



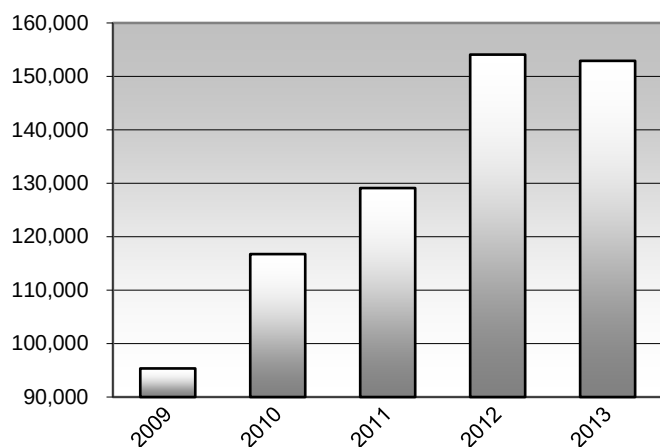
ANNUAL REPORT

2013

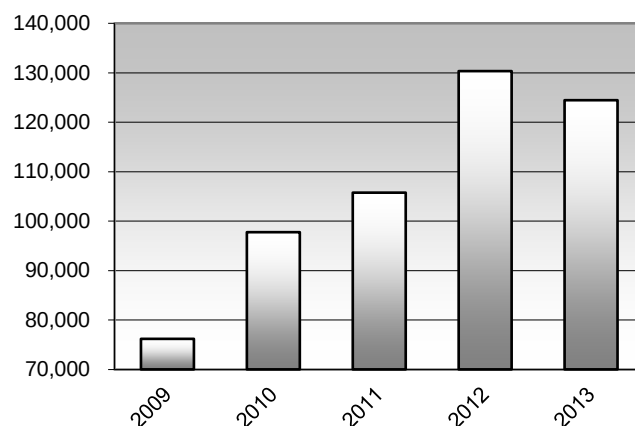
Financial Performance Graphs

Periods ended December 31

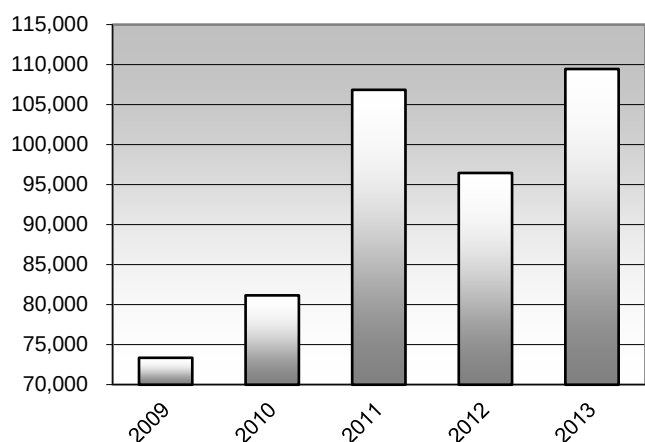
Total Assets (\$000s)



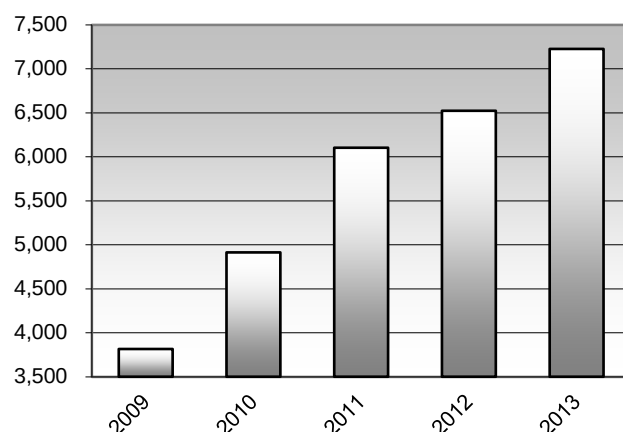
Total Deposits (\$000s)



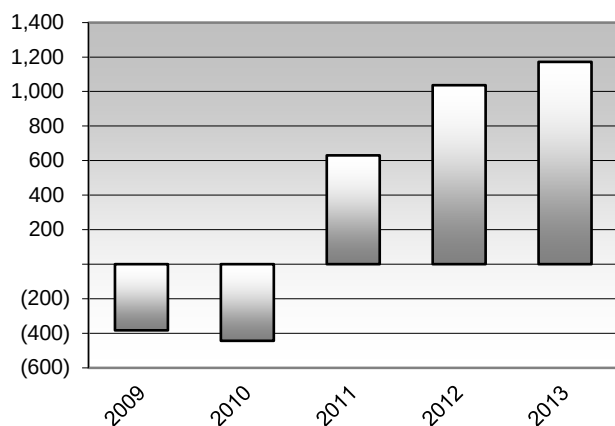
Total Loans (\$000s)



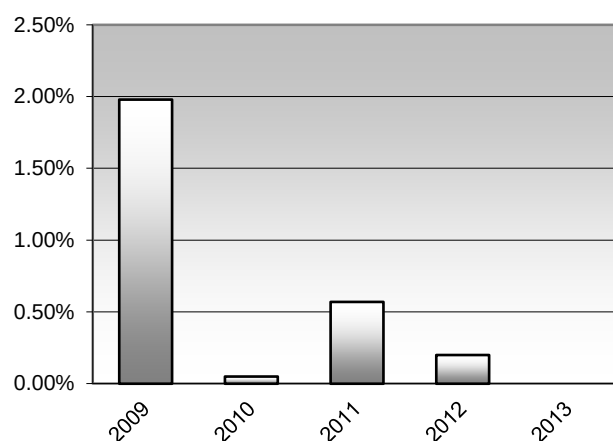
Operating Revenue (\$000s) (1) (2)



Pretax Income Before Provision (\$000s) (3)



Net Charge-offs to Average Loans (\$000s)



- (1) Includes net interest income plus noninterest income.
 (2) Excludes nonrecurring income of \$1.1 million in 2009.
 (3) Pretax income before provision for loan losses.



April 29, 2014

We are pleased to report that ProAmérica Bank has once again good news to share. Our story of investment in the business community has been recognized at the highest level. Our founding Chairwoman Maria Contreras-Sweet was sworn in as the Administrator of the U.S. Small Business Administration. She officially resigned as Director and Chairwoman and joined President Obama's cabinet to serve the nation's small businesses. We are proud of her accomplishments and know that she will have much success.

The Board remains committed to propelling the Bank's mission and expanding its impact in the communities and markets we serve. In 2013, we continued to build on the framework established in the prior years. We finished 2013 with resounding success: our second full year of profitability, a 13% increase in operating income (income before taxes and provision for loan losses), and a 16% increase in total loans. Adding to this success was the 98% drop in nonperforming assets from \$8.6 million at the end of 2012 to \$213 thousand at the end of 2013, combined with record loan production for the year.

We continue to attract top talent to our team to make this happen. Our focus on the alignment of our efforts to serve the Los Angeles business community and non-profit organizations has led to improved market penetration, with 96% of our new loan commitments located in Los Angeles County. We reinvest our deposits into the community we serve.

With the success of our clients, we believe that we are delivering on the Promise of America. We expect continued focus on our mission to serve the local business and nonprofit communities, with a renewed focused on increasing shareholder value. We have built a strong foundation upon which to build this value and have developed an excellent team to accomplish this goal.

We wish to thank our staff, our Board and our shareholders for all their support in making this a great success story. We look forward to seeing you at our Annual Shareholders Meeting on Friday, May 30, 2014, at 11:00 am.

Sincerely,

A handwritten signature in cursive script that reads "Maria S. Salinas".

Maria S. Salinas
Chairwoman of the Board

A handwritten signature in cursive script that reads "L. Bruce Mills, Jr.".

Leonard Bruce Mills, Jr.
Chief Executive Officer and President

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PROAMÉRICA BANK

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS'
REPORT

DECEMBER 31, 2013 AND 2012

PROAMÉRICA BANK
DECEMBER 31, 2013 AND 2012

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders of
ProAmérica Bank
Los Angeles, California

We have audited the accompanying financial statements of ProAmérica Bank, which are comprised of the balance sheets as of December 31, 2013 and 2012, and the related statements of income, changes in 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 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of ProAmérica Bank as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
March 20, 2014

PROAMÉRICA BANK

BALANCE SHEETS

DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
Cash and due from banks	\$ 1,677,932	\$ 2,439,931
Federal funds sold	28,440,000	43,390,000
Interest-bearing balances in other financial institutions	5,527,649	5,501,314
Cash and Cash Equivalents	35,645,581	51,331,245
Time deposits with other financial institutions	1,480,000	2,200,000
Loans, net of unearned income	111,954,622	96,467,629
Allowance for loan losses	(2,490,914)	(2,869,455)
Net Loans	109,463,708	93,598,174
Other real estate owned (OREO)	-	3,920,225
Deferred tax asset	2,949,540	-
Premises and equipment, net	939,714	1,033,405
Federal Home Loan Bank stock	482,400	515,200
Accrued interest receivable and other assets	1,965,547	1,496,665
Total Assets	<u>\$ 152,926,490</u>	<u>\$ 154,094,914</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest-bearing deposits	\$ 24,352,068	\$ 26,443,201
Interest-bearing deposits	100,105,814	103,900,878
Total Deposits	124,457,882	130,344,079
Accrued interest payable and other liabilities	1,064,644	1,120,601
Total Liabilities	<u>125,522,526</u>	<u>131,464,680</u>
Commitments and Contingencies (Note 8)	-	-
Shareholders' Equity		
Preferred stock, no par value, 500,000 shares authorized; 3,750 shares issued and outstanding at December 31, 2013 and 2012	3,750,000	3,750,000
Common stock, no par value, 10,000,000 shares authorized; 2,771,000 and 2,751,000 shares issued and outstanding at December 31, 2013 and 2012, respectively	27,311,164	27,248,144
Additional paid in capital	1,907,549	1,717,209
Accumulated deficit	(5,564,749)	(10,085,119)
Total Shareholders' Equity	<u>27,403,964</u>	<u>22,630,234</u>
Total Liabilities and Shareholders' Equity	<u>\$ 152,926,490</u>	<u>\$ 154,094,914</u>

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

PROAMÉRICA BANK

**STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Interest Income		
Interest and fees on loans	\$ 6,790,097	\$ 6,072,536
Interest on Federal funds sold	85,085	56,781
Interest on interest-bearing balances at other financial institutions	<u>78,411</u>	<u>59,283</u>
Total Interest Income	6,953,593	6,188,600
Interest Expense		
Interest expense on deposits	<u>481,806</u>	<u>424,260</u>
Net Interest Income	6,471,787	5,764,340
Credit Provision for Loan Losses	<u>(400,000)</u>	<u>-</u>
Net Interest Income After Credit Provision for Loan Losses	<u>6,871,787</u>	<u>5,764,340</u>
Other Income		
Service charges on deposit accounts	139,492	163,138
Gain on sale of loans	182,729	509,908
Bank Enterprise Award	323,000	-
Other fees and miscellaneous income	<u>107,864</u>	<u>84,631</u>
Total Other Income	<u>753,085</u>	<u>757,677</u>
Operating Expenses		
Salaries and other employee benefits	3,926,680	3,405,497
Occupancy	473,097	436,050
Equipment expense	145,002	130,193
Data processing	266,974	261,673
Professional services	369,458	436,826
FDIC assessment	167,540	241,446
Other	<u>704,491</u>	<u>572,908</u>
Total Operating Expenses	<u>6,053,242</u>	<u>5,484,593</u>
Income Before Provision for Income Taxes	1,571,630	1,037,424
(Benefit) Provision for Income Taxes	<u>(2,948,740)</u>	<u>800</u>
Net Income	4,520,370	1,036,624
Dividends on Preferred Stock	<u>(46,875)</u>	<u>(37,500)</u>
Net Income Available to Common Shareholders	<u>\$ 4,473,495</u>	<u>\$ 999,124</u>
Net Income Per Share Basic	<u>\$ 1.62</u>	<u>\$ 0.36</u>
Net Income Per Share Diluted	<u>\$ 1.60</u>	<u>\$ 0.36</u>

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

PROAMÉRICA BANK

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	Preferred	Common Stock		Additional	Accumulated	Total
	Stock	Shares	Amount	Paid In	Deficit	Shareholders'
		Outstanding		Capital		Equity
Balance, December 31, 2011	\$ 3,750,000	2,750,000	\$ 27,245,144	\$ 1,713,852	\$ (11,121,743)	\$ 21,587,253
Stock issuance	-	1,000	3,000	-	-	3,000
Net income	-	-	-	-	1,036,624	1,036,624
Dividends on preferred stock	-	-	-	(37,500)	-	(37,500)
Share-based compensation	-	-	-	40,857	-	40,857
Balance, December 31, 2012	3,750,000	2,751,000	27,248,144	1,717,209	(10,085,119)	22,630,234
Stock options exercised	-	20,000	63,020	(3,020)	-	60,000
Net income	-	-	-	-	4,520,370	4,520,370
Dividends on preferred stock	-	-	-	(46,875)	-	(46,875)
Share-based compensation	-	-	-	240,235	-	240,235
Balance, December 31, 2013	<u>\$ 3,750,000</u>	<u>2,771,000</u>	<u>\$ 27,311,164</u>	<u>\$ 1,907,549</u>	<u>\$ (5,564,749)</u>	<u>\$ 27,403,964</u>

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

PROAMÉRICA BANK

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Net income	\$ 4,520,370	\$ 1,036,624
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	198,149	188,200
Credit for loan losses	(400,000)	-
Gain on sale of loans	(182,729)	(509,908)
Increase in the deferred tax asset	(2,949,540)	-
Loss on sale of other real estate owned, net	33,125	-
Loss on disposal of fixed assets	2,500	1,520
Proceeds from the sale of OREO	229,050	-
(Increase) Decrease in accrued interest receivable and other assets	(488,532)	305,189
Decrease in accrued interest payable and other liabilities	(55,957)	(653,456)
Share-based compensation expense	240,235	40,857
Net Cash Provided by Operating Activities	<u>1,146,671</u>	<u>409,026</u>
Cash Flows from Investing Activities		
Net (increase) decrease in loans	(11,605,105)	6,777,654
Net change in time deposits with other financial institutions	720,000	3,897,000
Net sale (purchase) of FHLB stock	32,800	(97,500)
Purchase of premises and equipment	(106,958)	(305,170)
Net Cash (Used in) Provided by Investing Activities	<u>(10,959,263)</u>	<u>10,271,984</u>
Cash Flows from Financing Activities		
Net (decrease) increase in deposits	(5,886,197)	24,589,245
Exercise of stock options	60,000	3,000
Cash dividends paid	(46,875)	(37,500)
Net Cash (Used in) Provided by Financing Activities	<u>(5,873,072)</u>	<u>24,554,745</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(15,685,664)	35,235,755
Cash and Cash Equivalents, Beginning of Year	<u>51,331,245</u>	<u>16,095,490</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 35,645,581</u></u>	<u><u>\$ 51,331,245</u></u>
Supplemental Cash Flow Information:		
Interest paid	<u>\$ 477,966</u>	<u>\$ 449,252</u>
Income taxes paid	<u>\$ 800</u>	<u>\$ 800</u>
Transfer to OREO from loans	<u>\$ -</u>	<u>\$ 3,920,225</u>
Loans to facilitate purchase of OREO	<u><u>\$ 3,677,700</u></u>	<u><u>\$ -</u></u>

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

PROAMÉRICA BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of ProAmérica Bank (the Bank) are in accordance with accounting principles generally accepted in the United States of America and conform to practices within the banking industry. A summary of the accompanying financial statements follows:

Nature of Operations

The Bank was incorporated on April 24, 2006, and commenced operations on November 7, 2006. The Bank operates as a full service commercial bank offering loans and depository services to businesses and customers in the City of Los Angeles, California and the Los Angeles area. The Bank has one branch office in Los Angeles, California, which is also the location of the Bank's corporate office.

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through March 20, 2014, which is the date the financial statements were available to be issued.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks, and interest-bearing balances in other financial institutions and Federal funds sold. Generally, Federal funds are sold for periods of less than 90 days.

Cash and Due From Banks

Banking regulations require that all banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Bank complied with the reserve requirements as of December 31, 2013 and 2012.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Loans, Continued

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days based on the contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to collectability. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

The Bank considers a loan to be impaired when it is probable that the Bank will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Bank selects the measurement method on a loan-by-loan basis except that collateral-dependent loans are measured at the fair value of the collateral. The Bank recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Amounts are charged off when available information confirms that specific loans or portions thereof, are uncollectible. This methodology for determining charge-offs is consistently applied to each segment.

The allowance consists of specific and general reserves. Specific reserves relate to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered in determining impairment include payment status, collateral value and the probability of collecting all amounts when due. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Bank selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral.

PROAMÉRICA BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Allowance for Loan Losses, Continued

The Bank recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired with measurement of impairment based on expected future cash flows discounted using the loan's effective rate immediately prior to the restructuring.

If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Smaller balance, homogeneous loans are collectively evaluated for impairment.

General reserves cover non-impaired loans and are based on historical loss rates for each portfolio segment, adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions, changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

Portfolio segments identified by the Bank include real estate, commercial, SBA and consumer loans. Relevant risk characteristics for those portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans and credit scores, debt-to-income, collateral type and loan-to-value ratios for consumer loans.

Other Real Estate Owned

Other real estate owned represents real estate that has been foreclosed and adjusted to fair value. At the time of foreclosure, these assets are recorded at fair value less costs to sell, which becomes the asset's new basis. Any write-downs based on the asset's fair value at the date of foreclosure are charged to the allowance for loan losses. The fair value of other real estate owned assets is generally based on recent real estate appraisals adjusted for estimated selling costs. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. Fair value estimates for other real estate owned are obtained from real estate brokers or other third-party consultants.

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis over the estimated useful lives of fixtures and equipment utilizing estimated useful lives of three to seven years. Leasehold improvements are amortized on a straight-line basis over the estimated useful lives of the improvements or the remaining lease term, whichever is shorter.

Federal Home Loan Bank (FHLB) Stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Income Taxes

Deferred income tax assets are computed using the balance sheet method, which recognizes a liability or asset representing the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized in the financial statements. A valuation allowance is established to reduce the deferred tax asset to the level at which it is "more likely than not" that the tax asset or benefits will be realized. Realization of tax benefits of deductible temporary differences and operating loss carryforwards depends on having sufficient taxable income of an appropriate character within the carryforward periods.

The Bank has adopted guidance issued by the Financial Accounting Standards Board (FASB) that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs

The Bank expenses the cost of advertising in the period incurred.

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, as described in Note 9. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although 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 balance sheet, such items, along with net income, are components of comprehensive income. The Bank's only component of comprehensive income is net income.

Earnings Per Share (EPS)

Basic EPS excludes dilution and is computed by dividing net income to common stockholders by the weighted-average number of common shares outstanding for the year. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Weighted average shares outstanding used in the calculation of basic and diluted EPS as of December 31, 2013, was 2,758,880 and 2,798,934, respectively. Weighted average shares outstanding used in the calculation of basic and diluted EPS as of December 31, 2012, was 2,750,604 and 2,766,041, respectively.

Stock-Based Compensation

The Bank recognizes the cost of employee and director services received in exchange for awards of stock options, or other equity instruments, based on the grant-date fair value of those awards. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally the vesting period. See Note 7 for additional information on the Bank's stock option plan.

Reclassification

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation. These reclassifications had no impact on the Bank's previously reported financial statements.

PROAMÉRICA BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Adoption of New Accounting Standards

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update 2013-02, *Comprehensive Income* ("Topic 220") - *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). This ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under Generally Accepted Accounting Principles ("GAAP") to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. ASU 2013-02 is effective prospectively for annual and interim periods beginning after December 15, 2012, for public entities and annual periods beginning after December 15, 2013, for nonpublic entities. The adoption of this ASU did not have a material impact on the Bank's financial position, results of operations, or cash flows.

NOTE 2 - LOANS

The following is a summary of loans at December 31:

	2013	2012
Loans:		
Commercial secured by real estate	\$ 93,390,403	\$ 82,988,166
Commercial not secured by real estate	13,709,630	8,566,736
SBA	5,007,215	5,054,805
Consumer	35,538	58,333
Gross loans	112,142,786	96,668,040
Less: Deferred loan fees, net of costs	(188,164)	(200,411)
Less: Allowance for loan losses	(2,490,914)	(2,869,455)
Net Loans	<u>\$ 109,463,708</u>	<u>\$ 93,598,174</u>

Changes in the allowance for loan losses at December 31 are as follows:

	2013	2012
Balance, beginning of year	\$ 2,869,455	\$ 3,074,240
Credit provision for loan losses	(400,000)	-
Loan charge-offs	(9,613)	(219,513)
Loan recoveries	31,072	14,728
Balance, end of year	<u>\$ 2,490,914</u>	<u>\$ 2,869,455</u>

PROAMÉRICA BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 2 - LOANS, Continued

The following table presents the activity in the allowance for loan losses for the year 2013 and the recorded investment in loans and impairment method as of December 31, 2013 and 2012 by portfolio segment:

December 31, 2013	Commercial Secured by Real Estate	Commercial Not Secured by Real Estate	SBA	Consumer	Total
Allowance for Loan Losses:					
Beginning of Year	\$ 2,406,140	\$ 287,199	\$ 172,676	\$ 3,440	\$ 2,869,455
Provisions	(333,122)	(17,042)	(47,521)	(2,315)	(400,000)
Charge-offs	-	-	(9,613)	-	(9,613)
Recoveries	13,618	-	17,454	-	31,072
End of Year	<u>\$ 2,086,636</u>	<u>\$ 270,157</u>	<u>\$ 132,996</u>	<u>\$ 1,125</u>	<u>\$ 2,490,914</u>
Reserves:					
Specific	\$ -	\$ -	\$ -	\$ -	\$ -
General	2,086,636	270,157	132,996	1,125	2,490,914
	<u>\$ 2,086,636</u>	<u>\$ 270,157</u>	<u>\$ 132,996</u>	<u>\$ 1,125</u>	<u>\$ 2,490,914</u>
Loans Evaluated for Impairment:					
Individually	\$ 233,718	\$ 799,425	\$ 880,980	\$ -	\$ 1,914,123
Collectively	93,156,685	12,910,205	4,126,235	35,538	110,228,663
	<u>\$ 93,390,403</u>	<u>\$ 13,709,630</u>	<u>\$ 5,007,215</u>	<u>\$ 35,538</u>	<u>\$ 112,142,786</u>
December 31, 2012					
Allowance for Loan Losses:					
Beginning of Year	\$ 2,323,669	\$ 440,549	\$ 309,274	\$ 748	\$ 3,074,240
Provisions	301,984	(153,350)	(151,326)	2,692	-
Charge-offs	(219,513)	-	-	-	(219,513)
Recoveries	-	-	14,728	-	14,728
End of Year	<u>\$ 2,406,140</u>	<u>\$ 287,199</u>	<u>\$ 172,676</u>	<u>\$ 3,440</u>	<u>\$ 2,869,455</u>
Reserves:					
Specific	\$ -	\$ 77,293	\$ -	\$ -	\$ 77,293
General	2,406,140	209,906	172,676	3,440	2,792,162
	<u>\$ 2,406,140</u>	<u>\$ 287,199</u>	<u>\$ 172,676</u>	<u>\$ 3,440</u>	<u>\$ 2,869,455</u>
Loans Evaluated for Impairment:					
Individually	\$ 5,018,931	\$ 449,727	\$ 959,172	\$ -	\$ 6,427,830
Collectively	77,969,235	8,117,009	4,095,633	58,333	90,240,210
	<u>\$ 82,988,166</u>	<u>\$ 8,566,736</u>	<u>\$ 5,054,805</u>	<u>\$ 58,333</u>	<u>\$ 96,668,040</u>

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

NOTE 2 - LOANS, Continued

The Bank categorized 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, collateral adequacy, credit documentation, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes larger, non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. The Bank uses the following definitions for risk ratings:

Pass - Loans classified as pass include credits that do not meet the risk rating definitions below. These loans range from strong credits with more than adequate primary and secondary sources of repayment to loans with minor weaknesses that are adequately mitigated.

Special Mention - Loans classified as special mention have potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institutions credit position at some future date.

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

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss - Loans classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effect in the future. Loans classified as loss is removed from the Bank's books and, therefore, are not included in loan totals.

PROAMÉRICA BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 2 - LOANS, Continued

The risk category of loans by class of loans was as follows as of December 31, 2013 and December 31, 2012:

December 31, 2013	Pass	Special Mention	Substandard	Impaired	Total
Commercial secured by real estate	\$ 89,876,747	\$ -	\$ 3,279,938	\$ 233,718	\$ 93,390,403
Commercial not secured by real estate	12,910,205	-	-	799,425	13,709,630
SBA	3,758,743	235,083	132,409	880,980	5,007,215
Consumer	35,538	-	-	-	35,538
	<u>\$ 106,581,233</u>	<u>\$ 235,083</u>	<u>\$ 3,412,347</u>	<u>\$ 1,914,123</u>	<u>\$ 112,142,786</u>
December 31, 2012					
Commercial secured by real estate	\$ 69,548,599	\$ 4,604,537	\$ 3,816,099	\$ 5,018,931	\$ 82,988,166
Commercial not secured by real estate	7,868,259	248,750	-	449,727	8,566,736
SBA	4,027,584	-	68,049	959,172	5,054,805
Consumer	58,333	-	-	-	58,333
	<u>\$ 81,502,775</u>	<u>\$ 4,853,287</u>	<u>\$ 3,884,148</u>	<u>\$ 6,427,830</u>	<u>\$ 96,668,040</u>

PROAMÉRICA BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 2 - LOANS, Continued

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2013 and 2012:

	Still Accruing			Not Past Due	Total	Nonaccrual
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due			
December 31, 2013						
Loans:						
Commercial secured by real estate	\$ -	\$ -	\$ -	\$ 93,390,403	\$ 93,390,403	\$ -
Commercial not secured by real estate	-	-	-	13,709,630	13,709,630	-
SBA	-	-	-	5,007,215	5,007,215	212,584
Consumer	-	-	-	35,538	35,538	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$112,142,786</u>	<u>\$112,142,786</u>	<u>\$ 212,584</u>
December 31, 2012						
Loans:						
Commercial secured by real estate	\$ -	\$ -	\$ -	\$ 82,988,166	\$ 82,988,166	\$4,904,642
Commercial not secured by real estate	-	-	-	8,566,736	8,566,736	449,727
SBA	-	-	-	5,054,805	5,054,805	257,079
Consumer	-	-	-	58,333	58,333	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96,668,040</u>	<u>\$ 96,668,040</u>	<u>\$5,611,448</u>

PROAMÉRICA BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 2 - LOANS, Continued

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2013 and December 31, 2012:

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2013					
With no Related Allowance Recorded					
Commercial secured by real estate	\$ 305,128	\$ 233,718	\$ -	\$ 263,484	\$ 6,560
Commercial not secured by real estate	800,191	799,425	-	61,553	43,152
SBA	1,051,480	880,980	-	935,144	37,398
	<u>\$ 2,156,799</u>	<u>\$ 1,914,123</u>	<u>\$ -</u>	<u>\$ 1,260,181</u>	<u>\$ 87,110</u>
December 31, 2012					
With no Related Allowance Recorded					
Commercial secured by real estate	\$ 5,446,528	\$ 4,904,641	\$ -	\$ 5,011,911	\$ -
Commercial not secured by real estate	114,289	114,289	-	131,462	2,007
SBA	1,084,773	959,173	-	672,333	11,151
With an Allowance Recorded					
Commercial not secured by real estate	508,806	449,727	77,293	526,443	-
	<u>\$ 7,154,396</u>	<u>\$ 6,427,830</u>	<u>\$ 77,293</u>	<u>\$ 6,342,149</u>	<u>\$ 13,158</u>

Interest income included above recognized on an accrual basis on troubled debt restructured loans (TDR) amounted to \$87,110 and \$13,158 in 2013 and 2012, respectively.

As of December 31, 2013 and 2012, the Bank has a recorded investment in troubled debt restructurings of \$1,914,221 and \$2,824,896, respectively. The Bank has not allocated any specific reserves for those loans at December 31, 2013 and 2012, and has committed to lend no additional amounts to customers with outstanding loans that are classified as troubled debt restructurings as of December 31, 2013 and 2012.

The modification of the terms of the commercial loan performed during the year ended December 31, 2013 included an extension of the maturity date.

The Bank did not modify any loans considered to be troubled debt restructuring during the year ended December 31, 2012.

PROAMÉRICA BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 2 - LOANS, Continued

The troubled debt restructurings described above did not increase the allowance for loan losses, and did not result in any charge offs during the year ended December 31, 2013.

<u>December 31, 2013</u>	<u>Number of Loans</u>	<u>Pre- Modification Investment</u>	<u>Post- Modification Investment</u>
TDR's			
Commercial not secured by real estate	<u>1</u>	<u>\$ 799,425</u>	<u>\$ 799,425</u>

NOTE 3 - SALES OF SBA LOANS

At December 31, 2013 and 2012, the Bank did not have any SBA loans classified as held for sale.

SBA loans previously sold and currently serviced by the Bank amounted to \$12,098,588 and \$11,353,898 at December 31, 2013 and 2012, respectively. These loans are not included in the accompanying financial statements.

The servicing asset relating to sold loans at December 31, 2013 and 2012, amounted to \$280,298 and \$261,312, respectively. The related amortization expense for the years ended December 31, 2013 and 2012, amounted to \$28,267 and \$12,763, respectively.

NOTE 4 - PREMISES AND EQUIPMENT

Premises and equipment at December 31 is as follows:

	<u>2013</u>	<u>2012</u>
Fixtures and equipment	\$ 664,281	\$ 622,110
Software	646,485	584,197
Leasehold improvements	<u>703,012</u>	<u>703,012</u>
	2,013,778	1,909,319
Accumulated depreciation and amortization	<u>(1,074,064)</u>	<u>(875,914)</u>
	<u>\$ 939,714</u>	<u>\$ 1,033,405</u>

PROAMÉRICA BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 5 - DEPOSITS

Interest-bearing deposits at December 31 consist of the following:

	<u>2013</u>	<u>2012</u>
NOW accounts	\$ 3,113,138	\$ 2,261,402
Savings and money market	31,460,347	25,683,437
Insured Cash Sweep Money Market	-	21,002,805
Time certificate of deposit accounts \$250,000 and under	16,629,637	16,350,011
Time certificate of deposit accounts over \$250,000	250,149	700,000
Certificate of Deposit Account Registry Service time deposits	48,652,543	37,903,223
	<u>\$ 100,105,814</u>	<u>\$ 103,900,878</u>

As of December 31, 2013, all noninterest-bearing deposits are demand deposits. The maturity of time certificates of deposit is as follows:

Within one year	\$ 54,123,168
One to three years	7,777,161
Three to five years	<u>3,632,000</u>
	<u>\$ 65,532,329</u>

NOTE 6 - INCOME TAXES

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the difference are expected to reverse.

The valuation allowance was established because the Bank had not reported earnings sufficient enough to support the recognition of all of the deferred tax assets. As of December 31, 2013, the Bank reversed the valuation allowance as it was determined that it was more likely than not that the deferred tax assets will be realized.

PROAMÉRICA BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 6 - INCOME TAXES, Continued

The (benefit) provision for income taxes consists of the following:

	2013	2012
Current Taxes:		
Federal	\$ -	\$ -
State	800	800
Total Current Provision	<u>800</u>	<u>800</u>
Deferred Taxes:		
Federal	545,215	(399,101)
State	187,445	42,501
Total Deferred Provision (Benefit)	<u>732,660</u>	<u>(356,600)</u>
Change in Deferred Valuation Allowance	<u>(3,682,200)</u>	<u>356,600</u>
Income Tax (Benefit) Expense	<u>\$ (2,948,740)</u>	<u>\$ 800</u>

A comparison of the Federal statutory income tax rates to the Bank's effective income tax rates at December 31, are as follows:

	2013		2012	
	Amount	Rate	Amount	Rate
Statutory Federal tax	\$ 534,354	34.0 %	\$ 352,724	34.0 %
State franchise tax, net of Federal benefit	112,372	7.1 %	74,176	7.1 %
Decrease in valuation allowance	(3,682,200)	(234.3)%	(356,600)	(34.4)%
Stock-based compensation	73,195	4.6 %	13,891	1.3 %
Other items, net	13,539	1.0 %	(83,391)	(7.9)%
Actual Tax Expense	<u>\$ (2,948,740)</u>	<u>(187.6)%</u>	<u>\$ 800</u>	<u>0.1 %</u>

PROAMÉRICA BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 6 - INCOME TAXES, Continued

Deferred taxes are a result of differences between income tax accounting and generally accepted accounting principles with respect to income and expense recognition. The following is a summary of the components of the net deferred tax asset accounts recognized in the accompanying statements of financial condition at December 31:

	<u>2013</u>	<u>2012</u>
Deferred Tax Assets:		
Organizational expenses	\$ 184,375	\$ 207,788
Operating loss carryforwards	1,604,706	1,859,825
Allowance for loan losses due to tax limitations	865,760	1,172,616
Off-balance sheet reserve	11,160	5,251
Stock options	159,878	149,607
Nonaccrual loan interest	-	236,078
Accrued expenses	103,746	63,086
Federal and State Credits	112,519	108,264
Other	<u>272</u>	<u>315</u>
Total Deferred Tax Assets	3,042,416	3,802,830
Valuation Allowance	<u>-</u>	<u>(3,682,200)</u>
Deferred Tax Liabilities:		
Prepaid Expenses	34,036	-
Depreciation difference	48,873	100,802
Cash basis reporting for income tax purposes	<u>9,967</u>	<u>19,828</u>
Total Deferred Tax Liabilities	<u>92,876</u>	<u>120,630</u>
Net Deferred Tax Assets	<u>\$ 2,949,540</u>	<u>\$ -</u>

The Bank has net operating loss carry forwards of \$3,930,143 for Federal income and \$3,752,335 for State tax purposes. Federal net operating loss carry forwards, to the extent not used, will start expiring in 2026. California net operating loss carry forwards, to the extent not used will start expiring in 2016.

The Bank is subject to Federal income tax and franchise tax of the State of California. Federal income tax returns for the years ended December 31, 2012, 2011, and 2010, are open to audit by the Federal authorities. California State tax returns for the years ended December 31, 2012, 2011, 2010, and 2009, are open to audit by State authorities.

PROAMÉRICA BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 7 - STOCK OPTION PLAN

Under the terms of the 2006 Stock Option Plan (the Plan), officers, and key employees may be granted both nonqualified and incentive stock options. Directors and other consultants, who are not also an officer or employee, may only be granted nonqualified stock options. The Plan provides for options to purchase 799,500 shares of common stock at a price not less than 100 percent of the fair market value of the stock on the date of grant. Stock options expire no later than ten years from the date of the grant and generally vest over three to five years. The Plan provides for accelerated vesting if there is a change of control, as defined in the Plan. In addition to the stock options granted under the Plan, 40,625 stock options were granted to founders and a consultant in 2007. Those options were granted with an exercise price of \$10 per option and vested immediately. These options are included in the figures below. The Bank recognized share-based compensation cost of \$240,235 and \$40,857 in 2013 and 2012, respectively.

Activities in the Plan during 2013 and 2012, are summarized as follows:

		Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term
<u>December 31, 2013</u>	<u>Shares</u>		<u>Term</u>
Outstanding at beginning of year	583,745	\$ 7.23	
Granted	204,500	5.50	
Exercised	(20,000)	3.00	
Forfeited or expired	<u>(201,604)</u>	9.69	
Outstanding at end of year	<u>566,641</u>	<u>\$ 5.88</u>	<u>4.7 Years</u>
Options exercisable	<u>406,916</u>	<u>\$ 6.83</u>	<u>3.4 Years</u>
<u>December 31, 2012</u>			
Outstanding at beginning of year	655,745	\$ 6.86	
Granted	82,500	4.00	
Exercised	(1,000)	3.00	
Forfeited or expired	<u>(153,500)</u>	3.44	
Outstanding at end of year	<u>583,745</u>	<u>\$ 7.23</u>	<u>5.7 Years</u>
Options exercisable	<u>430,312</u>	<u>\$ 8.77</u>	<u>4.4 Years</u>

PROAMÉRICA BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 7 - STOCK OPTION PLAN, Continued

The total intrinsic value of options exercised during the years ended December 31, 2013 and 2012, was \$40,000 and \$590, respectively. The total intrinsic value of options outstanding at December 31, 2013 and 2012 was \$422,065 and \$93,960, respectively. As of December 31, 2013, there was \$79,103 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 1.3 years.

The fair value was estimated using the Black-Scholes Merton option-pricing model with the following weighted-average assumptions at December 31:

	2013	2012
Dividend yield	None	None
Expected life	3.1 Years	6.3 Years
Expected volatility	50%	50%
Risk-free interest rate	0.36%	1.21%
Weighted-Average Grant Date Fair Value	\$1.59	\$0.81

Since the Bank has a limited amount of historical stock activity, the expected volatility is based on the historical volatility of similar banks that have a longer trading history. The expected term represents the estimated average period of time that the options will remain outstanding. Since the Bank does not have sufficient historical data on the exercise of stock options, the expected term is based on the "simplified" method that measures the expected term of the average of the vesting period and the contractual term. The risk-free rate of return reflects the grant date interest rate offered for zero coupon U.S. Treasury bonds over the expected term of the options.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

The Bank leases their office facility under an operating lease which expires in 2022. Rental expense was \$358,534 and \$363,827 in 2013 and 2012, respectively. Future minimum rental payments under the operating lease as of December 31, 2013, are as follows:

Year Ended	Amount
2014	\$ 360,488
2015	373,363
2016	384,564
2017	372,056
2018	445,432
2019 and Thereafter	1,793,790
Total	<u>\$ 3,729,693</u>

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

NOTE 8 - COMMITMENTS AND CONTINGENCIES, Continued

Federal Home Loan Bank (FHLB) Line of Credit

The Bank will utilize FHLB borrowings to accommodate temporary differences in the rate of growth of the loan and deposit portfolios and to minimize interest rate risk. The Bank has pledged 41 and 20 loans for a total of \$42.6 million and \$18.9 million for the purpose of borrowing from the FHLB as of December 31, 2013 and 2012, respectively. The Bank did not have any advances as of December 31, 2013 and 2012, and the unused borrowing capacity was \$24.8 million and \$9.4 million, respectively.

There are two letters of credit issued by the FHLB on behalf of the Bank - One letter of credit is to secure the portion of demand deposits that are not FDIC insured for local agency deposits and the other letter of credit is to secure the office lease. The amount of the letter of credit to secure the uninsured portion of demand deposits totaled \$7,000,000 and \$5,000,000 as of December 31, 2013 and 2012, respectively. The letter of credit to secure the office lease totaled \$416,155 and \$480,160 as of December 31, 2013 and 2012, respectively. These letters of credit are issued using the pledged collateral and reduce the overall borrowing capacity by the amount of the letters of credit.

Federal Reserve Bank (FRB) Line of Credit

The Bank may utilize the FRB discount window for liquidity purposes. The Bank has pledged 61 and 75 loans for a total of \$46.4 million and \$54.5 million for the purpose of borrowing from the FRB as of December 31, 2013 and 2012, respectively. The Bank did not have any borrowings as of December 31, 2013 and 2012, and the unused borrowing capacity at the FRB was \$33.3 million and \$39.6 million, respectively.

Federal Funds Arrangement with Other Banks

To manage liquidity, the Bank has a Federal funds purchased line of credit outstanding with a correspondent bank. The terms and conditions of the credit facility allow the Bank to borrow funds for a short period of time and subject to availability of funds from the correspondent bank. The unused line of credit at December 31, 2013, was \$2 million with no outstanding balance.

NOTE 9 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank 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 include commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the accompanying balance sheet.

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

NOTE 9 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK, Continued

The Bank's exposure to credit losses in the event of nonperformance by the other parties for commitments to extend credit is represented by the contractual amount of these instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The following is a summary of contractual or notional amounts of off-balance sheet financial instruments that represent credit risk at December 31, 2013 and 2012, respectively:

	2013	2012
Financial instruments whose contract amounts represent credit risks:		
Commitments to extend credit	\$ 16,094,455	\$ 15,661,000
Letters of Credit	\$ 604,000	\$ 587,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates of not more than 12 months and may require payment of a fee. Since many of the commitments are not expected to be drawn upon, the total commitment amounts may not represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include marketable investment securities, accounts receivable, inventory, property, plant and equipment, and real properties.

NOTE 10 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank will consider granting loans to certain officers and directors and the companies with which they are associated. In the Bank's opinion, all loans and loan commitments to such parties are made on substantially the same terms, including interest rates and collateral as those prevailing at the time of comparable transactions with other persons.

Related party activity as of December 31 is as follows:

	2013	2012
Outstanding balance, beginning of year	\$ 2,681,586	\$ 2,786,148
Loan advances	392,000	-
Loan payments	(97,583)	(104,562)
Outstanding balance, end of year	\$ 2,976,003	\$ 2,681,586

Also, in the ordinary course of business, certain officers and directors and the companies with which they are associated have deposits with the Bank. In the Bank's opinion, all such deposit relationships with these parties are made on substantially the same terms and conditions, including interest rates and maturities, as those prevailing at the time of comparable transactions with any other persons. At December 31, 2013 and 2012, deposits from related parties totaled \$1,411,609 and \$1,974,796, respectively. One former director is an attorney whose firm received \$17,350 and \$31,264 for services to the Bank for the years ended December 31, 2013 and 2012, respectively.

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

NOTE 11 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the Federal 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 Bank's 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.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital (primarily common stock and retained earnings less goodwill) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that the Bank meets all capital adequacy requirements to which it is subject as of December 31, 2013.

As of December 31, 2013, the most recent notification from the FDIC categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since the notification that management believes have changed the Bank's category.

The Bank's actual and required capital amounts and ratios are presented below (amounts in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2013:						
Total capital (to risk-weighted assets)	\$26,196	21.02%	\$ 9,970	8.0%	\$ 12,462	10.0%
Tier 1 capital (to risk-weighted assets)	24,626	19.76%	4,985	4.0%	7,478	6.0%
Tier 1 capital (to average assets)	24,626	16.68%	5,906	4.0%	7,382	5.0%
As of December 31, 2012:						
Total capital (to risk-weighted assets)	\$24,056	20.97%	\$ 9,177	8.0%	\$ 11,472	10.0%
Tier 1 capital (to risk-weighted assets)	22,604	19.71%	4,587	4.0%	6,881	6.0%
Tier 1 capital (to average assets)	22,604	14.88%	6,076	4.0%	7,595	5.0%

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

NOTE 12 - FAIR VALUE

Fair Value Measurements Using Fair Value Hierarchy

ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The following section describes the valuation methodologies used for assets measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy. The Bank had no liabilities measured at fair value at December 31, 2013 and 2012.

- Foreclosed Assets - The fair value of foreclosed assets is determined, when possible, using recent appraised values of the asset less selling costs, recent transaction prices for similar assets less selling costs or listed sales prices less selling costs. As such, the Bank records foreclosed assets as non-recurring Level 3.
- Impaired Loans - A loan is considered impaired when it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. Impairment is measured based on the fair value of the underlying collateral or the discounted expected future cash flows. The Bank measures impairment on all nonaccrual loans for which it has established specific reserves as part of the specific allocated allowance component of the allowance for loan losses. As such, the Bank records impaired loans as non-recurring Level 2 when the fair value of the underlying collateral is based on an observable market price or current appraised value. When current market prices are not available or the Bank determines that the fair value of the underlying collateral is further impaired below appraised values, the Bank records impaired loans as non-recurring Level 3. The valuation technique used for all Level 3 nonrecurring loans is the sales comparison approach less a reserve for past due taxes and selling costs ranging from 5 percent to 10 percent.

PROAMÉRICA BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 12 - FAIR VALUE, Continued

Fair Value Measured on a Non-Recurring Basis

Certain assets are measured at fair value on a non-recurring basis; that is, the assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

The following table provides a summary of the financial instruments the bank measures on a non-recurring basis as of December 31 2013 and 2012:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<u>December 31, 2013</u>				
Assets measured on a non-recurring basis				
Impaired loans	\$ -	\$ 1,701,539	\$ 212,584	\$ 1,914,123
<u>December 31, 2012</u>				
Assets measured on a non-recurring basis				
Impaired loans	\$ -	\$ 5,277,076	\$ 1,073,462	\$ 6,350,538
OREO	-	-	3,920,225	3,920,225
	<u>\$ -</u>	<u>\$ 5,277,076</u>	<u>\$ 4,993,687</u>	<u>\$ 10,270,763</u>

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables' present information about the Bank's assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2013 and December 31, 2012. They indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Bank's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Bank's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The following methods and assumptions were used to estimate the fair values of significant financial instruments at December 31, 2013.

Cash and Due From Banks and Interest Bearing Deposits with Other Financial Institutions - The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Time Deposits with Other Financial Institutions – The fair values of time deposits with other financial institutions are estimated by discounting their future cash flows using rates at each reporting date for instruments with similar remaining maturities offered by comparable financial institutions and are classified as Level 2.

Other Real Estate Owned – represents real estate that has been foreclosed. At the time of foreclosure, these assets are recorded at fair value less costs to sell, which becomes the asset's new basis. Any write-downs based on the asset's fair value at the date of foreclosure are charged to the allowance for loan losses. The fair value of other real estate owned assets is generally based on recent real estate appraisals adjusted for estimated selling costs. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. Fair value estimates for other real estate owned are obtained from real estate brokers or other third-party consultants.

PROAMÉRICA BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS, Continued

Loans and Leases – For variable-rate loans that re-price frequently and have no significant change in credit risk, fair values are based on carrying values resulting in a Level 2 classification. The fair values for other loans are estimated using discounted cash flow analysis, and using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality are classified as Level 3. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price. All loans are presented as Level 3. No variable loans in 2013.

FHLB Stock – It is not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability and are classified as Level 1.

Accrued Interest Receivable – The carrying amounts of accrued interest receivable approximate their fair value in a Level 3.

Deposits – The fair values disclosed for demand deposits (e.g. interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e. their carrying amount) resulting in a Level 1 classification. For time deposits, the fair values for fixed rate certificates of deposit are estimated using a discounted cash flow methodology that applies market interest rates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Carrying amount of accrued interest payable approximates fair value resulting in a Level 1.

Off-Balance Sheet Instruments – Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account for remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments was not material at December 31, 2013.

PROAMÉRICA BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS, Continued

Non material fair value commitments at December 31, 2013 and 2012.

December 31, 2013	Carrying Amount	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Assets				
Cash and due from banks	\$ 1,677,932	\$ 1,677,932	\$ -	\$ -
Federal funds sold	28,440,000	28,440,000	-	-
Interest-bearing balances with other financial institutions	5,527,649	5,527,649	-	-
Time deposits with other financial institutions	1,480,000	-	1,483,351	-
Federal Home Loan Bank stock	482,400	-	-	482,400
Loans held for investment, net	109,463,708	-	-	112,562,000
Accrued interest receivable	350,202	350,202	-	-
Liabilities				
Deposits				
Noninterest-bearing demand	\$ 24,352,068	\$ 24,352,068	\$ -	\$ -
Interest-bearing accounts	100,105,814	-	100,453,000	-
Accrued interest payable	21,953	21,953	-	-
December 31, 2012				
Assets				
Cash and due from banks	\$ 2,439,931	\$ 2,439,931	\$ -	\$ -
Federal funds sold	43,390,000	43,390,000	-	-
Interest-bearing balances with other financial institutions	5,501,314	5,501,314	-	-
Time deposits with other financial institutions	2,200,000	-	2,205,686	-
Federal Home Loan Bank stock	515,200	-	-	515,200
Loans held for investment, net	93,598,174	-	-	98,795,000
Other real estate owned	3,920,225	-	-	3,920,225
Accrued interest receivable	289,617	289,617	-	-
Liabilities				
Deposits				
Noninterest-bearing demand	\$ 26,443,201	\$ 26,443,201	\$ -	\$ -
Interest-bearing accounts	103,900,878	-	104,375,000	-
Accrued interest payable	41,052	41,052	-	-

PROAMÉRICA BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 14 - PREFERRED STOCK AND WARRANTS

On September 26, 2011, the Company entered into and consummated a Securities Purchase Agreement (the Purchase Agreement) with the Secretary of the Treasury of the United States (the Secretary) under the Small Business Lending Fund program. Pursuant to the Purchase Agreement, the Company issued 3,750 shares of the Company's Senior Non-Cumulative Perpetual Preferred Stock, Series A (the Series A Preferred Stock), having a liquidation amount per share equal to \$1,000, for a total purchase price of \$3,750,000.

The Series A Preferred Stock is entitled to receive non-cumulative dividends, beginning September 27, 2011. The dividend rate, as a percentage of the liquidation amount, can fluctuate on a quarterly basis during the first 10 quarters during which the Series A Preferred Stock is outstanding, based upon changes in the level of "Qualified Small Business Lending" or "QSBL" (as defined in the Purchase Agreement) by the Bank. The dividend rate for the initial dividend period has been set at one percent (1%). For the second through ninth calendar quarters, the dividend rate may be adjusted to between one percent (1%) and five percent (5%) per annum, to reflect the amount of change in the Bank's level of QSBL. If the level of the Bank's qualified small business loans declines so that the percentage increase in QSBL as compared to the baseline level is less than 10 percent, then the dividend rate payable on the Series A Preferred Stock would increase. For the tenth calendar quarter through four and one half years after issuance, the dividend rate will be fixed at between one percent (1%) and seven percent (7%) based upon the increase in QSBL as compared to the baseline. After four and one half years from issuance, the dividend rate will increase to nine percent (9%).

The Series A Preferred Stock may be redeemed at any time at the Company's option, at a redemption price of 100 percent of the liquidation amount plus accrued but unpaid dividends to the date of redemption for the current period, subject to the approval of its Federal banking regulator.

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