FINEMARK HOLDINGS, INC.

Audited Consolidated Financial Statements

At December 31, 2019 and 2018 and for the Years then Ended

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, 2019 and 2018, 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, 2019 and 2018, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Matters

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 14, 2020 expressed an unmodified opinion.

Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Tampa, Florida
February 14, 2020

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

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

	At December 31,	
Assets	**2019**	**2018**
Cash and due from banks	$ 51,038	33,687
Debt securities available for sale	474,841	343,008
Debt securities held to maturity	30,329	28,442
Loans, net of allowance for loan losses of $15,838 in 2019 and $14,466 in 2018	1,512,466	1,367,489
Federal Home Loan Bank stock	12,912	9,772
Federal Reserve Bank stock	4,029	3,728
Premises and equipment, net	24,744	23,636
Operating lease right-of-use assets	8,912	-
Accrued interest receivable	6,402	5,884
Deferred tax asset	2,054	3,562
Bank-owned life insurance	34,118	33,232
Other assets	7,130	7,445
Total assets	$ 2,168,975	1,859,885
Liabilities and Shareholders' Equity		
Liabilities:		
Noninterest-bearing demand deposits	208,016	191,306
Savings, NOW and money-market deposits	1,368,311	1,124,120
Time deposits	94,092	145,287
Total deposits	1,670,419	1,460,713
Official checks	6,694	4,734
Other Borrowings	2,390	2,076
Federal Home Loan Bank advances	264,520	196,514
Operating lease liabilities	9,115	-
Subordinated debt	29,586	29,537
Other liabilities	7,798	7,662
Total liabilities	1,990,522	1,701,236
Commitments and contingencies (notes 4, 5, 12 and 17)		
Shareholders' equity:		
Common stock, $.01 par value; 50,000,000 shares authorized, 8,856,646 and 8,805,399 shares issued and outstanding in 2019 and 2018	89	88
Additional paid-in capital	120,955	119,653
Retained earnings	58,164	43,094
Accumulated other comprehensive loss	(755)	(4,186)
Total shareholders' equity	178,453	158,649
Total liabilities and shareholders' equity	$ 2,168,975	1,859,885

See Accompanying Notes to Consolidated Financial Statements

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings
($ in thousands, except per share amounts)

	December 31, 2019	December 31, 2018
Interest income:		
Loans	$ 61,301	51,911
Debt securities	9,402	8,194
Dividends on Federal Home Loan Bank stock	714	433
Other	881	806
Total interest income	72,298	61,344
Interest expense:		
Deposits	17,913	11,791
Federal Home Loan Bank advances	6,530	3,159
Subordinated debt	1,811	915
Total interest expense	26,254	15,865
Net interest income	46,044	45,479
Provision for loan losses	1,488	2,029
Net interest income after provision for loan losses	44,556	43,450
Noninterest income:		
Trust fees	18,614	16,689
Income from bank-owned life insurance	886	915
Income from solar farms	330	272
Gain on sale of debt securities available for sale	1,560	4
Gain on extinguishment of debt	685	1,148
Other fees and service charges	1,169	1,041
Total noninterest income	23,244	20,069
Noninterest expenses:		
Salaries and employee benefits	29,452	28,407
Occupancy	5,646	4,932
Information systems	4,413	3,654
Professional fees	1,334	1,214
Marketing and business development	2,054	1,930
Regulatory assessments	788	1,226
Other	4,204	4,368
Total noninterest expense	47,891	45,731
Earnings before income taxes	19,909	17,788
Income taxes	4,702	2,676
Net earnings	$ 15,207	15,112
Basic earnings per common share	$ 1.72	1.75
Diluted earnings per common share	$ 1.69	1.70

See Accompanying Notes to Consolidated Financial Statements

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
(in thousands)

	Year Ended December 31, 2019	2018
Net Earnings	$ 15,207	15,112
Other comprehensive income (loss):		
Unrealized holding gain (loss) on available for sale debt securities	6,167	(2,054)
Reclassification adjustment for gains realized in earnings	(1,560)	(4)
Net change in unrealized loss	4,607	(2,058)
Income tax effect	(1,176)	526
Total other comprehensive income (loss)	3,431	(1,532)
Comprehensive income	$ 18,638	13,580

See Accompanying Notes to Consolidated Financial Statements

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

For the Years Ended December 31, 2019 and December 2018
($ In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Compre-hensive Loss	Total Shareholders' Equity
Balance at December 31, 2017	8,536,680	$ 85	117,191	27,982	(2,654)	142,604
Stock-based compensation	-	-	1,210	-	-	1,210
Net earnings	-	-	-	15,112	-	15,112
Change in unrealized loss on debt securities available for sale, net of tax	-	-	-	-	(1,532)	(1,532)
Stock grants vested	8,750	-	-	-	-	-
Proceeds from exercise of stock options	248,300	3	927	-	-	930
Repurchase of common stock	(20,000)	-	(580)	-	-	(580)
Proceeds from issuance of common stock	31,669	-	905	-	-	905
Balance at December 31, 2018	8,805,399	88	119,653	43,094	(4,186)	158,649
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

See Accompanying Notes to Consolidated Financial Statements.

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended December 31, 2019	2018
Cash flows from operating activities:		
Net earnings	$ 15,207	15,112
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,833	1,855
Provision for loan losses	1,488	2,029
Amortization of deferred loan fees and costs	540	375
Amortization of premiums and discounts on debt securities	1,232	1,668
Amortization of subordinated debt issuance costs	49	24
Gain on sale of debt securities available for sale	(1,560)	(4)
Increase in accrued interest receivable	(518)	(1,361)
Decrease (increase) in other assets	315	(3,489)
Decrease in operating lease liabilities	(1,213)	-
Amortization of operating lease right-of-use assets	1,279	-
Deferred income taxes	332	434
Income from bank-owned life insurance	(886)	(915)
Increase (decrease) in other liabilities	136	(1,844)
Increase (decrease) in official checks	1,960	(8,294)
Stock-based compensation	1,263	1,210
Net cash provided by operating activities	21,457	6,800
Cash flows from investing activities:		
Net increase in loans	(147,005)	(170,863)
Purchase of premises and equipment, net	(2,941)	(9,433)
Debt securities available for sale:		
Purchases	(314,673)	(107,571)
Proceeds from sales	90,573	1,004
Proceeds from maturities and calls	74,369	13,860
Proceeds from principal repayments	22,785	16,504
Debt securities held to maturity:		
Purchases	(2,300)	-
Proceeds from maturities and calls	461	636
Bank owned life insurance proceeds	-	271
Purchase of Federal Home Loan Bank stock	(3,140)	(4,398)
Purchase of Federal Reserve Bank stock	(301)	(714)
Net cash used in investing activities	(282,172)	(260,704)
Cash flows from financing activities:		
Net increase in deposits	209,706	156,171
Net increase in other borrowings	314	1,678
Net proceeds from Federal Home Loan Bank advances	68,006	99,041
Net decrease in Federal funds purchased	-	(12,000)
Net increase in subordinated debt	-	29,513
Proceeds from issuance of common stock, net	387	905
Repurchase of common stock	(901)	(580)
Proceeds from exercise of stock options	554	930
Net cash provided by financing activities	278,066	275,658
Net increase in cash and due from banks	17,351	21,754
Cash and due from banks at beginning of year	33,687	11,933
Cash and due from banks at end of year	$ 51,038	33,687

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued
(In thousands)

	Year Ended December 31, 2019	2018
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 25,938	15,430
Income taxes	$ 3,201	3,989
Noncash transaction:		
Accumulated other comprehensive loss, net change in unrealized loss on debt securities available for sale, net of tax	$ 3,431	(1,532)
In conjunction with the adoption of ASU 2016-02 as detailed in Note 5, the following assets and liabilities were recognized:		
Operating lease right-of-use assets	$ 10,191	-
Operating lease liabilities	$ 10,328	-
Cumulative-effect adjustment resulting from adoption of new lease accounting standard	$ (137)	-

See Accompanying Notes to Consolidated Financial Statements.

(1) Summary of Significant Accounting Policies

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

Management has evaluated all significant events occurring subsequent to the consolidated balance sheet date through February 14, 2020, which is the date the consolidated financial statements were available to be issued, determining no events require additional disclosure in the consolidated financial statements.

Basis of Presentation. The accompanying consolidated financial statements include the accounts of the Holding Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation. The accounting and reporting practices of the Company conform to accounting principles generally accepted in the United States of America (“GAAP”) and to general practices within the banking industry. The following summarizes the more significant of these policies and practices.

Use of Estimates. In preparing consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses.

Cash. The Bank is required by law or regulation to maintain cash reserves with the Federal Reserve Bank, in accounts with other banks or cash in the vault. The required reserve is predominately based upon the level of demand deposit accounts average balances. At December 31, 2019 and 2018, the Bank’s required reserve balance was $1,142,000 and $1,446,000 respectively.

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

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

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

(continued)

(1) Summary of Significant Accounting Policies, Continued

Allowance for Loan Losses. The allowance for loan losses represents the amount which, in management's judgment, will be adequate to absorb loan losses inherent in the loan portfolio as of the consolidated balance sheet date. The adequacy of the allowance is determined by management's evaluation of the loan portfolio on a regular basis based on such factors as the differing economic risks associated with each loan category, the current financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. This evaluation requires estimates that are susceptible to significant revision as more information becomes available. Subsequent recoveries, if any, are credited to the allowance. There were no changes in the Company’s accounting policies or methodology during the years ended December 31, 2019 or 2018.

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

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

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(1) Summary of Significant Accounting Policies, Continued

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

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

Trust Assets and Fees. Client assets, totaling $4.5 billion and $3.4 billion at December 31, 2019 and 2018 are not included in the consolidated balance sheets as such, these items are not assets of the Company. The Company charges fees for trustee, custodian, and investment management services. These fees are recognized as income over the period the services are provided.

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

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

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(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, 2019, 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.

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

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(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.

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(1) Summary of Significant Accounting Policies, Continued

Fair Value Measurements, continued.

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

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

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

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

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.

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, 2019.

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.

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(1) Summary of Significant Accounting Policies, Continued

Fair Value Measurements, continued.

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.

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

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

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

Marketing. The Company expenses all marketing as incurred.

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

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(1) Summary of Significant Accounting Policies, Continued

Earnings Per Share. Earnings per share ("EPS") has been computed on the basis of the weighted-average number of shares of common stock outstanding. In 2019 and 2018, outstanding stock options and restricted stock are considered dilutive securities for purposes of calculating diluted EPS which was computed using the treasury stock method (dollars in thousands, except per share amounts):

	2019			2018		
	Earnings	Weighted-Average Shares	Per Share Amount	Earnings	Weighted-Average Shares	Per Share Amount
Year Ended December 31:						
Basic EPS:						
Net earnings available to common shareholders	$15,207	8,855,214	$1.72	$15,112	8,633,812	$1.75
Effect of dilutive securities- Incremental shares from restricted stock and assumed conversion of options		168,390			238,666	
Diluted EPS:						
Net earnings available to common shareholders	$15,207	9,023,604	$1.69	$15,112	8,872,478	$1.70

Recent Pronouncements. In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* The ASU requires equity investments to be measured at fair value with changes in fair value recognized in net earnings, simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment and eliminates the requirement to disclose fair values, the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost. The ASU also clarifies that the Company should evaluate the need for a valuation allowance on a deferred tax asset related to the available-for-sale debt securities in combination with the Company's other deferred tax assets. The ASU became effective during 2019. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Recent Pronouncements, continued.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* which requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with terms of more than twelve months. As permitted by ASC 842, the Company elected the adoption date of January 1, 2019, which is the date of initial application. As a result, the Company's balance sheet as of December 31, 2018 was not restated, continues to be reported under ASC Topic 840, Leases ("ASC 840"), which did not require the recognition of operating lease right-of-use assets and operating lease liabilities on the consolidated balance sheet. The adoption of ASC 842 had a substantial impact on the Company's consolidated balance sheet. As such, the effect of this ASU increased total assets by $8,059,000, increased total liabilities by $8,196,000, and reduced retained earnings by $137,000 at the adoption date.

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)

(1) Summary of Significant Accounting Policies, Continued

Recent Pronouncements, continued.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The ASU shortens the amortization period for certain callable debt securities held at a premium, the ASU requires the premium to be amortized to the earliest call date. No accounting change is required for debt securities held at a discount. The ASU became effective during 2019. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedge Activities*. The ASU better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the ASU expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The ASU became effective during 2019. The adoption of this guidance did not have a material impact on the Company's 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, 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
At December 31, 2018:				
U.S. Government agency securities	82,809	69	(1,050)	81,828
Corporate debt securities	15,363	14	(239)	15,138
Mortgage-backed securities	50,573	6	(1,822)	48,757
Collateralized mortgage obligations	75,825	-	(1,384)	74,441
Municipal securities	22,404	59	(123)	22,340
Taxable municipal securities	101,640	108	(1,244)	100,504
Total	$ 348,614	256	(5,862)	343,008
Securities held to maturity				
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
At December 31, 2018:				
Collateralized mortgage obligations	4,618	-	(137)	4,481
Taxable municipal securities	23,824	-	(751)	23,073
Total	$28,442	-	(888)	27,554

(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, 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	-
December 31, 2018:				
U.S. Government agency securities	81,828	-	81,828	-
Corporate debt securities	15,138	-	15,138	-
Mortgage-backed securities	48,757	-	48,757	-
Collateralized mortgage obligations	74,441	-	74,441	-
Municipal securities	22,340	-	22,340	-
Taxable municipal securities	100,504	-	100,504	-
Total	$ 343,008	-	343,008	-

During the years ended December 31, 2019 and 2018, no securities were transferred in or out of Level 1, Level 2 or Level 3.

(continued)

(2) Debt Securities, Continued

The scheduled maturities of securities at December 31, 2019 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	$ 57,448	57,582	-	-
Due from one to five years	160,524	160,954	5,882	5,983
Due from five to ten years	55,716	55,468	14,523	14,834
Due in over ten years	82,456	81,194	2,965	2,981
Mortgage-backed securities	49,613	49,543	2,354	2,328
Collateralized mortgage obligations	70,083	70,100	4,605	4,781
Total	$ 475,840	474,841	30,329	30,907

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

	Year Ended December 31,	
	2019	2018
Proceeds from sales of securities	$ 90,573	1,004
Gross gains from sale of securities	$ 1,560	4

(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, is as follows (in thousands):

	Less Than Twelve Months		More Than Twelve Months	
Securities available for sale				
December 31, 2019:	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Government agency securities	$ 110	61,874	58	24,933
Corporate debt securities	1	7,003	0	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
December 31, 2018:				
U.S. Government agency securities	162	17,822	888	48,941
Corporate debt securities	43	3,035	196	8,770
Mortgage-backed securities	4	259	1,818	48,212
Collateralized mortgage obligations	163	20,791	1,221	53,650
Municipal securities	18	4,254	105	6,823
Taxable Municipal securities	62	18,937	1,182	63,080
Total	$ 452	65,098	5,410	229,476
Securities held to maturity				
December 31, 2019 -				
Mortgage-backed securities	$ 26	2,328	-	-
December 31, 2018:				
Collateralized mortgage obligations	-	-	137	4,481
Taxable Municipal securities	-	-	751	23,073
Total	$ -	-	888	27,554

(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, 2019 and 2018, the unrealized loss on one hundred and thirty one investment securities available for sale and two hundred and six investment securities available for sale respectively, were caused by market conditions. It is expected that the securities would not be settled at a price less than the par value of the investments. Because the decline in fair value is attributable to changes in market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

At December 31, 2019 and 2018, securities with a fair value of $296.4 million and $240.1 million, respectively, were pledged to secure repurchase agreements, State of Florida deposits and trust operations.

(continued)

(3) Loans

A significant portion of the loan portfolio is concentrated among borrowers in South West Florida, 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, 2019	At December 31, 2018
Real estate mortgage:		
Commercial real estate	$ 213,371	215,714
Residential real estate	981,868	851,559
Construction and land development	138,512	135,619
Total real estate mortgage	1,333,751	1,202,892
Commercial	107,167	97,372
Personal	85,689	80,478
Total loans	1,526,607	1,380,742
Add (subtract):		
Deferred loan costs, net	1,697	1,213
Allowance for loan losses	(15,838)	(14,466)
Loans, net	$ 1,512,466	1,367,489

(continued)

(3) Loans, Continued

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

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

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

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

(continued)

(3) Loans, Continued

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, 2019:				
Beginning balance	$ 12,926	1,021	519	14,466
Provision for loan losses	1,387	29	72	1,488
(Charge-offs)/recoveries	(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
Year Ended December 31, 2018:				
Beginning balance	11,645	670	497	12,812
Provision for loan losses	1,658	351	20	2,029
Charge-offs	(377)	-	2	(375)
Ending balance	$ 12,926	1,021	519	14,466
Individually evaluated for impairment:				
Recorded investment	$ 2,914	-	-	2,914
Balance in allowance for loan losses	$ 90	-	-	90
Collectively evaluated for impairment:				
Recorded investment	$ 1,199,978	97,372	80,478	1,377,828
Balance in allowance for loan losses	$ 12,836	1,021	519	14,376

(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, 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
At December 31, 2018:						
Credit Risk Profile by Internally Assigned Grade:						
Pass	215,714	845,826	135,619	96,257	80,475	1,373,891
Special Mention	-	1,840	-	958	-	2,798
Substandard	-	3,893	-	157	3	4,053
Total	$ 215,714	851,559	135,619	97,372	80,478	1,380,742

(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, 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
At December 31, 2018:							
Real estate mortgage:							
Commercial real estate	-	-	-	-	215,714	-	215,714
Residential real estate	559	-	-	559	848,238	2,762	851,559
Construction and land development	-	-	-	-	135,619	-	135,619
Commercial	-	-	-	-	97,372	-	97,372
Personal	-	-	-	-	80,478	-	80,478
Total	$ 559	$ -	$ -	559	1,377,421	2,762	1,380,742

(continued)

(3) Loans, Continued

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

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

	With No Related Allowance Recorded		With Related Allowance Recorded		
	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Allowance
At December 31, 2019:					
Real estate mortgage -					
Residential real estate	1,936	2,103	-	-	-
Personal	10	10	-	-	-
Total	$ 1,946	2,113	-	-	-
At December 31, 2018:					
Real estate mortgage -					
Residential real estate	$ 2,044	2,209	870	870	90

(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, 2019:			
Real estate mortgage -			
Residential real estate	1,460	3	37
Personal	11	-	-
Total	$ 1,471	3	37
Year Ended December 31, 2018:			
Real estate mortgage -			
Residential real estate	$ 1,275	$ 4	$ 17

TDR's entered into during the years ended December 31, 2019 and December 31, 2018 are as follows (dollars in thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Year Ended December 31, 2019:			
Personal			
Modified Payment Terms	1	$ 10	10
Year Ended December 31, 2018:			
Real estate mortgage -			
Residential real estate -			
Modified Payment Terms	2	$ 1,266	1,255

There were no TDR's that subsequently defaulted during the years ended December 31, 2019, or 2018 which were restructured during the same period.

(continued)

(3) Loans, Continued

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

	Fair Value	Level 1	Level 2	Level 3	Total Losses	Losses Recorded During the Year
At December 31, 2019:						
Residential real estate	$ 148	-	-	148	167	22
At December 31, 2018:						
Residential real estate	$ 932	-	-	932	255	110

(4) Premises and Equipment

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

	At December 31, 2019	2018
Land	$ 1,630	7,855
Building	7,341	7,341
Construction in process	8,807	-
Leasehold Improvements	5,405	5,132
Furniture, fixtures, solar farms and equipment	13,031	12,945
Information systems equipment and software	1,899	1,899
Total, at cost	38,113	35,172
Less accumulated depreciation and amortization	(13,369)	(11,536)
Premises and equipment, net	$24,744	23,636

At December 31, 2019, the Company was committed to rent premises used in banking operations under non-cancellable operating leases. Rental expense under the operating leases was approximately $1.5 million and $1.4 million for 2019 and 2018, respectively. Lease expiration dates range from 1 year to 25 years, with renewal options on certain leases of 1 year to 25 years.

In 2018, the Company purchased a parcel of land to construct new corporate headquarters in Fort Myers, Florida. The Company expects to occupy the building by year-end 2020 or early 2021. At December 31, 2019, the Company expects to incur $16.5 million in additional cost to complete the building.

(continued)

(5) Leases

The Company adopted ASU 2016-02, *Leases* on January 1, 2019, which resulted in the recognition of operating leases on the consolidated balance sheet in 2019 and forward. The Company recognizes operating lease right-of-use assets and operating lease liabilities based on the present value of the future minimum lease payments at the adoption date of the lease. If the lease does not provide implicit rates, the incremental borrowing rate is used in determining the present value of future payments. 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.

The Company's operating lease obligation is for some of the Company's various locations used to conduct operations. The weighted-average remaining lease term is approximately 8.0 years, with some leased locations having options to extend the leases. The components of lease expense and other lease information are as follows (dollars in thousands):

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

	During the year ended December 31, 2018
Operating Lease Expense Recognized	$ 1,409
Cash paid for amounts included in measurement of lease liabilities	N/A

N/A - Not applicable during 2018. The Company adopted ASU 2016-02 January 2019.

	At December 31, 2019
Operating lease right-of-use assets	$ 8,912
Operating lease liabilities	$ 9,115
Weighted-average remaining lease term	8.0 years
Weighted-average discount term	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, 2019
2020	$ 1,580
2021	1,513
2022	1,231
2023	1,163
2024	1,162
Thereafter	3,575
Total future minimum lease payments	10,224
Less imputed interest	(1,109)
Total operating lease liabilities	$ 9,115

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

BOLI amounted to $34,118,000 and $33,232,000 at December 31, 2019 and 2018, 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, 2019. 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 $68.3 million and $119.8 million at December 31, 2019 and 2018, respectively. A schedule of maturities of time deposits at December 31, 2019 follows (in thousands):

Year Ending December 31,	Amount
2020	$ 48,830
2021	36,855
2022	3,605
2023	3,735
2024	1,067
	$ 94,092

At December 31, 2019 and 2018, securities with a carrying value of $11,042,000 and $24,797,000, and letters of credit of $30 million and $50 million, respectively were pledged to secure Qualified Public Depositors totaling $78,546,000 and $103,257,000 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, 2019 and 2018, the balance totaled $2,390,000 and $2,076,000 respectively, and the Company had pledged securities as collateral for these agreements with a carrying value of $5,012,400 and $4,932,085 respectively.

(continued)

(9) 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, 2019	2018
2019	Fixed	2.32%	-	65,000
2020	Fixed	2.14%	-	5,000
2021	Fixed	1.95%	-	8,750
2022	Fixed	3.09%	17,520	17,764
2023	Fixed	3.05%	90,000	90,000
2024	Fixed	2.47%	147,000	-
2025	Fixed	3.31%	10,000	10,000
			$ 264,520	196,514

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, 2019 and 2018, the Company had remaining available borrowing capacity of $546.9 million and $455.4 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, 2019 and 2018, the letters of credit were $30 million and $50 million, respectively.

In 2019 and 2018, the Company prepaid certain FHLB advances with a total carrying amount of $98.5 million and $66.2 million, respectively, and recorded a net gain on extinguishment of debt of $685,000 and $1,148,000, respectively. The gains resulted from the difference in interest rates between the current market rate and the interest rate on the debt obligations.

At December 31, 2019, the Company had $30 million available under an unsecured federal funds purchase facility and $15 million available under a secured revolving line of credit. The Company also has a line of credit with the Federal Reserve Bank under which the Company may draw up to $188.3 million. The line is secured by $304.9 million in loans. There were no borrowings outstanding under these lines at December 31, 2019 and 2018.

(continued)

(10) Subordinated Debt

The Company has issued $30,000,000 face value of subordinated debt (the "Subordinated Debt") due June 30, 2028. The Subordinated Debt bears a fixed annual interest rate of 5.875% until June 30, 2023, at which time the rate will become an annual floating rate equal to three-month LIBOR, determined quarterly, plus 297 basis points. Interest is payable in arrears on March 31, June 30, September 30 and December 31, of each year through the maturity date, unless redeemed. The Company may, at its option, beginning June 29, 2023, and on any scheduled interest payment date thereafter, redeem the Subordinated Debt, in whole or in part, at 100% of the principal amount of the Subordinated Debt plus any accrued and unpaid interest. The Subordinated Debt was structured to comply with certain regulatory requirements which provide for qualification as Tier 2 Capital. The Subordinated Debt is subject to certain affirmative and negative covenants and at December 31, 2019, the Company was in compliance with the covenants.

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

Subordinated debt at December 31, 2017	$	-
Face value of subordinated debt issued		30,000
Expenses related to issuance		(487)
Amortization of issuance expenses		24
Subordinated debt at December 31, 2018	$	29,537
Amortization of issuance expenses		49
Subordinated debt at December 31, 2019	$	29,586

(continued)

(11) Income Taxes

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

	Year Ended December 31, 2019	2018
Current:		
Federal	$ 3,560	1,507
State	810	735
Total current	4,370	2,242
Deferred:		
Federal	289	401
State	43	33
Total deferred	332	434
Income tax expense	$ 4,702	2,676

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, 2019		2018	
	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Income taxes at statutory rate	$ 4,181	21.0 %	$ 3,735	21.0 %
Increase (decrease) resulting from:				
State taxes, net of Federal tax benefit	674	3.4	607	3.4
Share-based compensation	33	0.2	(604)	(3.4)
Tax-exempt income	(228)	(1.2)	(292)	(1.6)
Tax credits from solar farms	-	-	(528)	(3.0)
Other, net	42	0.2	(242)	(1.4)
Income tax expense	$ 4,702	23.6 %	$ 2,676	15.0 %

(continued)

(11) 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, 2019	At December 31, 2018
Deferred tax assets:		
Allowance for loan losses	$ 4,014	3,666
Organizational and start-up costs	31	46
Share-based compensation	99	104
Unrealized loss on securities available for sale	244	1,420
Deferred tax assets	4,388	5,236
Deferred tax liabilities:		
Prepaid expenses	(179)	(95)
Premises and equipment	(1,554)	(1,179)
Deferred loan costs	(601)	(400)
Deferred tax liabilities	(2,334)	(1,674)
Net deferred tax asset	$ 2,054	3,562

The Company's Federal and state income tax returns filed prior to 2016 are no longer subject to examination by the respective taxing authorities.

(12) Financial Instruments

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

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

(continued)

(12) Financial Instruments, continued

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

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Under the standby letters of credit, the Company is required to make payments to the beneficiary of the letters of credit upon request by the beneficiary contingent upon the customer's failure to perform under the terms of the underlying contract with the beneficiary. Standby letters of credit extend up to one year. At December 31, 2019 and 2018, there was no liability to beneficiaries resulting from standby letters of credit. At December 31, 2019, 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, 2019, follows (in thousands):

Commitments to extend credit	$ 83,056
Unused lines of credit	$ 332,447
Standby letters of credit	$ 50

(continued)

(12) Financial Instruments, continued

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

	At December 31,			
	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	$ 51,038	51,038	33,687	33,687
Securities available for sale	474,841	474,841	343,008	343,008
Securities held to maturity	30,329	30,907	28,442	27,554
Loans, net	1,512,466	1,499,978	1,367,489	1,363,251
Federal Home Loan Bank stock	12,912	12,912	9,772	9,772
Federal Reserve Bank stock	4,029	4,029	3,728	3,728
Accrued interest receivable	6,402	6,402	5,884	5,884
Financial liabilities:				
Deposits	1,670,419	1,671,019	1,460,713	1,462,001
Other borrowings	2,390	2,390	2,076	2,076
Federal Home Loan Bank advances	264,520	256,049	196,514	194,957
Subordinated debt, net	29,586	30,128	29,537	28,916
Off-balance-sheet financial instruments	-	-	-	-

(13) 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 $738,000 and $633,000 for the years ended December 31, 2019 and 2018, respectively.

(continued)

(14) 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 839,356 remain available for grant as of December 31, 2019. 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 2019 and 2018, $293,000 and $302,000 of compensation expense was recognized. At December 31, 2019, there was $807,000 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 2.18 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, 2017	679,317	$ 14.03	
Granted	76,500	29.00	
Forfeited	(15,500)	22.80	
Exercised	(241,000)	10.96	
Outstanding at December 31, 2018	499,317	17.72	
Granted	74,450	26.00	
Forfeited	(6,725)	18.64	
Exercised	(44,825)	12.33	
Outstanding at December 31, 2019	522,217	$ 19.29	5.58
Exercisable at December 31, 2019	232,829	$ 12.87	3.57

(continued)

(14) 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	2018
Risk-free interest rate	1.76%	2.77%
Dividend yield	-	-
Expected stock volatility	16.28%	16.42%
Expected life in years	6	6
Per share grant-date fair value of options issued during the year	$ 5.46	$ 6.98

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)

(14) 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, 2019, 13,000 shares remain available for grant. In 2018, $25,000 of compensation expense was recognized with a related income tax benefit $6,000. All options expire ten years from the date of grant. At December 31, 2019 and 2018, there was not any unrecognized compensation expense. A summary of stock option activity under this plan is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at December 31, 2017	137,675	$14.55	
Forfeited	(750)	16.00	
Exercised	(7,300)	13.91	
Outstanding at December 31, 2018	129,625	$14.55	
Forfeited	-		
Exercised	(75)	16.00	
Outstanding/exercisable at December 31, 2019	129,550	$14.55	4.01

The Company issued under both the 2007 and 2019 Plans, restricted stock grants that vest over 48 to 60 months. At December 31, 2019, there was $3,329,259 of total unrecognized compensation expense related to restricted stock awards, which will be recognized over the next 5 years. In 2019 and 2018, $970,000 and $882,000, respectively, of compensation expense was recognized with a related income tax benefit of $238,000 and $224,000 for 2019 and 2018, respectively. A summary of the restricted stock grant activity is as follows:

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

(continued)

(15) 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,	
	2019	2018
Loans:		
Beginning balance	$ 21,044	16,703
Additions	2,781	6,553
Repayments	(4,989)	(2,212)
Ending balance	$ 18,836	21,044
Deposits at end of year	$ 37,597	32,646
Trust accounts under administration	$ 146,629	128,876

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 2019 and 2018, 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 2019 and 2018, the Company purchased furniture through a company owned by several directors.

(continued)

(16) Regulatory Matters

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

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

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

As of December 31, 2019, 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, 2019, 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)

(16) Regulatory Matters, continued

	Actual		For Capital Adequacy Purposes		For Well Capitalized Purposes	
	Amount	Percent	Amount	Percent	Amount	Percent
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
As of December 31, 2018:						
Common equity tier 1 capital ratio						
Bank	173,513	14.75 %	52,944	4.50 %	76,475	6.50
Total Capital to Risk-Weighted Assets-						
Bank	187,979	15.98	94,123	8.00	117,654	10.00
Tier I Capital to Risk-Weighted Assets-						
Bank	173,513	14.75	70,592	6.00	94,123	8.00
Tier I Capital to Average Assets-						
Bank	173,513	9.55	72,677	4.00	90,847	5.00
Common equity tier 1 capital ratio						
Company	162,835	13.78	53,171	4.50	N/A	N/A
Total Capital to Risk-Weighted Assets-						
Company	206,838	17.51	94,526	8.00	N/A	N/A
Tier I Capital to Risk-Weighted Assets-						
Company	162,835	13.78	70,894	6.00	N/A	N/A
Tier I Capital to Average Assets-						
Company	162,835	8.95	72,879	4.00	N/A	N/A

(continued)

(17) 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, 2019, that will have a material effect on the Company's consolidated financial statements.

(18) Parent Company Only Financial Information

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

Condensed Balance Sheets

	At December 31,	
Assets	**2019**	**2018**
Cash and due from banks	$ 5,407	14,047
Other assets	3,813	5,036
Investment in subsidiaries	199,040	169,326
Total assets	$ 208,260	188,409
Liabilities and Shareholders' Equity		
Accounts payable	221	223
Subordinated debt	29,586	29,537
Shareholders' equity	178,453	158,649
Total liabilities and shareholders' equity	$ 208,260	188,409

(continued)

(18) Parent Company Only Financial Information, continued

Condensed Statements of Shareholders' Equity

	Year Ended December 31,	
	2019	2018
Shareholders beginning balance	$ 158,649	142,604
Net earnings	15,207	15,112
Stock-based compensation	1,263	1,210
Proceeds from issuance of common stock	387	905
Repurchase of common stock	(901)	(580)
Proceeds from exercise of stock options	554	930
Cumulative-effect adjustment resulting from adoption of new lease accounting standard	(137)	-
Change in accumulated other comprehensive loss	3,431	(1,532)
Shareholders ending balance	$ 178,453	158,649

Condensed Statements of Earnings

	Year Ended December 31,	
	2019	2018
Revenue	$ 77	14
Expenses	(2,527)	(950)
Loss before earnings of subsidiaries	(2,450)	(936)
Earnings of subsidiaries	17,657	16,048
Net earnings	$ 15,207	15,112

(continued)

(18) Parent Company Only Financial Information, continued

Condensed Statements of Cash Flows

	Year Ended December 31, 2019	2018
Cash flows from operating activities:		
Net earnings	$ 15,207	15,112
Adjustments to reconcile net earnings to net cash used in operating activities:		
Equity in undistributed earnings of subsidiaries	(17,657)	(16,048)
Decrease (increase) in other assets	782	(813)
(Decrease) increase in accounts payable	(2)	131
Amortization of subordinated debt issuance costs	49	24
Net cash used in operating activities	(1,621)	(1,594)
Cash flows from investing activities:		
Net decrease (increase) in loans	441	(2,947)
Capital infusion to subsidiaries	(7,500)	(23,000)
Net cash used in investing activities	(7,059)	(25,947)
Cash flows from financing activities:		
Repurchase of common stock	(901)	(580)
Proceeds from issuance of common stock, net	387	905
Proceeds from exercise of stock options	554	930
Net increase in subordinated debt	-	29,513
Net cash provided by financing activities	40	30,768
Net (decrease) increase in cash	(8,640)	3,227
Cash at beginning of year	14,047	10,820
Cash at end of year	$ 5,407	14,047
Noncash transactions:		
Net change in investment in subsidiaries due to change in accumulated other comprehensive loss	$ 3,431	(1,532)
Stock-based compensation expense of subsidiaries	$ 1,263	1,210