yearlong efforts continued through the holiday season, when need became even more critical. Joyfully, we provided funding to the The Good Cheer Fund, a community outreach program formed to address the holiday season needs of disadvantaged households, providing essential funding, clothing, and bundled baskets of healthy food to those households.

FineMark was founded on the desire to bring like-minded individuals together to make a difference through service. Our fidelity and commitment to going above and beyond for anyone in need of help is always at the forefront of our minds. Watching our Charleston team members demonstrate this value throughout the pandemic was inspiring for everyone involved. Our ability to successfully assist our clients and our community, while also experiencing exceptional growth during such a difficult time, has been especially uplifting.

Michael E. Drohan
President, Charleston, SC

31%
increase in
Loan Growth

20%
increase in
Total Deposit Growth

29%
increase in Assets
Under Management

Caroline Lesesne, *Private Banker*

Brantley Moody, *Commercial Banking*

Deborah DeAngles, *Loan Coordinator*

STABILITY

[sta·bil·i·ty] , *noun*

We strive to create and maintain a stable environment for our clients and colleagues. We've built our business on a foundation that is robust, consistent and sound.

DAVID A. HIGHMARK
PRESIDENT & CEO, ARIZONA

with Nine-Time Gland Slam Champion, Bethanie Mattek-Sands and Justin Sands

FINEMARK Sports MANAGEMENT

Our Sports Management division provides highly personalized business management and financial services to nearly 200 athletes, coaches, and executives in the professional sports industry.

We consider ourselves to be a 'family office' for these professionals. We're dedicated to always doing what's right for our clients, simplifying their lives which allows them to maximize their performance and laying a foundation to their financial security.

David A. Highmark
President & CEO, Arizona

DID YOU KNOW?

- Our Sports Management clients are based primarily in five U.S. states (Arizona, California, Florida, North Carolina, and Texas) and seven countries (Argentina, Australia, China, Colombia, S. Korea, Spain, Sweden, and the U.K.).
- Our clients have won 13 World Series championships, 203 LPGA and PGA wins with 26 Major wins, and 14 Grand Slam championships (tennis).
- Approximately half of our athletes are professional golfers who play on six Golf Tours.

Over the past two years, FineMark golf clients won **29 professional tournaments**, including four Majors

15% of the golfers playing PGA tournaments are FineMark clients

8% of the players on the LPGA Tour are FineMark clients

Nearly half of the **2021 Solheim cup teams** are FineMark clients

Brian Knapp, *Sports Management*

Jennifer Garcia, *Private Wealth Advisor, Investments*

Our associates exemplified creativity, flexibility and commitment in 2020. Through uncertainty and challenges, they remained true to FineMark's mission to go above and beyond—for our clients, our communities and each other.

(Photos: top left to right)
Tim Nguyen, Private Wealth Advisor, Investments, *Scottsdale, AZ*
Kim Browne, Receptionist, *Fort Myers, FL*

(Photos: bottom left to right)
Tara Efrid, Compliance Officer, *Fort Myers, FL*
Carolina Llano and Brian Knapp, Sports Management, *Scottsdale, AZ*

FLORIDA

Bonita Springs, Bonita Bay
26800 S. Tamiami Trail, Ste 100
Bonita Springs, FL 34134
239.405.6790

Estero, Coconut Point
10010 Coconut Rd
Estero, FL 34135
239.405.6700

Fort Myers
8695 College Pkwy, Ste 100
Fort Myers, FL 33919
239.461.5900

Fort Myers, Cypress Cove
10200 Cypress Cove Dr
Fort Myers, FL 33908
239.461.3880

Fort Myers, Shell Point
14990 Shell Point Blvd, Ste 110
Fort Myers, FL 33908
239.461.5999

Naples
800 Laurel Oak Dr, Ste 100
Naples, FL 34108
239.963.0700

Naples, Moorings Park
120 Moorings Park Dr
Naples, FL 34105
239.405.6770

Naples, Vi at Bentley Village
701 Retreat Dr
Naples, FL 34110
239.405.6780

Palm Beach
340 Royal Palm Way, Ste 101
Palm Beach, FL 33480
561.273.1500

Jupiter
Coming Soon!

Naples, 8th Avenue
Coming Soon!

ARIZONA

Scottsdale, Gainey Ranch
7600 E. Doubletree Ranch Rd, Ste 100
Scottsdale, AZ 85258
480.607.4860

Scottsdale, DC Ranch
20909 N. 90th Pl, Ste 102
Scottsdale, AZ 85255
480.333.3950

SOUTH CAROLINA

Charleston, Daniel Island
865 Island Park Dr
Charleston, SC 29492
843.998.6400

FINEMARK NATIONAL BANK & TRUST BOARD OF DIRECTORS


Robert M. Arnall*
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Chief Credit Officer


Christopher T. Battifarano*
Executive Vice President
Chief Investment Officer


Aurelia J. Bell
Arrowhead Partners, Inc.


Michael J. Carron
Radiology Regional Center (Ret.)


Thomas D. Case, II
Case Pearlman Corporate Benefits


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Executive Vice President
President, Charleston


Brian J. Eagleston*
Executive Vice President
Chief Financial Officer


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


William N. Horowitz
Cummings & Lockwood, LLC


David H. Lucas†
The Bonita Bay Group


Diana L. Kizer*
Executive Vice President
Deposit Operations Manager


Vito S. Manone‡
Manone Investments, Inc.


Jason L. Manwell*
Senior Vice President
Information Technology Manager


Jeffrey B. Moes*
Executive Vice President
Chief Fiduciary Officer


Robert A. Parimore*
President
Chief Risk & Compliance Officer


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


Gerald M. Roberts*
Executive Vice President
Private Wealth Advisor


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


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


Malinda L. Schneider*
Executive Vice President
Loan Administration Manager


Jennifer L. Stevens*
Executive Vice President
Human Resources Director


Tiffany A. Williams*
Executive Vice President
Chief Banking Officer

FINEMARK HOLDINGS BOARD OF DIRECTORS


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BlaisCo, LLC


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Radiology Regional Center (Ret.)


Thomas D. Case, II
Case Pearlman Corporate Benefits


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Brian J. Eagleston*
Executive Vice President
Chief Financial Officer


Scott A. Edmonds‡
Bellfield Investment Partners


Tracey U. Galloway
Community Cooperative, Inc.


William N. Horowitz
Cummings & Lockwood, LLC


Hale S. Irwin**
PGA Tour Champions Hall of Fame Golfer


Clive Lubner
Clive Daniel Home


David H. Lucas†
The Bonita Bay Group


Vito S. Manone
Manone Investments, Inc.


Alan D. Reynolds
Stantec


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


William H. Turner**
Chase Bank (Ret.)


Martin M. Wasmer
Wasmer, Schroeder & Company

*Bank Employee
**Emeritus Board Member
Chairman of the Board
‡Vice Chairman of the Board

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FINEMARK HOLDINGS, INC.

Audited Consolidated Financial Statements

December 31, 2020 and 2019 and the Years then Ended
(Together with Independent Auditor's Report)

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FINEMARK HOLDINGS, INC.

2020 Financial Statements
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HACKER, JOHNSON & SMITH PA

Fort Lauderdale
Orlando
Tampa

Certified Public Accountants

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of FineMark Holdings, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of earnings, comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

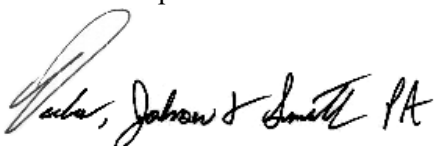
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

The Board of Directors and Stockholders
FineMark Holdings, Inc.
Page Two

Other Matters

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 1, 2021 expressed an unmodified opinion.



HACKER, JOHNSON & SMITH PA
Tampa, Florida
March 1, 2021

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

($ in thousands, except share amounts)

	At December 31,	
Assets	**2020**	**2019**
Cash and due from banks	$ 227,921	51,038
Debt securities available for sale	589,233	474,841
Debt securities held to maturity	64,908	30,329
Loans, net of allowance for loan losses of $20,782 in 2020 and $15,838 in 2019	1,850,293	1,512,466
Federal Home Loan Bank stock	16,155	12,912
Federal Reserve Bank stock	4,397	4,029
Premises and equipment, net	41,303	24,744
Operating lease right-of-use assets	7,674	8,912
Accrued interest receivable	7,604	6,402
Deferred tax asset	-	2,054
Bank-owned life insurance	34,963	34,118
Other assets	6,965	7,130
Total assets	$ 2,851,416	2,168,975
Liabilities and Shareholders' Equity		
Liabilities:		
Noninterest-bearing demand deposits	352,281	208,016
Savings, NOW and money-market deposits	1,788,441	1,368,311
Time deposits	84,232	94,092
Total deposits	2,224,954	1,670,419
Official checks	5,883	6,694
Other borrowings	5,612	2,390
Federal Home Loan Bank advances	334,271	264,520
Operating lease liabilities	7,849	9,115
Subordinated debt	50,712	29,586
Deferred tax liability	202	-
Other liabilities	10,876	7,798
Total liabilities	2,640,359	1,990,522
Commitments and contingencies (notes 4, 5, 13 and 20)		
Shareholders' equity:		
Common stock, $.01 par value; 50,000,000 shares authorized, 8,955,427 and 8,856,646 shares issued and outstanding in 2020 and 2019	90	89
Additional paid-in capital	122,629	120,955
Retained earnings	80,120	58,164
Accumulated other comprehensive income (loss)	8,218	(755)
Total shareholders' equity	211,057	178,453
Total liabilities and shareholders' equity	$ 2,851,416	2,168,975

The accompanying notes are an integral part of these consolidated financial statements.

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

($ in thousands, except per share amounts)

	December 31, 2020	December 31, 2019
Interest income:		
Loans	$ 63,678	61,301
Debt securities	11,377	9,402
Dividends on Federal Home Loan Bank stock	670	714
Other	185	881
Total interest income	75,910	72,298
Interest expense:		
Deposits	7,867	17,913
Federal Home Loan Bank advances	7,957	6,530
Subordinated debt	1,912	1,811
Total interest expense	17,736	26,254
Net interest income	58,174	46,044
Provision for loan losses	4,986	1,488
Net interest income after provision for loan losses	53,188	44,556
Noninterest income:		
Trust fees	20,880	18,614
Income from bank-owned life insurance	845	886
Income from solar farms	312	330
Gain on sale of debt securities available for sale	5,712	1,560
(Loss) gain on extinguishment of debt	(160)	685
Other fees and service charges	865	1,169
Total noninterest income	28,454	23,244
Noninterest expenses:		
Salaries and employee benefits	31,835	29,452
Occupancy	5,825	5,646
Information systems	5,241	4,413
Professional fees	1,568	1,334
Marketing and business development	1,507	2,054
Regulatory assessments	1,393	788
Other	5,704	4,204
Total noninterest expense	53,073	47,891
Earnings before income taxes	28,569	19,909
Income taxes	6,613	4,702
Net earnings	$ 21,956	15,207
Weighted average common shares outstanding - basic	8,925	8,855
Weighted average common shares outstanding - diluted	9,082	9,024
Per share information: Basic earnings per common share	$ 2.46	1.72
Diluted earnings per common share	$ 2.42	1.69

The accompanying notes are an integral part of these consolidated financial statements.

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
($ in thousands)

	Year Ended December 31,	
	2020	2019
Net Earnings	$ 21,956	15,207
Other comprehensive income:		
Unrealized holding gain on debt securities available for sale	18,736	6,167
Reclassification adjustment for gains realized in earnings	(5,712)	(1,560)
Net change in unrealized gain on debt securities available for sale	13,024	4,607
Net changes in fair value of cash flow hedges	(1,136)	-
Total other comprehensive income before income tax effect	11,888	4,607
Income tax effect	(2,915)	(1,176)
Total other comprehensive income	8,973	3,431
Comprehensive income	$ 30,929	18,638

The accompanying notes are an integral part of these consolidated financial statements.

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

For the Years Ended December 31, 2020 and December 2019
($ in thousands)

	Common Stock		Additional Paid-In	Retained	Accumulated Other Compre-hensive	Total Shareholders'
	Shares	Amount	Capital	Earnings	(Loss) Income	Equity
Balance at December 31, 2018	8,805,399	$ 88	119,653	43,094	(4,186)	158,649
Stock-based compensation	-	-	1,263	-	-	1,263
Net earnings	-	-	-	15,207	-	15,207
Change in unrealized loss on debt securities available for sale, net of tax	-	-	-	-	3,431	3,431
Stock grants vested	27,662	-	-	-	-	-
Proceeds from exercise of stock options	44,900	1	553	-	-	554
Cumulative-effect adjustment resulting from adoption of new lease accounting standard	-	-	-	(137)	-	(137)
Repurchase of common stock	(35,668)	-	(901)	-	-	(901)
Proceeds from issuance of common stock	14,353	-	387	-	-	387
Balance at December 31, 2019	8,856,646	89	120,955	58,164	(755)	178,453
Stock-based compensation	-	-	1,604	-	-	1,604
Net earnings	-	-	-	21,956	-	21,956
Change in unrealized loss on debt securities available for sale, net of tax	-	-	-	-	9,831	9,831
Change in unrealized loss on cash flow hedges, net of tax	-	-	-	-	(858)	(858)
Stock grants vested	71,282	-	-	-	-	-
Proceeds from exercise of stock options	36,600	1	372	-	-	373
Repurchase of common stock	(28,993)	-	(702)	-	-	(702)
Proceeds from issuance of common stock	19,892	-	400	-	-	400
Balance at December 31, 2020	8,955,427	$ 90	122,629	80,120	8,218	211,057

The accompanying notes are an integral part of these consolidated financial statements.

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
($ in thousands)

	Year Ended December 31,	
	2020	2019
Cash flows from operating activities:		
Net earnings	$ 21,956	15,207
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,614	1,833
Provision for loan losses	4,986	1,488
Amortization of deferred loan fees and costs	753	540
Amortization of premiums and discounts on debt securities	2,384	1,232
Amortization of subordinated debt issuance costs	56	49
Gain on sale of debt securities available for sale	(5,712)	(1,560)
Increase in accrued interest receivable	(1,202)	(518)
Decrease in other assets	165	315
Decrease in operating lease liabilities	(1,369)	(1,213)
Amortization of operating lease right-of-use assets	1,341	1,279
Deferred income taxes	(659)	332
Income from bank-owned life insurance	(845)	(886)
Increase in other liabilities	1,942	136
(Decrease) increase in official checks	(811)	1,960
Stock-based compensation	1,604	1,263
Net cash provided by operating activities	26,203	21,457
Cash flows from investing activities:		
Net increase in loans	(343,566)	(147,005)
Purchase of premises and equipment, net	(18,173)	(2,941)
Debt securities available for sale:		
Purchases	(523,872)	(314,673)
Proceeds from sales	129,734	90,573
Proceeds from maturities and calls	252,920	74,369
Proceeds from principal repayments	41,147	22,785
Debt securities held to maturity:		
Purchases	(34,594)	(2,300)
Proceeds from principal repayments	1,289	-
Proceeds from maturities and calls	757	461
Purchase of Federal Home Loan Bank stock	(3,243)	(3,140)
Purchase of Federal Reserve Bank stock	(368)	(301)
Net cash used in investing activities	(497,969)	(282,172)
Cash flows from financing activities:		
Net increase in deposits	554,535	209,706
Net increase in other borrowings	3,222	314
Net proceeds from Federal Home Loan Bank advances	69,751	68,006
Net increase in subordinated debt	21,300	-
Capitalized debt issuance costs	(230)	-
Proceeds from issuance of common stock	400	387
Repurchase of common stock	(702)	(901)
Proceeds from exercise of stock options	373	554
Net cash provided by financing activities	648,649	278,066
Net increase in cash and due from banks	176,883	17,351
Cash and due from banks at beginning of year	51,038	33,687
Cash and due from banks at end of year	$ 227,921	51,038

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued
($ in thousands)

	Year Ended December 31,	
	2020	2019
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 17,701	25,938
Income taxes	$ 7,186	3,201
Noncash transaction:		
Accumulated other comprehensive income, net change in unrealized loss on debt securities available for sale, net of tax	$ 9,831	3,431
Accumulated other comprehensive income, fair value adjustment on cash flow hedges, net of tax	$ (858)	-
Operating lease right-of-use assets recognized	$ 103	10,191
Operating lease liabilities recognized	$ 103	10,328
Cumulative-effect adjustment resulting from adoption of new lease accounting standard	$ -	(137)

The accompanying notes are an integral part of these consolidated financial statements.

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

At December 31, 2020 and 2019 and for the Years then Ended

(1) Summary of Significant Accounting Policies

Organization. FineMark Holdings, Inc. (the "Holding Company") was incorporated on May 31, 2006 and owns 100% of the outstanding common stock of FineMark National Bank & Trust (the "Bank") (collectively, the "Company"). Beginning 1st quarter 2019, the Holding Company's stock began trading on the OTCQX, under the symbol FNBT. The Holding Company's primary activity is the operation of the Bank. The Bank is a nationally-chartered commercial bank and trust company. The Bank offers a variety of banking and financial services to individual and corporate clients through its thirteen banking offices located in Lee, Collier and Palm Beach County, Florida, Maricopa County, Arizona, and Berkeley County, South Carolina. The deposit accounts of the Bank are insured up to the applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). The Bank also has a trust department which offers investment management, trust administration, estate planning and financial planning services. In 2017, the bank formed FineMark Solar, LLC ("Solar"), a South Carolina Limited Liability Company. The purpose of Solar is to own solar farms located in South Carolina. The Bank owns 100% of Solar which operates twelve solar farms that generate renewable energy that is sold to local electric companies. In 2018, the Bank formed 8695, LLC, which was created in connection with the acquisition and construction of the Bank's headquarters.

Management has evaluated all significant events occurring subsequent to the consolidated balance sheet date through March 1, 2021, 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 its subsidiaries. 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.

Revenue Recognition. On January 1, 2019, the Company adopted Accounting Standards Update ("ASU") ASU 2014-09 Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively, "ASC 606"). The majority of the Company's revenues come from interest income and financial assets, including loans, securities, derivatives, bank owned life insurance, gain on sales of debt securities available for sale, and the (loss) gain on extinguishment of debt, which are outside the scope of ASC 606.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Revenue Recognition, continued. The Company's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer. Elements of noninterest income within the scope of ASC 606 include trust fees, income from solar farms, and service charges on deposit accounts.

The Company used the modified retrospective approach at the date of adoption. The impact of guidance in this update, including method of implementation of ASC 606, did not have a material impact on the Company's financial statements.

The following summarizes the Company's revenue recognition accounting policies for trust fees, income from solar farms, and service charges on deposit accounts which is within the scope of ASC 606.

Trust Fees. The Company earns wealth management fees from its contracts with trust customers to provide trustee, custodian, and investment management services. These fees are primarily earned over time as the Company provides the contracted monthly or quarterly services and are generally assessed based on a tiered scale of the market value of assets under management (AUM) at month-end. AUM fees are earned as a percentage of the client's AUM. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed, i.e., the trade date.

Solar Farms. The income is recognized monthly based on the quantity of electric energy generated and provided to local electric companies. The Company satisfies its performance obligations as the energy is generated.

Service Charges on Deposit Accounts. Deposit related fees consist of fees earned on transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as wire fees, ATM use fees, debit card interchange fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that it the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Cash and Due from Banks. The Bank may be 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, 2020, the Bank did not have a reserve requirement as the Federal Reserve Board lowered the reserve requirements to zero for all depository institutions. At December 31, 2019, the Bank's required reserve balance was $1,142,000.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Debt Securities. Debt Securities ("Securities") may be classified as either trading, held-to-maturity or available-for-sale. Trading securities are held principally for resale and recorded at fair value. Unrealized gains and losses on trading securities are included immediately in earnings. Held-to-maturity securities are those which the Company has the positive intent and ability to hold to maturity and are reported at amortized cost. Available-for-sale securities consist of securities not classified as trading securities nor as held-to-maturity securities. Unrealized holding gain and loss on available-for-sale securities, net of tax are excluded from earnings and reported in accumulated other comprehensive income. Gain and loss 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 expected maturity or call date.

Loans. Loans are carried at the principal amount outstanding, adjusted by partial charge-offs and net of unamortized deferred loan origination fees and costs. Interest income is accrued on a level yield basis based upon principal amounts outstanding, except for loans on nonaccrual status. Deferred loan origination fees and costs are amortized as an adjustment to yield over the term of the related loans.

Loans, with the exception of certain well-secured loans that are in the process of collection, are placed on nonaccrual status and interest recognition is suspended when such loans are 90 days or more overdue with respect to principal and/or interest, or sooner if considered appropriate by management. Well-secured loans are permitted to remain on accrual status provided that full collection of principal and interest is assured and the loan is in the process of collection. Loans are also placed on nonaccrual status when, in the opinion of management, full collection of principal and interest is doubtful. When loans are placed on nonaccrual status, interest previously accrued but not collected is reversed against current period income. Subsequent interest payments received on nonaccrual loans are applied to the outstanding principal balance of the loan or recognized as interest income depending on management's assessment of the ultimate collectability of the loan. Loans are removed from nonaccrual status when they have been current as to principal and interest for a six month period, the borrower has demonstrated an ability to comply with repayment terms, and when, in management's opinion, the loans are considered to be fully collectible.

Loans are considered to be troubled debt restructurings ("TDRs") when the Company has granted concessions to a borrower due to the borrower's financial condition that it otherwise would not have considered. The concessions may include modifications of the terms of the debt such as a deferral of payments, extension of maturity, reduction of principal balance, reduction of the stated interest rate other the normal market rate adjustments, or a combination of these concessions. Debt may be bifurcated with separate terms for each tranche of the restructured debt. Restructuring of a loan in lieu of aggressively enforcing the collection of the loan may benefit the Company by increasing the ultimate probability of collection.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Loans, continued. Restructured loans are classified as accruing or non-accruing based on management's assessment of the collectability of the loan. Loans which are already on nonaccrual status at the time of the restructuring generally remain on nonaccrual status for approximately six months before management considers such loans for return to accrual status. Accruing restructured loans are placed into nonaccrual status if and when the borrower fails to comply with the restructured terms and management deems it unlikely that the borrower will return to a status of compliance in the near term.

A loan is considered impaired when, based on current information and events, it is probable that the Company will not be able to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Impaired loans are evaluated on an individual basis and include nonaccrual loans and loans restructured in a troubled debt restructuring. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Allowance for Loan Losses. The allowance for loan losses represents the amount which, in management's judgment, will be adequate to absorb loan losses inherent in the loan portfolio as of the consolidated balance sheet date. The adequacy of the allowance is determined by management's evaluation of the loan portfolio on a regular basis based on such factors as the differing economic risks associated with each loan category, the current financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. This evaluation requires estimates that are susceptible to significant revision as more information becomes available. Subsequent recoveries, if any, are credited to the allowance. There were no changes in the Company's accounting policies or methodology during the years ended December 31, 2020 or 2019.

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

The historical loss component of the allowance is determined by the Company's recognized losses by portfolio segment over the preceding four years. This is supplemented by the risks for each loan portfolio segment. Risk factors impacting loans in each of the portfolio segments include any deterioration of property values, reduced consumer and business spending as a result of unemployment and reduced credit availability, and lack of confidence in the economy.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Allowance for Loan Losses, continued. The loss experience is adjusted for the following qualitative factors, changes in: lending policies and procedures, regional and local economic and business conditions, the nature and volume of the loan portfolio, experience level of lending management and staff, volume and severity of past due loans, the quality of loan review, the value of underlying collateral, as well as the existence of credit concentrations and changes in levels of concentration, the effect of external factors such as competition and legal and regulatory requirements, economic conditions, and other trends or uncertainties that could affect management's estimate of probable losses.

Premises and Equipment. Land is carried at cost. Building, leasehold improvements, furniture and fixtures, equipment, information systems equipment, and software are carried at cost less accumulated depreciation and amortization. Depreciation and amortization expense are computed using the straight-line method over the estimated useful life of each type of asset or lease term, if shorter.

Leases. The Company has committed to rent premises used in its business operations under non-cancelable operating leases and determines if an arrangement meets the definition of a lease upon inception. The Company recognizes operating lease right-of-use assets (ROU) and operating lease liabilities based on the present value of the future minimum lease payments at the lease commencement date. Lease agreements that have lease and non-lease components, are accounted for as a single lease component. Lease expense is recognized on a straight-line basis over the lease term. ROU assets represent a right to use an underlying asset for the contractual lease term. Operating lease liabilities represent an obligation to make lease payments arising from the lease.

The Company's leases do not provide an implicit interest rate, therefore the Company uses its incremental borrowing rates commensurate with the underlying lease terms to determine the present value of operating lease liabilities. Variable lease components, such as consumer price index adjustments, are expensed as incurred and not included in ROU assets and operating lease liabilities.

Bank-Owned Life Insurance. The investment in BOLI represents the cash surrender value of life insurance policies on the lives of certain employees who have provided positive consent allowing the Company to be the beneficiary of such policies. Increases in the cash value of the policies, as well as insurance proceeds received, are recorded in noninterest income and are not subject to income taxes.

Trust Assets. Client assets, totaling $5.1 billion and $4.5 billion at December 31, 2020 and 2019 respectively, are not included in the consolidated balance sheets as such, these items are not assets of the Company.

Interest-Rate Swap Agreements. The Company may use interest-rate swap agreements to hedge various exposures or to modify interest rate characteristics of various financial instruments. The Company utilizes interest-rate swap agreements as part of its asset/liability management strategy to help manage its interest-rate risk position. Interest-rate swaps are contracts in which a series of interest payments are exchanged over a prescribed time period.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Interest-Rate Swap Agreements, continued. The notional amounts of the interest-rate swap are correlated to match the underlying asset or liability and do not represent the amount exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest-rate swap agreements.

The Company determines cash flow hedges effectiveness at the inception of the derivative contract based on the Company's intentions and belief as to the likely effectiveness as a hedge. Cash flow hedges represent a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. The changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income. Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company will discontinue hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into income over the same periods in which the hedged transactions will affect income.

Comprehensive Income. Accounting principles generally require that recognized revenue, expenses, gains and losses be included in earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and fair value adjustments on cash flow hedges, 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. The tax effects of the items included in accumulated other comprehensive income are released as each individual item matures, is sold, or disposed of.

(continued)

(1) Summary of Significant Accounting Policies, Continued
Comprehensive Income, continued.

The components of accumulated other comprehensive income (loss) are as follows ($ in thousands):

	At December 31,	
	2020	**2019**
Unrealized gain (loss) on debt securities available for sale	12,025	(999)
Fair value adjustments on cash flow hedges	(1,136)	-
Gross unrealized amount	$ 10,889	(999)
Income tax (expense) benefit	(2,671)	244
	$ 8,218	(755)

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, 2020, 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, if any, as a component of income tax expense.

(continued)

(1) Summary of Significant Accounting Policies, Continued

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

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

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

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

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

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

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

(continued)

(1) Summary of Significant Accounting Policies, Continued
Fair Value Measurements, continued.

Derivative Contracts. Exchange-traded derivatives are valued using quoted prices are classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the Company's derivative positions are valued by third-parties using their models and confirmed by the Company. Since the model inputs can be observed in a liquid market and the models do not require significant judgement, such derivatives contracts are classified within Level 2 of the fair value hierarchy. The Company's interest-rate swap contracts (designated as cash flow hedges) are classified within Level 2. Derivative contracts that are valued based upon models with significant unobservable market parameters and that are normally traded less actively or have trade activity that is one way are classified within Level 3.

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

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

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

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

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

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

(continued)

(1) Summary of Significant Accounting Policies, Continued
Fair Value Measurements, continued.

Federal Home Loan Bank Stock. As a requirement of membership, the Company must own a minimum amount of FHLB stock, calculated periodically based primarily on its level of borrowing from the FHLB. No market exists for the shares and therefore, they are carried at cost. The Company monitors its investment to determine if impairment exists. Based on the capital adequacy and the liquidity position of the FHLB, the Company believes there is no impairment related to the carrying amount of FHLB stock as of December 31, 2020.

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

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

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

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

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

Derivative Contracts. Fair values of derivative contracts are based on the framework for measuring fair value.

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

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

Marketing. The Company expenses all marketing as incurred.

(continued)

(1) Summary of Significant Accounting Policies, Continued
Fair Value Measurements, continued.

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.

Earnings Per Share. Earnings per share ("EPS") has been computed on the basis of the weighted-average number of shares of common stock outstanding. In 2020 and 2019, outstanding stock options and unvested restricted stock grants are considered dilutive securities for purposes of calculating diluted EPS which was computed using the treasury stock method ($ in thousands, except per share amounts):

	2020			2019		
	Earnings	Weighted-Average Shares	Per Share Amount	Earnings	Weighted-Average Shares	Per Share Amount
Year Ended December 31:						
Basic EPS:						
Net earnings available to common shareholders	$21,956	8,925,288	$2.46	$15,207	8,855,214	$1.72
Effect of dilutive securities- Incremental shares from restricted stock and assumed conversion of options		156,986			168,390	
Diluted EPS:						
Net earnings available to common shareholders	$21,956	9,082,274	$2.42	$15,207	9,023,604	$1.69

(continued)

(1) Summary of Significant Accounting Policies, Continued

Recent Pronouncements. In June 2016, FASB issued ASU No. 2016-13 *Financial Instruments-Credit Losses (Topic 326)*. The ASU requires the Company to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. The Company will continue to use judgement to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other consolidated financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the consolidated financial statements. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is in the process of determining the effect of the ASU on its consolidated financial statements.

(continued)

(2) Debt Securities

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

Securities available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2020:				
U.S. Government agency securities	$ 207,628	709	(30)	208,307
Corporate debt securities	8,016	140	-	8,156
Mortgage-backed securities	68,193	1,052	(35)	69,210
Collateralized mortgage obligations	83,066	2,380	(9)	85,437
Municipal securities	20,272	237	-	20,509
Taxable municipal securities	190,033	7,684	(103)	197,614
Total	$ 577,208	12,202	(177)	589,233
At December 31, 2019:				
U.S. Government agency securities	164,864	137	(168)	164,833
Corporate debt securities	13,367	21	(1)	13,387
Mortgage-backed securities	49,613	153	(223)	49,543
Collateralized mortgage obligations	70,083	110	(93)	70,100
Taxable municipal securities	177,913	682	(1,617)	176,978
Total	$ 475,840	1,103	(2,102)	474,841
Securities held to maturity				
At December 31, 2020:				
U.S. Government agency securities	21,517	464	-	21,981
Mortgage-backed securities	16,175	238	-	16,413
Collateralized mortgage obligations	4,591	573	-	5,164
Taxable municipal securities	22,625	1,917	-	24,542
Total	$ 64,908	3,192	-	68,100
At December 31, 2019:				
Mortgage-backed securities	2,354	-	(26)	2,328
Collateralized mortgage obligations	4,605	176	-	4,781
Taxable municipal securities	23,370	428	-	23,798
Total	$ 30,329	604	(26)	30,907

(continued)

(2) Debt 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, 2020:				
U.S. Government agency securities	$ 208,307	-	208,307	-
Corporate debt securities	8,156	-	8,156	-
Mortgage-backed securities	69,210	-	69,210	-
Collateralized mortgage obligations	85,437	-	85,437	-
Municipal securities	20,509	-	20,509	-
Taxable municipal securities	197,614	-	197,614	-
Total	$ 589,233	-	589,233	-
December 31, 2019:				
U.S. Government agency securities	164,833	-	164,833	-
Corporate debt securities	13,387	-	13,387	-
Mortgage-backed securities	49,543	-	49,543	-
Collateralized mortgage obligations	70,100	-	70,100	-
Taxable municipal securities	176,978	-	176,978	-
Total	$ 474,841	-	474,841	-

During the years ended December 31, 2020 and 2019, no securities were transferred in or out of Level 3.

(continued)

(2) Debt Securities, Continued

The scheduled maturities of securities at December 31, 2020 are as follows ($ in thousands):

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in less than one year	$ 53,918	54,415	-	-
Due from one to five years	173,954	175,556	12,350	13,323
Due from five to ten years	139,857	143,559	29,571	30,916
Due in over ten years	58,220	61,056	2,221	2,284
Mortgage-backed securities	68,193	69,210	16,175	16,413
Collateralized mortgage obligations	83,066	85,437	4,591	5,164
Total	$ 577,208	589,233	64,908	68,100

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

	Year Ended December 31,	
	2020	2019
Proceeds from sales of securities	$ 129,734	90,573
Gross gains from sale of securities	$ 5,712	1,560

(continued)

(2) Debt Securities, Continued

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

	Less Than Twelve Months		More Than Twelve Months	
Securities available for sale				
December 31, 2020:	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Government agency securities	$ 30	33,700	-	-
Mortgage-backed securities	34	5,071	1	218
Collateralized mortgage obligations	9	8,085	-	-
Taxable Municipal securities	103	6,453	-	-
Total	$ 176	53,309	1	218
December 31, 2019:				
U.S. Government agency securities	110	61,874	58	24,933
Corporate debt securities	1	7,003	-	2,000
Mortgage-backed securities	5	2,452	218	20,893
Collateralized mortgage obligations	47	24,879	46	13,861
Taxable Municipal securities	1,611	94,351	6	994
Total	$ 1,774	190,559	328	62,681
Securities held to maturity				
December 31, 2019 -				
Mortgage-backed securities	$ 26	2,328	-	-

(continued)

(2) Debt Securities, Continued

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

At December 31, 2020 and 2019, the unrealized loss on twenty five debt securities available for sale and one hundred and thirty one debt securities available for sale respectively, were caused by market conditions. It is expected that the securities would not be settled at a price less than the par value of the investments. Because the decline in fair value is attributable to changes in market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

At December 31, 2020 and 2019, securities with a fair value of $328.6 million and $296.4 million, respectively, were pledged to secure repurchase agreements, State of Florida deposits and trust operations.

(continued)

(3) Loans

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

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

	At December 31,	
	2020	2019
Real estate mortgage:		
Commercial real estate	$ 245,855	213,371
Residential real estate	1,108,746	981,868
Construction and land development	168,962	138,512
Total real estate mortgage	1,523,563	1,333,751
Commercial	216,133	107,167
Personal	130,731	85,689
Total loans	1,870,427	1,526,607
Add (subtract):		
Deferred loan costs, net	648	1,697
Allowance for loan losses	(20,782)	(15,838)
Loans, net	$ 1,850,293	1,512,466

(continued)

(3) Loans, Continued

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

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

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

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

(3) Loans, Continued

The allowance is an estimate, and ultimate losses may vary from management's estimate. Changes in the estimate are recorded in the results of operations in the period in which they become known, along with provisions for estimated losses incurred during that period.

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

	Real Estate Mortgage	Commercial	Personal	Total
Year ended December 31, 2020:				
Beginning balance	$ 14,175	1,072	591	15,838
Provision for loan losses	2,986	1,430	570	4,986
(Charge-offs)/recoveries	(14)	27	(55)	(42)
Ending balance	$ 17,147	2,529	1,106	20,782
Individually evaluated for impairment:				
Recorded investment	$ 1,851	-	8	1,859
Balance in allowance for loan losses	$ 4	-	-	4
Collectively evaluated for impairment:				
Recorded investment	$ 1,521,712	216,133	130,723	1,868,568
Balance in allowance for loan losses	$ 17,143	2,529	1,106	20,778
Year Ended December 31, 2019:				
Beginning balance	12,926	1,021	519	14,466
Provision for loan losses	1,387	29	72	1,488
Charge-offs	(138)	22	-	(116)
Ending balance	$ 14,175	1,072	591	15,838
Individually evaluated for impairment:				
Recorded investment	$ 1,936	-	10	1,946
Balance in allowance for loan losses	$ -	-	-	-
Collectively evaluated for impairment:				
Recorded investment	$ 1,331,815	107,167	85,679	1,524,661
Balance in allowance for loan losses	$ 14,175	1,072	591	15,838

(continued)

(3) Loans, Continued

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

The Company analyzes loans individually by classifying the loans as to credit risk. Loans classified as substandard or special mention over $50,000 are reviewed regularly by the Company for further deterioration or improvement to determine if they are appropriately classified and whether there is any impairment. All loans are graded upon initial issuance. Further, most commercial and commercial real estate loans over $1,000,000 are reviewed 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 90 days past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Company for a modification. In these circumstances, the loan is specifically evaluated for potential classification as to special mention, substandard or even charged-off. The Company uses the following definitions for risk ratings:

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

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

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

(continued)

(3) Loans, Continued

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

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

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

	Real Estate Mortgage					
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial	Personal	Total
At December 31, 2020:						
Credit Risk Profile by Internally Assigned Grade:						
Pass	$ 240,855	1,104,816	168,962	213,363	130,678	1,858,674
Special Mention	5,000	1,477	-	2,704	45	9,226
Substandard	-	2,453	-	66	8	2,527
Total	$ 245,855	1,108,746	168,962	216,133	130,731	1,870,427
At December 31, 2019:						
Credit Risk Profile by Internally Assigned Grade:						
Pass	213,371	976,939	138,512	106,185	85,679	1,520,686
Special Mention	-	1,739	-	917	-	2,656
Substandard	-	3,190	-	65	10	3,265
Total	$ 213,371	981,868	138,512	107,167	85,689	1,526,607

(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, 2020:							
Real estate mortgage:							
Commercial real estate	$ -	-	-	-	245,855	-	245,855
Residential real estate	1,677	-	-	1,677	1,105,798	1,271	1,108,746
Construction and land development	659	-	-	659	168,303	-	168,962
Commercial	1,451	-	-	1,451	214,682	-	216,133
Personal	7	-	-	7	130,716	8	130,731
Total	$ 3,794	-	-	3,794	1,865,354	1,279	1,870,427
At December 31, 2019:							
Real estate mortgage:							
Commercial real estate	-	-	-	-	213,371	-	213,371
Residential real estate	202	-	-	202	979,878	1,788	981,868
Construction and land development	-	-	-	-	138,512	-	138,512
Commercial	91	-	89	180	106,987	-	107,167
Personal	145	-	36	181	85,498	10	85,689
Total	$ 438	$ -	$ 125	563	1,524,246	1,798	1,526,607

(continued)

(3) Loans, Continued

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

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

	With No Related Allowance Recorded		With Related Allowance Recorded			Total		
	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Allowance	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Allowance
At December 31, 2020:								
Real estate mortgage -								
Residential real estate	1,473	1,647	378	393	4	1,851	2,040	4
Personal	8	9	-	-	-	8	9	-
Total	$ 1,481	1,656	378	393	4	1,859	2,049	4
At December 31, 2019:								
Real estate mortgage -								
Residential real estate	1,936	2,103	-	-	-	1,936	2,103	-
Personal	10	10	-	-	-	10	10	-
Total	$ 1,946	$ 2,113	-	-	-	1,946	2,113	-

(continued)

(3) Loans, Continued

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

	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Year Ended December 31, 2020:			
Real estate mortgage -			
Residential real estate	1,867	17	54
Personal	8	-	-
Total	$ 1,875	17	54
Year Ended December 31, 2019:			
Real estate mortgage -			
Residential real estate	1,460	3	37
Personal	11	-	-
Total	$ 1,471	3	37

TDR's entered into during the years ended December 31, 2020 and December 31, 2019 are as follows ($ in thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Year Ended December 31, 2020:			
Personal			
Modified Payment Terms	3	$ 826	812
Year Ended December 31, 2019:			
Personal			
Modified Payment Terms	1	$ 10	10

There were no TDR's that subsequently defaulted during the years ended December 31, 2020, or 2019 which were restructured during the same period.

(continued)

(3) Loans, Continued

The Company is subject to risks related to the public health crisis associated with the coronavirus global pandemic ("COVID-19"). COVID-19 has negatively impacted the global economy, disrupted global supply chains, created significant volatility and disruption in financial markets and significantly increased unemployment levels. The extent to which COVID-19 impacts the Company's business, results of operations, and financial condition, as well as loan quality, regulatory capital and liquidity ratios, will depend on future developments, the duration of the pandemic, and actions taken by governmental authorities to slow the spread of the disease or to mitigate its effects.

The Company has elected to account for eligible loan modifications under Section 4013 of the CARES ACT. To be eligible, a loan modification must be (1) related to the COVID-19 pandemic; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the national emergency declared by the President on March 13, 2020 concerning the COVID-19 outbreak or (B) December 31, 2020. Eligible loan modifications are not required to be classified as TDR's and will not be reported as past due provided that they are performing in accordance with the modified terms. Interest income will continue to be recognized in accordance with GAAP unless the loan is placed on nonaccrual status in accordance with the nonaccrual policy.

Through December 31, 2020, the Company has executed loan payment deferment modifications on 181 loans totaling $134.3 million. The majority of these modifications qualified as eligible loan modifications under Section 4013 of the CARES ACT and therefore, were not required to be classified as TDRs and were not reported as past due. One loan with a balance of $178,735 was given forbearance and went past due as a result of the COVID-19 pandemic and therefore, was classified as a TDR as of December 31, 2020. The Company has active deferrals on 4 loans totaling $3.1 million as of December 31, 2020. All other loans that received short term COVID-19 deferrals are performing as agreed.

(continued)

(3) Loans, Continued

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

	Fair Value	Level 1	Level 2	Level 3	Total Losses	Losses Recorded During the Year
At December 31, 2020:						
Residential real estate	$ 524	-	-	524	190	30
At December 31, 2019:						
Residential real estate	$ 148	-	-	148	167	22

(4) Premises and Equipment

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

	At December 31,	
	2020	2019
Land	$ 1,630	1,630
Building	6,125	7,341
Construction in process	26,944	8,807
Leasehold Improvements	5,303	5,405
Furniture, fixtures, solar farms and equipment	14,099	13,031
Information systems equipment and software	1,960	1,899
Total, at cost	56,061	38,113
Less accumulated depreciation and amortization	(14,758)	(13,369)
Premises and equipment, net	$41,303	24,744

In 2018, the Company purchased a parcel of land to construct new corporate headquarters in Fort Myers, Florida. The construction is completed and the Company began occupying the building in December 2020.

At December 31, 2020, there are outstanding payments owed to contractors related to the construction in process of $1,028,000.

At December 31, 2020, the Company was committed to rent premises used in banking operations under non-cancellable operating leases. Rental expense under the operating leases was approximately $1.7 million and $1.5 million for 2020 and 2019, respectively. Lease expiration dates range from 1 year to 25 years, with renewal options on certain leases of 1 year to 25 years.

(continued)

(4) Premises and Equipment, Continued

During the fourth quarter of 2020 and first quarter 2021, the company entered into two lease agreements for premises to be used in banking operations. Lease payments have yet to begin as the Company has not yet opened these locations for business. One of the leases has a 10 year term, and the other has a five year term. Both leases contain renewal options.

(5) Leases

The Company's operating lease obligation is for some of the Company's various locations used to conduct operations. The components of lease expense and other lease information are as follows ($ in thousands):

	During the year ended December 31, 2020	During the year ended December 31, 2019
Operating Lease Expense Recognized	$ 1,675	1,506
Cash paid for amounts included in measurement of lease liabilities	$ 1,591	1,543

	At December 31, 2020	At December 31, 2019
Operating lease right-of-use assets	$ 7,674	8,912
Operating lease liabilities	$ 7,849	9,115
Weighted-average remaining lease term	7.6 years	8.0 years
Weighted-average discount term	2.50%	2.50%

(continued)

(5) Leases, Continued

Future minimum lease payments under non-cancellable leases, reconciled to the Company's discounted lease liabilities are as follows ($ in thousands):

	At December 31, 2020
2021	$ 1,575
2022	1,297
2023	1,233
2024	1,214
2025	921
Thereafter	2,701
Total future minimum lease payments	8,941
Less imputed interest	(1,092)
Total operating lease liabilities	$ 7,849

(6) Bank-Owned Life Insurance ("BOLI")

BOLI amounted to $34,963,000 and $34,118,000 at December 31, 2020 and 2019, 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, 2020. BOLI is included in the consolidated balance sheets at its cash surrender value. Increases in BOLI's cash surrender value are reported as a component of noninterest income in the consolidated statements of earnings.

(continued)

(7) Deposits

The aggregate amount of time deposits with a denomination of $250,000 or more was approximately $58.8 million and $68.3 million at December 31, 2020 and 2019, respectively. A schedule of maturities of time deposits at December 31, 2020 follows ($ in thousands):

Year Ending December 31,	Amount
2021	$ 47,414
2022	25,492
2023	6,294
2024	1,336
2025	3,696
	$ 84,232

At December 31, 2020 and 2019, securities with a carrying value of $0 and $11,042,000 respectively, and letters of credit of $30 million were pledged to secure Qualified Public Depositors totaling $77,182,000 and $78,546,000 respectively.

(8) 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, 2020 and 2019, the balance totaled $5,612,000 and $2,390,000 respectively, and the Company had pledged securities as collateral for these agreements with a carrying value of $5,614,000 and $5,012,000 respectively.

(9) Shareholders' Equity

Stock Repurchase Plan. The Company's Stock Repurchase Plan authorizes the repurchase of up to $15.0 million of the Company's outstanding common stock. This authority may be exercised from time to time and in such amounts as market conditions warrant, and subject to regulatory considerations. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. As of December 31, 2020, 64,661 shares had been repurchased under the Stock Repurchase Plan, totaling $1.6 million, at an average price of $24.82.

(continued)

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

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

Maturing in the Year Ending December 31,	Fixed or Variable Rate	Weighted-Average Interest Rate	At December 31, 2020	At December 31, 2019
2022	Fixed	2.38%	3,271	17,520
2023	Fixed	3.09%	65,000	90,000
2024	Fixed	2.47%	147,000	147,000
2025	Fixed	1.72%	90,000	10,000
2026	Fixed	2.07%	19,000	-
2030	Fixed	1.96%	10,000	-
			$ 334,271	264,520

The Company has entered into a collateral agreement with the FHLB which consists of a blanket lien on qualifying real estate loans. As of December 31, 2020 and 2019, the Company had remaining available borrowing capacity of $678.3 million and $546.9 million, respectively.

The Company has secured Standby Letters of Credit with the FHLB that are used to collateralize Qualified Public Deposits with the State of Florida. As of December 31, 2020 and 2019, the letters of credit were $30 million.

In 2020 and 2019, the Company prepaid certain FHLB advances with a total carrying amount of $59.0 million and $98.5 million, respectively, and recorded a net (loss) gain on extinguishment of debt of $(160,000) and $685,000, respectively. The losses and gains resulted from the difference in interest rates between the current market rate and the interest rate on the debt obligations.

At December 31, 2020, the Company had $80 million available under an unsecured federal funds purchase facility and $20 million available under a secured revolving line of credit. The Company also has a line of credit with the Federal Reserve Bank under which the Company may draw up to $226.2 million. The line is secured by $363.8 million in loans. There were no borrowings outstanding under these lines at December 31, 2020 and 2019.

(continued)

(11) Subordinated Debt

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

In 2020, the Company issued $21,300,000 face value of subordinated debt due November 30, 2030, (the "2020 Subordinated Debt"). The 2020 Subordinated Debt has a fixed annual interest rate of $4.25% until November 30, 2025, at which time the rate will become an annual floating rate equal to three-month Secured Overnight Financing ("SOFR"), determined quarterly, plus 400.6 basis points. Interest is payable in arrears semi-annually on May 31 and November 30 of each year through November 30, 2025, then quarterly until the maturity date, unless redeemed. The Company may, at its option, beginning November 30, 2025, and on any scheduled interest payment date thereafter, redeem the 2020 Subordinated Debt, in whole or in part, at 100% of the principal amount of the 2020 Subordinated Debt plus accrued and unpaid interest.

The 2020 and 2018 Subordinated Debt was structured to comply with certain regulatory requirements which provide for qualification as Tier 2 Capital. The 2020 and 2018 Subordinated Debt is subject to certain affirmative and negative covenants and at December 31, 2020, the Company was in compliance with the covenants.

The following summarized the 2020 and 2018 Subordinated Debt during the years end December 31, 2020 and 2019 ($ in thousands).

Subordinated debt at December 31, 2018	$	29,537
Amortization of issuance costs		49
Subordinated debt at December 31, 2019		29,586
Face value of subordinated debt issued		$21,300
Capitalized debt issuance costs		(230)
Amortization of issuance costs		56
Subordinated debt at December 31, 2020	$	50,712

(continued)

(12) Income Taxes

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

	Year Ended December 31,	
	2020	2019
Current:		
Federal	$ 6,048	3,560
State	1,224	810
Total current	7,272	4,370
Deferred:		
Federal	(654)	289
State	(5)	43
Total deferred	(659)	332
Income tax expense	$ 6,613	4,702

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

	Year Ended December 31,			
	2020		2019	
	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Income taxes at statutory rate	$ 6,000	21.0 %	$ 4,181	21.0 %
Increase (decrease) resulting from:				
State taxes, net of Federal tax benefit	963	3.4	674	3.4
Share-based compensation	44	0.2	33	0.2
Tax-exempt income	(308)	(1.1)	(228)	(1.2)
Tax credits from solar project	(188)	(0.7)	-	-
Other, net	102	0.3	42	0.2
Income tax expense	$ 6,613	23.1 %	$ 4,702	23.6 %

(continued)

(12) 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,	
	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 5,096	4,014
Organizational and start-up costs	16	31
Share-based compensation	92	99
Unrealized loss on securities available for sale	-	244
Unrealized loss on cash flow hedge	278	-
Deferred tax assets	5,482	4,388
Deferred tax liabilities:		
Prepaid expenses	(272)	(179)
Premises and equipment	(1,619)	(1,554)
Deferred loan costs	(844)	(601)
Unrealized gain on securities available for sale	(2,949)	-
Deferred tax liabilities	(5,684)	(2,334)
Net deferred tax (liability) asset	$ (202)	2,054

The Company's Federal and state income tax returns filed prior to 2017 are no longer subject to examination by the respective taxing authorities.

(13) Financial Instruments with off-Balance Sheet Credit Risk

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

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

(continued)

(13) Financial Instruments with off-Balance Sheet Credit Risk, Continued

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

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Under the standby letters of credit, the Company is required to make payments to the beneficiary of the letters of credit upon request by the beneficiary contingent upon the customer's failure to perform under the terms of the underlying contract with the beneficiary. Standby letters of credit extend up to one year. At December 31, 2020 and 2019, there was no liability to beneficiaries resulting from standby letters of credit. At December 31, 2020, a substantial portion of the standby letters of credit were supported by pledged collateral. Should the Company be required to make payments to the beneficiary, repayment from the customer to the Company is required.

Commitments to extend credit, unused lines of credit, and standby letters of credit typically result in loans with a market interest rate when funded. A summary of the amounts of the Company's financial instruments with off-balance sheet risk at December 31, 2020, follows ($ in thousands):

Commitments to extend credit	$ 131,426
Unused lines of credit	$ 427,836
Standby letters of credit	$ 1,732

(continued)

(14) Fair Value of Financial Instruments

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

	At December 31,			
	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	$ 227,921	227,921	51,038	51,038
Securities available for sale	589,233	589,233	474,841	474,841
Securities held to maturity	64,908	68,100	30,329	30,907
Loans, net	1,850,293	1,849,061	1,512,466	1,499,978
Federal Home Loan Bank stock	16,155	16,155	12,912	12,912
Federal Reserve Bank stock	4,397	4,397	4,029	4,029
Accrued interest receivable	7,604	7,604	6,402	6,402
Financial liabilities:				
Deposits	2,224,954	2,225,615	1,670,419	1,671,019
Other borrowings	5,612	5,612	2,390	2,390
Federal Home Loan Bank advances	334,271	313,641	264,520	256,049
Subordinated debt, net	50,712	54,357	29,586	30,128
Derivative	1,136	1,136	-	-

(15) Derivative Financial Instruments

Interest-Rate Swap Agreement. During the second quarter of 2020, the Company entered into two separate interest-rate swap agreements, with notional amounts of $25 million and $100 million, respectively. The swap agreements were designated as cash flow hedges of the trust money market deposit accounts that are indexed to the 3-Month LIBOR. The swaps were determined to be highly effective since inception and therefore no amount of ineffectiveness has been included in net income. The aggregate fair value of the swaps is recorded in "other liabilities" on the accompanying balance sheet with changes in fair value recorded in other comprehensive income. The amount included in accumulated other comprehensive income would be reclassified to current income should the hedges no longer be considered effective. The Company expects the hedges to remain highly effective during the remaining terms of the swaps.

The Company is exposed to credit related losses in the event of nonperformance by the counterparties to the interest-rate swaps. The Company performs an initial credit evaluation and ongoing monitoring procedures of all counterparties and currently anticipates that all counterparties will be able to fully satisfy their obligation under the contracts. In addition, the Company requires collateral from counterparties in the form of cash deposits or other marketable securities in the event that the fair value of the contracts are positive and such fair value for all positions with counterparty exceeds the credit support thresholds specified by the underlying agreements. Conversely, the Company is required to post cash deposits as collateral, in the event the fair value of the contracts are negative and are below the credit support thresholds. At December 31, 2020, there were cash deposits of $1,200,000 pledged as collateral by the Company.

(continued)

(15) Derivative Instruments, Continued
Interest-Rate Swap Agreement, continued.

Summary information about the interest-rate swaps designated as cash flow hedges is as follows ($ in thousands):

	At December 31, 2020
Notional amounts	$ 125,000
Weighted-average pay rate	0.56%
Weighted-average receive rate	0.66%
Weighted-average maturity	3.9 years
Net interest income	$ 94

(16) 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 matches up to 4% of employee's salaries, which amounted to approximately $801,000 and $738,000 for the years ended December 31, 2020 and 2019, respectively.

(continued)

(17) Stock-Based Compensation Plans

The 2019 Omnibus Incentive plan (the "2019 Plan") was approved by shareholders on April 25, 2019. Under the 2019 Plan, the maximum number of shares of common stock to be issued is 1,000,000, of which 841,306 remain available for grant as of December 31, 2020. The 2019 Plan permits the granting of stock options and other equity incentives to employees, directors or consultants of the Company.

The 2007 Stock Incentive Plan (the "2007 Plan") was amended and restated and approved by the shareholders in April 2015. Under the plan, 1,813,100 shares (amended) have been reserved for the granting of stock options or restricted stock awards. The 2007 Plan permits the granting of stock options and other equity incentives to employees, directors and affiliates. As part of the 2019 Plan approval, no future awards will be issued under the 2007 Plan.

The exercise price of each stock option may not be less than the fair market value of the Company's common stock on the date of grant, and options shall have a term of no more than ten years. Stock options are designated as either non-qualified or incentive stock options. In general, the stock options price is payable in cash. The fair value of stock options on the date of grant is estimated using the Black-Scholes Option-Pricing Model.

In 2020 and 2019, $326,000 and $293,000 of compensation expense was recognized. At December 31, 2020, there was $471,000 of unrecognized compensation expense related to the nonvested stock options granted under this plan. The remaining cost is expected to be recognized over the next 2.01 years. A summary of the stock option activity under the 2019 Plan is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at December 31, 2018	499,317	$ 17.72	
Granted	74,450	26.00	
Forfeited	(6,725)	18.64	
Exercised	(44,825)	12.33	
Outstanding at December 31, 2019	522,217	19.29	
Forfeited	(3,700)	21.82	
Exercised	(36,600)	10.18	
Outstanding at December 31, 2020	481,917	$ 19.97	4.97
Exercisable at December 31, 2020	306,794	$ 16.20	4.52

(continued)

(17) Stock-Based Compensation Plans, Continued

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, 2019
Risk-free interest rate	1.76%
Dividend yield	-
Expected stock volatility	16.28%
Expected life in years	6
Per share grant-date fair value of options issued during the year	$ 5.46

The expected life was based upon the weighted average life of the award. Expected volatility is based on historical volatility of similar financial institutions. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The dividend yield assumption is based on the Company's history and expectation of dividend payment.

(continued)

(17) Stock-Based Compensation Plans, Continued

On April 25, 2013, the Company adopted a Non-Qualified Stock Option Plan and made 150,000 options available. All stock options must be granted at a price not less than the fair market value of the common stock on the date of grant. Stock options cliff vest after a four year period. At December 31, 2020, 13,000 shares remain available for grant. All options expire ten years from the date of grant. At December 31, 2020 and 2019, there was not any unrecognized compensation expense. A summary of stock option activity under this plan is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding and exercisable at December 31, 2018	129,625	$14.55	
Exercised	(75)	16.00	
Outstanding and exercisable at December 31, 2020 and 2019	129,550	$14.55	3.01

The Company issued under the 2019 Plan, restricted stock grants that vest over 36 to 60 months. At December 31, 2020, there was $2,191,000 of total unrecognized compensation expense related to restricted stock awards, which will be recognized over the next 4 years. In 2020 and 2019, $1,278,000 and $970,000, respectively, of compensation expense was recognized with a related income tax benefit of $314,000 and $238,000 for 2020 and 2019, respectively. A summary of the restricted stock grant activity is as follows:

	Number of Grants	Price	Fair Value ($ in thousands)
Outstanding at December 31, 2018	142,692	$ 23.59	3,366
Granted	86,194	26.00	2,241
Vested and issued	(27,662)	22.83	(632)
Outstanding at December 31, 2019	201,224	24.72	4,975
Granted	2,000	22.71	45
Forfeited	(250)	(26.00)	(7)
Vested and issued	(71,282)	21.99	(1,568)
Outstanding at December 31, 2020	131,692	$ 26.16	3,445

(continued)

(18) Related Party Transactions

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

The following summarizes these transactions ($ in thousands):

	At or for the Year Ended December 31,	
	2020	2019
Loans:		
Beginning balance	$ 18,836	21,044
Additions	16,493	2,781
Repayments	(2,776)	(4,989)
Ending balance	$ 32,553	18,836
Deposits at end of year	$ 87,996	37,597
Trust accounts under administration	$ 157,847	146,629

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

In 2020 and 2019, a director acted as agent in the acquisition of long term disability insurance, receiving commission. In addition, in 2016 a director acted as agent in the acquisition of bank-owned life insurance. These transactions were evaluated next to independent third parties.

In 2020 and 2019, the Company purchased furniture through a company owned by several directors.

(continued)

(19) Regulatory Matters

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

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

The Bank is subject to the capital conservation buffer rules which places limitations on distributions, including dividend payments, and certain discretionary bonus payments to executive officers. In order to avoid these limitations, an institution must hold a capital conservation buffer above its minimum risk-based capital requirements. As of December 31, 2020, the Bank’s capital conservation buffer exceeds the minimum requirements of 2.50%.

As of December 31, 2020, the Bank was well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain a minimum Common equity tier 1 capital ratio, Tier 1 capital ratio, Total capital ratio, and Tier 1 leverage ratio as set forth in the table. Management believes, as of December 31, 2020, that the Bank meets all capital adequacy requirements to which it is subject. The Company’s and the Bank's actual capital amounts and percentages are presented in the table ($ in thousands):

(continued)

(19) Regulatory Matters, Continued

	Actual		For Capital Adequacy Purposes		For Well Capitalized Purposes	
	Amount	Percent	Amount	Percent	Amount	Percent
As of December 31, 2020:						
Common equity tier 1 capital ratio Bank	$247,626	15.86 %	$70,279	4.50 %	$101,515	6.50 %
Total Capital to Risk-Weighted Assets-Bank	267,164	17.11	124,941	8.00	156,176	10.00
Tier I Capital to Risk-Weighted Assets-Bank	247,626	15.86	93,706	6.00	124,941	8.00
Tier I Capital to Average Assets-Bank	247,626	9.19	107,800	4.00	134,750	5.00
Common equity tier 1 capital ratio Company	202,839	12.96	70,430	4.50	N/A	N/A
Total Capital to Risk-Weighted Assets-Company	273,115	17.45	125,210	8.00	N/A	N/A
Tier I Capital to Risk-Weighted Assets-Company	202,839	12.96	93,907	6.00	N/A	N/A
Tier I Capital to Average Assets-Company	202,839	7.52	107,935	4.00	N/A	N/A
As of December 31, 2019:						
Common equity tier 1 capital ratio Bank	199,797	15.30 %	58,772	4.50 %	84,892	6.50
Total Capital to Risk-Weighted Assets-Bank	215,635	16.51	104,483	8.00	130,604	10.00
Tier I Capital to Risk-Weighted Assets-Bank	199,797	15.30	78,362	6.00	104,483	8.00
Tier I Capital to Average Assets-Bank	199,797	9.51	84,039	4.00	105,049	5.00
Common equity tier 1 capital ratio Company	179,208	13.68	58,943	4.50	N/A	N/A
Total Capital to Risk-Weighted Assets-Company	224,632	17.15	104,788	8.00	N/A	N/A
Tier I Capital to Risk-Weighted Assets-Company	179,208	13.68	78,591	6.00	N/A	N/A
Tier I Capital to Average Assets-Company	179,208	8.51	84,192	4.00	N/A	N/A

(continued)

(20) Contingencies

Various legal claims arise from time to time in the normal course of business. In the opinion of management, none have occurred through December 31, 2020, that will have a material effect on the Company's consolidated financial statements.

(21) Parent Company Only Financial Information

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

Condensed Balance Sheets

	At December 31,	
Assets	**2020**	**2019**
Cash and due from banks	$ 2,900	5,407
Other assets	3,358	3,813
Investment in subsidiaries	255,844	199,043
Total assets	$ 262,102	208,263
Liabilities and Shareholders' Equity		
Accounts payable	333	224
Subordinated debt	50,712	29,586
Shareholders' equity	211,057	178,453
Total liabilities and shareholders' equity	$ 262,102	208,263

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(21) Parent Company Only Financial Information, Continued

Condensed Statements of Shareholders' Equity

	Year Ended December 31,	
	2020	2019
Shareholders' beginning balance	$ 178,453	158,649
Net earnings	21,956	15,207
Stock-based compensation	1,503	1,263
Proceeds from issuance of common stock	501	387
Repurchase of common stock	(702)	(901)
Proceeds from exercise of stock options	373	554
Cumulative-effect adjustment resulting from adoption of new lease accounting standard	-	(137)
Change in accumulated other comprehensive loss	8,973	3,431
Shareholders' ending balance	$ 211,057	178,453

Condensed Statements of Earnings

	Year Ended December 31,	
	2020	2019
Revenue	$ 31	77
Expenses	(2,649)	(2,527)
Loss before earnings of subsidiaries	(2,618)	(2,450)
Earnings of subsidiaries	24,574	17,657
Net earnings	$ 21,956	15,207

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(21) Parent Company Only Financial Information, Continued

Condensed Statements of Cash Flows

	Year Ended December 31,	
	2020	2019
Cash flows from operating activities:		
Net earnings	$ 21,956	15,207
Adjustments to reconcile net earnings to net cash used in operating activities:		
Equity in undistributed earnings of subsidiaries	(24,574)	(17,657)
(Increase) decrease in other assets	(8)	782
Increase (decrease) in accounts payable	109	(2)
Amortization of subordinated debt issuance costs	56	49
Net cash used in operating activities	(2,461)	(1,621)
Cash flows from investing activities:		
Net decrease in loans	463	441
Capital infusion to subsidiaries	(21,650)	(7,500)
Net cash used in investing activities	(21,187)	(7,059)
Cash flows from financing activities:		
Repurchase of common stock	(702)	(901)
Proceeds from issuance of common stock	400	387
Proceeds from exercise of stock options	373	554
Net increase in subordinated debt	21,300	-
Capitalized debt issuance costs	(230)	-
Net cash provided by financing activities	21,141	40
Net decrease in cash and due from banks	(2,507)	(8,640)
Cash and due from banks at beginning of year	5,407	14,047
Cash and due from banks at end of year	$ 2,900	5,407
Noncash transactions:		
Accumulated other comprehensive income, net change in unrealized loss on debt securities available for sale, net of tax	$ 9,831	3,431
Accumulated other comprehensive income, fair value adjustment on cash flow hedges, net of tax	$ (858)	-
Stock-based compensation expense of subsidiaries	$ 1,604	1,263

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To our clients, associates, shareholders, and board members who helped make 2020 a great year,

Thank you!

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