



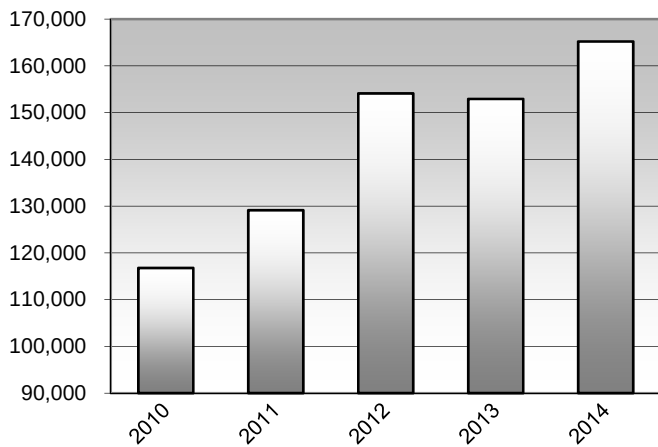
ANNUAL REPORT

2014

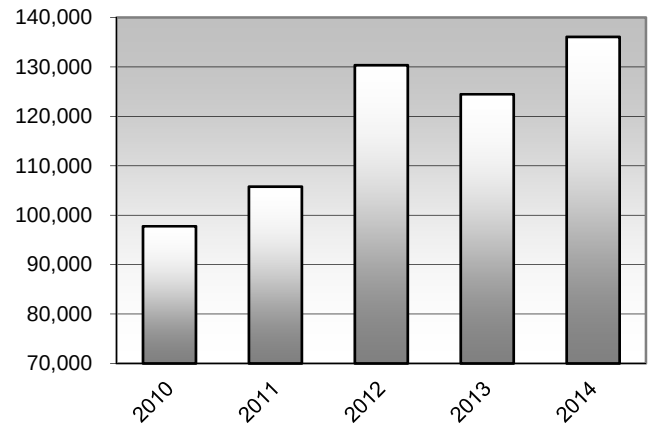
Financial Performance Graphs

Periods ended December 31

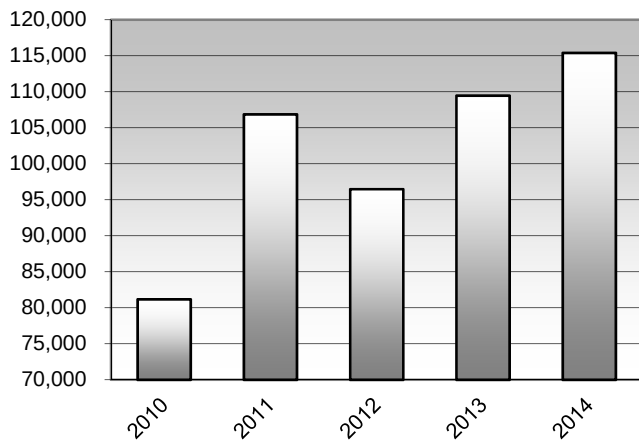
Total Assets (\$000s)



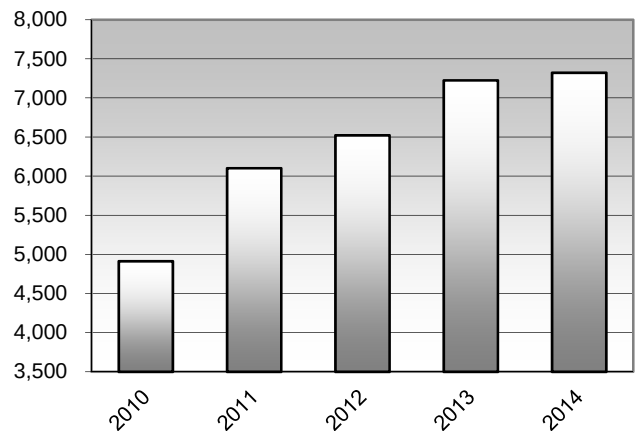
Total Deposits (\$000s)



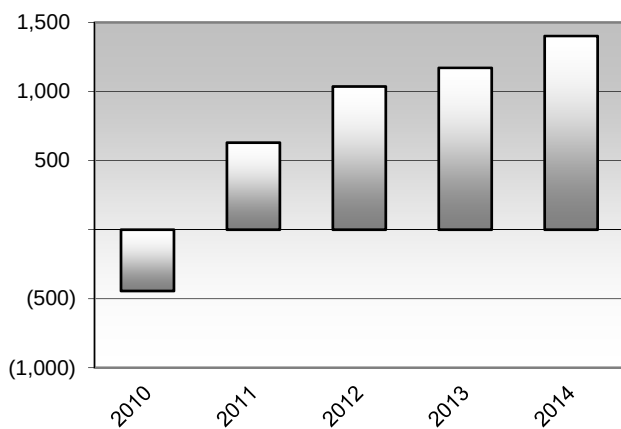
Total Loans (\$000s)



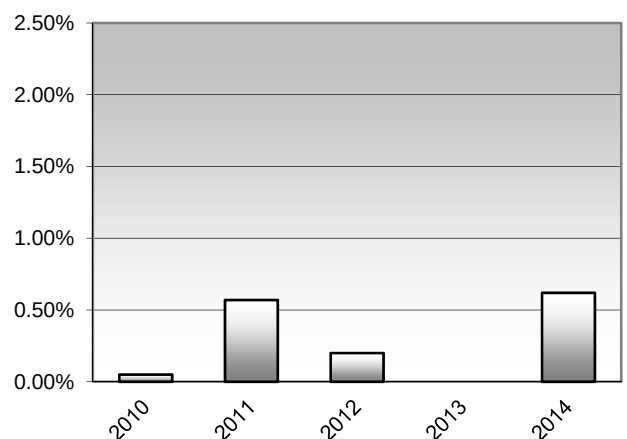
Operating Revenue (\$000s) (1)



Pretax Income Before Provision (\$000s) (2)



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



(1) Includes net interest income plus noninterest income.

(2) Pretax income before provision for loan losses.



April 29, 2014

Dear Shareholders, Clients and Supporters,

We are pleased to provide our 2014 Annual Report. ProAmérica Bank continues to achieve results that are positive at a pace that is commensurate with peers. As the economy gains momentum and as we transition to new leadership, we are committed to growing the Bank in a diligent and strategic manner.

Financial highlights for the year include:

- Increase in Total Assets 8.0%
- Increase in Operating Income (income before taxes and provision for loan losses) 19.7%
- Nonperforming Assets to Total Assets remained low at 1.2%

ProAmérica Bank attracts its customers for far more than banking products and services, but also because of the valued and individual relationships. We know that we are making meaningful steps when we see the success of our clients. We will continue to grow existing relationships and develop new ones with our exceptional ProAmérica Bank team.

Our focus of empowering communities is rooted in our founding principles and remains the foundation for moving the Bank forward.

We look forward to seeing you at our Annual Shareholders Meeting on Friday, May 29, 2015, at 11:00 am.

Sincerely,

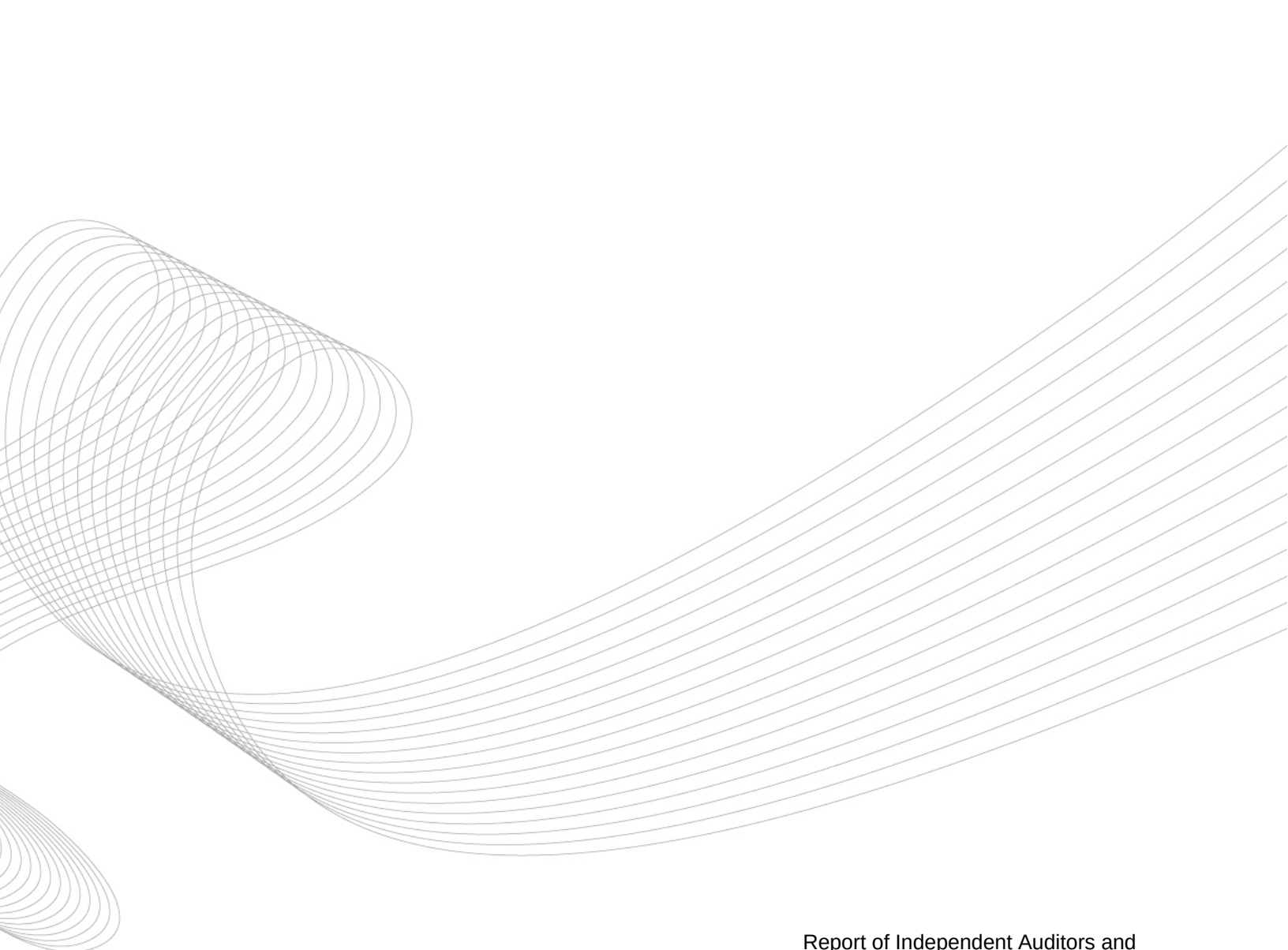
A handwritten signature in cursive script that reads 'Maria S. Salinas'.

Maria S. Salinas
Chairwoman of the Board
President

A handwritten signature in cursive script that reads 'Salvador Varela'.

Salvador Varela
Interim Chief Executive Officer and

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Report of Independent Auditors and
Financial Statements for

ProAmérica Bank

December 31, 2014 and 2013

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders of
ProAmérica Bank

Report on Financial Statements

We have audited the accompanying financial statements of ProAmérica Bank, which comprise the balance sheet as of December 31, 2014 and the related statement of income, changes in shareholders' equity, and cash flow for the year 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 audit. We conducted our audit 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 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, 2014, and the results of its operations and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements as of and for the year ended December 31, 2013, were audited by other auditors whose report dated March 20, 2014 expressed an unmodified opinion on those financial statements.

Moss Adams LLP

Los Angeles, California
March 27, 2015

PROAMÉRICA BANK
BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

ASSETS		
	2014	2013
Cash and due from banks	\$ 1,189,844	\$ 1,677,932
Federal funds sold	29,645,000	28,440,000
Interest-bearing balances in other financial institutions	8,566,429	5,527,649
	<u>39,401,273</u>	<u>35,645,581</u>
Cash and cash equivalents	39,401,273	35,645,581
Time deposits with other financial institutions	4,949,874	1,480,000
Loans, net of unearned income	117,520,255	111,954,622
Allowance for loan losses	<u>(2,118,953)</u>	<u>(2,490,914)</u>
	115,401,302	109,463,708
Net loans	115,401,302	109,463,708
Deferred tax asset	2,512,638	2,949,540
Premises and equipment, net	784,362	939,714
Federal Home Loan Bank stock	567,900	482,400
Accrued interest receivable and other assets	<u>1,596,693</u>	<u>1,965,547</u>
	<u>\$ 165,214,042</u>	<u>\$ 152,926,490</u>
Total assets	<u>\$ 165,214,042</u>	<u>\$ 152,926,490</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
DEPOSITS		
Noninterest-bearing deposits	\$ 28,655,245	\$ 24,352,068
Interest-bearing deposits	<u>107,417,539</u>	<u>100,105,814</u>
	136,072,784	124,457,882
Total deposits	136,072,784	124,457,882
ACCRUED INTEREST PAYABLE AND OTHER LIABILITIES	<u>1,064,904</u>	<u>1,064,644</u>
	<u>\$ 137,137,688</u>	<u>\$ 125,522,526</u>
Total liabilities	<u>\$ 137,137,688</u>	<u>\$ 125,522,526</u>
COMMITMENTS AND CONTINGENCIES (Note 8)	-	-
Preferred stock, no par value, 500,000 shares authorized; 3,750 shares issued and outstanding at December 31, 2014 and 2013	3,750,000	3,750,000
Common stock, no par value, 10,000,000 shares authorized; 2,771,000 shares issued and outstanding at December 31, 2014 and 2013	27,308,144	27,308,144
Additional paid in capital	1,957,044	1,910,569
Accumulated deficit	<u>(4,938,834)</u>	<u>(5,564,749)</u>
	28,076,354	27,403,964
Total shareholders' equity	<u>28,076,354</u>	<u>27,403,964</u>
Total liabilities and shareholders' equity	<u>\$ 165,214,042</u>	<u>\$ 152,926,490</u>

PROAMÉRICA BANK
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
INTEREST INCOME		
Interest and fees on loans	\$ 6,745,347	\$ 6,790,097
Interest on Federal funds sold	55,497	85,085
Interest on interest-bearing balances at other financial institutions	<u>102,837</u>	<u>78,411</u>
Total interest income	6,903,681	6,953,593
INTEREST EXPENSE		
Interest expense on deposits	<u>465,053</u>	<u>481,806</u>
Net interest income	6,438,628	6,471,787
PROVISION (CREDIT) FOR LOAN LOSSES	<u>339,540</u>	<u>(400,000)</u>
Net interest income after provision for loan losses	<u>6,099,088</u>	<u>6,871,787</u>
OTHER INCOME		
Service charges on deposit accounts	156,598	139,492
Gain on sale of loans	232,253	182,729
Bank Enterprise Award	355,000	323,000
Other fees and miscellaneous income	<u>139,437</u>	<u>107,864</u>
Total other income	<u>883,288</u>	<u>753,085</u>
OPERATING EXPENSES		
Salaries and other employee benefits	3,681,852	3,926,680
Occupancy	461,919	473,097
Equipment expense	142,661	145,002
Data processing	268,440	266,974
Professional services	453,514	369,458
Director compensation	161,613	78,866
Marketing expense	113,459	101,326
FDIC assessment	78,871	167,540
Other	<u>557,230</u>	<u>524,299</u>
Total operating expenses	<u>5,919,559</u>	<u>6,053,242</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	1,062,817	1,571,630
Provision (benefit) for income taxes	<u>436,902</u>	<u>(2,948,740)</u>
NET INCOME	625,915	4,520,370
DIVIDENDS ON PREFERRED STOCK	<u>(37,500)</u>	<u>(46,875)</u>
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	<u>\$ 588,415</u>	<u>\$ 4,473,495</u>
NET INCOME PER SHARE BASIC	<u>\$ 0.23</u>	<u>\$ 1.62</u>
NET INCOME PER SHARE DILUTED	<u>\$ 0.22</u>	<u>\$ 1.60</u>

PROAMÉRICA BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
DECEMBER 31, 2014 AND 2013

	Total ProAmerica Bank Shareholders' Equity					
	Preferred Stock	Common Stock		Additional Paid In Capital	Accumulated Deficit	Total Shareholders' Equity
		Shares Outsanding	Amount			
BALANCES at December 31, 2012	\$ 3,750,000	2,751,000	\$ 27,248,144	\$ 1,717,209	\$ (10,085,119)	\$ 22,630,234
Stock issuance	-	20,000	60,000	-	-	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
BALANCES at December 31, 2013	3,750,000	2,771,000	27,308,144	1,910,569	(5,564,749)	27,403,964
Net income	-	-	-	-	625,915	625,915
Dividends on preferred stock	-	-	-	(37,500)	-	(37,500)
Share-based compensation	-	-	-	83,974	-	83,974
BALANCES at December 31, 2014	<u>\$ 3,750,000</u>	<u>2,771,000</u>	<u>\$ 27,308,144</u>	<u>\$ 1,957,043</u>	<u>\$ (4,938,834)</u>	<u>\$ 28,076,353</u>

PROAMÉRICA BANK
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 625,915	\$ 4,520,370
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	194,779	198,149
Provision (credit) for loan losses	339,540	(400,000)
Gain on sale of loans	(232,253)	(182,729)
Net change in the deferred tax asset	436,902	(2,949,540)
Loss on sale of other real estate owned, net	-	33,125
Loss on disposal of fixed assets	-	2,500
Proceeds from the sale of other real estate owned (OREO)	-	229,050
Decrease (increase) in accrued interest receivable and other assets	368,855	(488,532)
Decrease (increase) in accrued interest payable and other liabilities	260	(55,957)
Share-based compensation expense	83,974	240,235
Net cash provided by operating activities	<u>1,817,972</u>	<u>1,146,671</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) in loans	(6,044,881)	(11,605,105)
Net (increase) decrease in time deposits with other financial institutions	(3,469,874)	720,000
Net (purchase) sale of FHLB stock	(85,500)	32,800
Purchase of premises and equipment	<u>(39,427)</u>	<u>(106,958)</u>
Net cash (used in) investing activities	<u>(9,639,682)</u>	<u>(10,959,263)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	11,614,902	(5,886,197)
Exercise of stock options	-	60,000
Cash dividends paid	<u>(37,500)</u>	<u>(46,875)</u>
Net cash provided by (used in) financing activities	<u>11,577,402</u>	<u>(5,873,072)</u>
Net increase (decrease) in cash and cash equivalents	3,755,692	(15,685,664)
Cash and cash equivalents, beginning of year	<u>35,645,581</u>	<u>51,331,245</u>
Cash and cash equivalents, end of year	<u><u>\$ 39,401,273</u></u>	<u><u>\$ 35,645,581</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 438,121	\$ 447,966
Taxes paid	\$ -	\$ 800
Loans to facilitate purchase of OREO	\$ -	\$ 3,677,700

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.

Concentration of credit risk – The Bank has no significant concentrations of credit risk with any individual party; however, the Bank's lending is concentrated in the Greater Los Angeles area.

As of December 31, 2014 and 2013, the Bank has cash deposits at other financial institutions in excess of FDIC insured limits. However, as the Bank places these deposits with major financial institutions and monitors the financial condition of these institutions, management believes the risk of loss to be minimal.

Subsequent events – The Bank has evaluated subsequent events for recognition and disclosure through March 27, 2015, 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, 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, 2014 and 2013.

Transfer of financial assets – Transfers of an entire financial asset, a group of financial assets, or a participating interest in an entire financial asset, are accounted for as sales when control has been relinquished. Control is deemed to be surrendered when the assets have been isolated from the Bank, 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 the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

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.

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 unless well secured and in the process of collection, 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.

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.

Note 1 – Summary of Significant Accounting Policies (continued)

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.

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.

Various regulatory agencies, as an integral part of their examination processes, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additional losses based on their judgment using information available to them at the time of their examination.

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

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.

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 stock – The Bank is a member of the Federal Home Loan Bank (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.

U.S. Small Business Administration (SBA) loans sales and servicing – The Bank sells or transfers loans, including the guaranteed portion of SBA loans (with servicing retained) for cash proceeds equal to the principal amount of loans, as adjusted to yield interest to the investor based upon the current market rates. The Bank records an asset representing the right to service loans for others when it sells a loan and retains the servicing rights. The fair value of servicing rights is estimated by discounting estimated future cash flows from servicing using discount rates that approximate current market rates and using estimated prepayment rates. The servicing rights are initially recorded at fair value and then are carried at the lower of cost or market and are amortized in proportion to, and over the period of, the estimated net servicing income, assuming prepayments. For purposes of evaluating and measuring impairment, servicing rights are based on a discounted cash flow methodology, current prepayment speeds, and market discount rates. Any impairment is measured as the amount by which the carrying value of servicing rights for a stratum exceeds its fair value. A premium over the adjusted carrying value is received upon the sale of the guaranteed portion of an SBA loan. The Bank's investment in an SBA loan is allocated among the sold and retained portions of the loan based on the relative fair value of each portion at the time of loan origination, adjusted for payments and other activities. Because the portion retained does not carry an SBA guarantee, part of the gain recognized on the sold portion of the loan may be deferred and amortized as a yield enhancement on the retained portion in order to obtain a market equivalent yield.

Note 1 – Summary of Significant Accounting Policies (continued)

The Bank evaluated the servicing assets for impairment at December 31, 2014 and 2013, and determined that no valuation was needed.

Income taxes – Deferred income tax assets are computed using the asset and liability 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. The most significant estimates relate to the allowance for loan losses, deferred tax assets and liabilities, and fair value of financial instruments.

Advertising costs – The Bank expenses the cost of advertising in the period incurred.

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.

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Earnings per common share – Basic earnings per common share (EPS) are computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect the weighted-average potential dilution that could occur if all potentially dilutive shares or other commitments to issue common stock were exercised or converted into common stock using the treasury stock method.

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 2013 financial statements have been reclassified to conform to the 2014 presentation. These reclassifications had no impact on the Bank's previously reported equity or net income.

Recently Issued Accounting Pronouncements – In July 2013, the FASB issued ASU No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU No. 2013-11 requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. No new recurring disclosures are required. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2013 and are to be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of ASU No. 2013-11 did not have a material impact on the Bank's financial statements.

Note 1 – Summary of Significant Accounting Policies (continued)

In January 2014, the FASB issued ASU No. 2014-04, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. ASU 2014-04 clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2014 and can be applied with a modified retrospective transition method or prospectively. The adoption of ASU No. 2014-04 is not expected to have a material impact on the Bank's financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which creates Topic 606 and supersedes Topic 605, Revenue Recognition. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In general, the new guidance requires companies to use more judgment and make more estimates than under current guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard is effective for public entities for interim and annual periods beginning after December 15, 2016; early adoption is not permitted. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Bank does not expect this ASU to have a material impact on the Bank's financial statements.

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

In June 2014, the FASB issued ASU No. 2014-12, *Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. The ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The amendments in this ASU can be applied prospectively or retrospectively and are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015 with early adoption permitted. The Bank does not expect this ASU to have a material impact on the Bank's financial statements.

In August 2014, the FASB issued ASU No. 2014-14, *Receivables - Troubled Debt Restructuring by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*. Under certain government-sponsored loan guarantee programs, such as those offered by the Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA), qualifying creditors can extend mortgage loans to borrowers with a guarantee that entitles the creditor to recover all or a portion of the unpaid principal balance from the government if the borrower defaults. The objective of this Update is to reduce diversity in practice by addressing the classification of foreclosed mortgage loans that are fully or partially guaranteed under government programs. Currently, some creditors reclassify those loans to real estate as with other foreclosed loans that do not have guarantees; others reclassify the loans to other receivables. This ASU requires the recognition of a separate other receivable related to the guarantee if all the prescribed criteria are met. The amendments affect creditors that hold government-guaranteed mortgage loans, including those guaranteed by the FHA and the VA. This ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2014 with early adoption permitted. The Bank does not expect this ASU to have a material impact on the Bank's financial statements.

In January 2015, the FASB issued ASU No. 2015-1, *Income Statement —Extraordinary and Unusual Items (Subtopic 225-20)*. The objective of this ASU is to simplify the income statement presentation requirements in Subtopic 225-20 by eliminating the concept of extraordinary items. Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. Eliminating the extraordinary classification simplifies income statement presentation by altogether removing the concept of extraordinary items from consideration. This ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015 with early adoption permitted. The Bank does not expect this ASU to have a material impact on the Bank's financial statements.

PROAMÉRICA BANK
NOTES TO FINANCIAL STATEMENTS

Note 2 – Loans

The following is a summary of loans at December 31:

	<u>2014</u>	<u>2013</u>
Loans		
Commercial secured by real estate	\$ 98,527,013	\$ 93,390,403
Commercial not secured by real estate	14,222,608	13,709,630
SBA	4,878,851	5,007,215
Consumer	<u>44,317</u>	<u>35,538</u>
Gross Loans	117,672,789	112,142,786
Less: deferred loan fees, net of costs	(152,534)	(188,164)
Less allowance for loan losses	<u>(2,118,953)</u>	<u>(2,490,914)</u>
Net loans	<u><u>\$ 115,401,302</u></u>	<u><u>\$ 109,463,708</u></u>

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

	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 2,490,914	\$ 2,869,455
Provision (credit) for loan losses	339,540	(400,000)
Loan charge-offs	(814,883)	(9,613)
Loan recoveries	<u>103,382</u>	<u>31,072</u>
Balance, end of year	<u><u>\$ 2,118,953</u></u>	<u><u>\$ 2,490,914</u></u>

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS

Note 2 – Loans (continued)

The following table presents the activity in the allowance for loan losses for the years ended and the recorded investment in loans and impairment method as of December 31, 2014 and 2013 by portfolio segment:

December 31, 2014	Commercial Secured by Real Estate	Commercial Not Secured By Real Estate	SBA	Consumer	Total
Allowance for loan losses:					
Beginning of year	\$ 2,086,636	\$ 270,157	\$ 132,996	\$ 1,125	\$ 2,490,914
Provisions	(409,641)	773,064	(27,547)	3,664	339,540
Charge-offs	-	(814,883)	-	-	(814,883)
Recoveries	-	103,382	-	-	103,382
End of year	<u>\$ 1,676,995</u>	<u>\$ 331,720</u>	<u>\$ 105,449</u>	<u>\$ 4,789</u>	<u>\$ 2,118,953</u>
Reserves:					
Specific	\$ -	\$ -	\$ -	\$ -	\$ -
General	1,676,995	331,720	105,449	4,789	2,118,953
	<u>\$ 1,676,995</u>	<u>\$ 331,720</u>	<u>\$ 105,449</u>	<u>\$ 4,789</u>	<u>\$ 2,118,953</u>
Loan evaluated for impairment:					
Individually	\$ 42,577	\$ -	\$ 796,704	\$ -	\$ 839,281
Collectively	98,484,436	14,222,608	4,082,147	44,317	116,833,508
	<u>\$ 98,527,013</u>	<u>\$ 14,222,608</u>	<u>\$ 4,878,851</u>	<u>\$ 44,317</u>	<u>\$ 117,672,789</u>
December 31, 2013					
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
	<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>

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

Note 2 – Loans (continued)

The risk category of loans by class of loans was as follows as of December 31, 2014 and December 31, 2013:

	Pass	Special Mention	Substandard	Impaired	Total
December 31, 2014					
Commercial secured by real estate	\$ 94,603,940	\$ 2,096,747	\$ 1,783,749	\$ 42,577	\$ 98,527,013
Commercial not secured by real estate	12,482,180	141,016	1,599,412	-	14,222,608
SBA	3,343,452	480,461	258,234	796,704	4,878,851
Consumer	44,317	-	-	-	44,317
	<u>\$ 110,473,889</u>	<u>\$ 2,718,224</u>	<u>\$ 3,641,395</u>	<u>\$ 839,281</u>	<u>\$ 117,672,789</u>
December 31, 2013					
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>

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2014 and 2013:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Not Past Due	Total	Nonaccrual
December 31, 2014						
Loans:						
Commercial secured by real estate	\$ -	\$ -	\$ 1,745,749	\$ 96,781,264	\$ 98,527,013	\$ -
Commercial not secured by real estate	-	-	-	14,222,608	14,222,608	-
SBA	-	-	-	4,878,851	4,878,851	164,775
Consumer	-	-	-	44,317	44,317	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,745,749</u>	<u>\$ 115,927,040</u>	<u>\$ 117,672,789</u>	<u>\$ 164,775</u>
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>

PROAMÉRICA BANK
NOTES TO FINANCIAL STATEMENTS

Note 2 – Loans (continued)

Impaired loans were as follows as of and for the years ended December 31, 2014 and 2013:

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2014					
With no related allowance recorded					
Commercial secured by real estate	\$ 42,577	\$ 42,577	\$ -	\$ 61,004	\$ 3,660
Commercial not secured by real estate	-	-	-	-	-
SBA	891,894	796,704	-	835,738	40,845
	<u>\$ 934,471</u>	<u>\$ 839,281</u>	<u>\$ -</u>	<u>\$ 896,742</u>	<u>\$ 44,505</u>
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>

The following table presents loans by class modified in trouble debt restructurings as of December 31, 2014:

	Number of Loans	Pre-Modification Investment	Post-Modification Investment
December 31, 2014			
Commercial secured by real estate	1	\$ 226,393	\$ 42,577
SBA	2	1,143,448	796,704
	<u>3</u>	<u>\$ 1,369,841</u>	<u>\$ 839,281</u>

Interest income included above recognized on an accrual basis on TDRs amounted to \$44,505 and \$87,110 in 2014 and 2013, respectively.

As of December 31, 2014 and 2013, the Bank has a recorded investment in troubled debt restructurings of \$839,281 and \$1,914,123, respectively. The Bank has not allocated any specific reserves for those loans at December 31, 2014 and 2013, and has committed to lend no additional amounts to customers with outstanding loans that are classified as troubled debt restructurings as of December 31, 2014 and 2013.

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, 2014.

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS

Note 2 – Loans (continued)

During the year ended December 31, 2014, there were no loans that were modified in a troubled debt restructuring.

The Bank had one modification considered to be a troubled debt restructuring during the year ended December 31, 2013, which related to the commercial loan portfolio and included an extension of the maturity date.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. There were no loans modified as troubled debt restructurings for which there was a payment default within 12 months following the modification during the year ended December 31, 2014. There was one loan modified as a trouble debt restructuring during the year ended December 31, 2013, that went into payment default within 12 months following the modification, and resulted in a charge-off of \$808,564 during the year ended December 31, 2014.

Note 3 – Sales of SBA Loans

At December 31, 2014 and 2013, 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 \$13,951,415 and \$12,098,588 at December 31, 2014 and 2013, respectively. These loans are not included in the accompanying financial statements.

The servicing asset relating to sold loans at December 31, 2014 and 2013, amounted to \$336,669 and \$280,298, respectively. The related amortization expense for the years ended December 31, 2014 and 2013, amounted to \$27,688 and \$28,267, respectively.

Note 4 – Premises and Equipment

Premises and equipment at December 31 is as follows:

	2014	2013
Fixtures and equipment	\$ 672,120	\$ 664,281
Software	607,349	646,485
Leasehold improvements	703,012	703,012
	1,982,481	2,013,778
Accumulated depreciation and amortization	(1,198,119)	(1,074,064)
	<u>\$ 784,362</u>	<u>\$ 939,714</u>

PROAMÉRICA BANK
NOTES TO FINANCIAL STATEMENTS

Note 5 – Deposits

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

	2014	2013
NOW accounts	\$ 3,665,424	\$ 3,113,138
Saving and money market	29,636,759	31,460,347
Time certificate of deposit accounts \$250,000 and under	23,223,000	16,629,637
Time certificate of deposit accounts over \$250,000	250,645	250,149
Certificate of deposit accounts registry service time deposits	50,641,711	48,652,543
	<u>\$ 107,417,539</u>	<u>\$ 100,105,814</u>

The scheduled maturities of time deposits are as follows as of December 31:

	2014	2013
Within one year	\$ 60,840,298	\$ 54,123,168
One to three years	12,178,058	7,777,161
Three to five years	1,097,000	3,632,000
	<u>\$ 74,115,356</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 excepted to reverse.

Prior to 2013 a valuation allowance was established because the Bank had not reported earnings sufficient to support the recognition of all of the deferred tax assets. In 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

Note 6 – Income Taxes (continued)

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

	2014	2013
Current Taxes:		
Federal	\$ -	\$ -
State	-	800
Total current provision	-	800
Deferred Taxes:		
Federal	331,282	545,215
State	105,620	187,445
Total deferred provision	436,902	732,660
Change in deferred valuation allowance	-	(3,682,200)
Income tax expense (benefit)	<u>\$ 436,902</u>	<u>\$ (2,948,740)</u>

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

	2014		2013	
	Amount	Rate	Amount	Rate
Statutory Federal tax	\$ 361,358	34.0 %	\$ 534,354	34.0 %
State franchise tax, net of Federal benefit	68,064	6.4 %	112,372	7.1 %
Decrease in valuation allowance	-	0.0 %	(3,682,200)	(234.3) %
Stock-based compensation	18,406	1.7 %	73,195	4.6 %
Other items, net	(10,926)	(1.0) %	13,539	1.0 %
Actual tax expense(benefit)	<u>\$ 436,902</u>	<u>41.1 %</u>	<u>\$ (2,948,740)</u>	<u>(187.6) %</u>

PROAMÉRICA BANK
NOTES TO FINANCIAL STATEMENTS

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:

	2014	2013
Deferred Tax Assets:		
Organizational expenses	\$ 160,963	\$ 184,375
Operating loss carryforwards	1,198,159	1,604,706
Allowance for loan losses due to tax limitations	680,160	865,760
Off-balance sheet reserve	8,626	11,160
Stock options	176,031	159,878
Accrued expenses	259,149	103,746
Federal and State credits	174,045	112,519
Other	273	272
Total deferred tax assets	2,657,406	3,042,416
Deferred Tax Liabilities:		
Prepaid expenses	43,376	34,036
Depreciation difference	101,392	48,873
Cash basis reporting for income tax purposes	-	9,967
Total deferred tax liabilities	144,768	92,876
Net deferred tax assets	\$ 2,512,638	\$ 2,949,540

The Bank has net operating loss carry forwards of \$2,946,830 for Federal income and \$2,768,222 for State tax purposes. Federal net operating loss carry forwards, to the extent not used, will start expiring in 2029. California net operating loss carry forwards, to the extent not used will start expiring in 2019. The Bank has California enterprise zone tax credit carryforwards of \$232,000. To the extent not utilized prior, these credits will start expiring in 2019. The Bank also has approximately \$4,000 of federal and California AMT credits that do not expire.

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, 2013, 2012, and 2011, are open to audit by the Federal authorities. California State tax returns for the years ended December 31, 2013, 2012, 2011, and 2010, are open to audit by State authorities.

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS

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 \$83,974 and \$240,235 in 2014 and 2013, respectively.

Activities in the Plan during 2014 and 2013 are summarized as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
December 31, 2014			
Outstanding at beginning of year	568,641	\$ 5.88	
Granted	13,167	6.68	
Exercised	-	-	
Forfeited or expired	(22,450)	10.00	
Outstanding at end of year	559,358	\$ 5.73	3.9 Years
Options exercisable	518,108	\$ 5.87	3.6 Years
December 31, 2013			
Outstanding at beginning of year	583,745	\$ 7.23	
Granted	206,500	5.50	
Exercised	(20,000)	3.00	
Forfeited or expired	(201,604)	9.69	
Outstanding at end of year	568,641	\$ 5.88	4.7 Years
Options exercisable	408,916	\$ 6.83	3.4 Years

PROAMÉRICA BANK
NOTES TO FINANCIAL STATEMENTS

Note 7 – Stock Option Plan (continued)

The total intrinsic value of options exercised during the years ended December 31, 2014 and 2013, was \$0 and \$40,000, respectively. The total intrinsic value of options outstanding at December 31, 2014 and 2013 was \$681,119 and \$465,472, respectively. As of December 31, 2014, there was \$34,380 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 1.6 years.

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

	2014	2013
Dividend yield	None	None
Expected life	5 Years	3.1 Years
Expected volatility	50%	50%
Risk-free interest rate	1.54%	0.36%
Weighted-average grant date fair value	\$2.98	\$1.59

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 \$364,277 and \$358,534 in 2014 and 2013, respectively. Future minimum rental payments under the operating lease as of December 31, 2014, are as follows:

Year Ended	Amount
2015	\$ 373,363
2016	384,564
2017	372,056
2018	445,432
2019	458,795
2020 and thereafter	1,334,995
Total	<u>\$ 3,369,205</u>

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS

Note 8 – Commitments and Contingencies (continued)

Federal Home Loan Bank 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 31 and 41 loans for a total of \$32.6 million and \$42.6 million for the purpose of borrowing from the FHLB as of December 31, 2014 and 2013, respectively. The Bank did not have any advances as of December 31, 2014 and 2013, and the unused borrowing capacity was \$20.3 million and \$24.8 million, respectively.

There are three letters of credit issued by the FHLB on behalf of the Bank – the first letter of credit is to secure the portion of demand deposits that are not Federal Deposit Insurance Corporation (FDIC) insured for local agency deposits, the second letter of credit is to secure the office lease, and the last letter of credit is to insure a borrower's life insurance premiums. The amount of the letter of credit to secure the uninsured portion of demand deposits totaled \$7 million as of December 31, 2014 and 2013. The letter of credit to secure the office lease totaled \$352,150 and \$416,155 as of December 31, 2014 and 2013, respectively. The letter of credit to insure a borrower's life insurance premiums totaled \$370,281 and \$0 as of December 31, 2014 and 2013, 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 line of credit – The Bank may utilize the Federal Reserve Bank (FRB) discount window for liquidity purposes. The Bank has pledged 80 and 61 loans for a total of \$58.0 million and \$46.4 million for the purpose of borrowing from the FRB as of December 31, 2014 and 2013, respectively. The Bank did not have any borrowings as of December 31, 2014 and 2013, and the unused borrowing capacity at the FRB was \$36.7 million and \$33.3 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, 2014 and 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.

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NOTES TO FINANCIAL STATEMENTS

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:

	2014	2013
Financial instruments whose contract amounts represent credit risks:		
Commitments to extend credit	\$ 8,474,570	\$ 16,094,455
Letters of credit	84,000	604,000
	<u>\$ 8,558,570</u>	<u>\$ 16,698,455</u>

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:

	2014	2013
Outstanding balance, beginning of year	\$ 2,976,003	\$ 2,681,586
Loan advances	508,000	392,000
Loan payments	<u>(73,781)</u>	<u>(97,583)</u>
Outstanding balance, end of year	<u>\$ 3,410,222</u>	<u>\$ 2,976,003</u>

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS

Note 10 – Related-Party Transactions (continued)

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, 2014 and 2013, deposits from related parties totaled \$2,078,884 and \$1,411,609, respectively.

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, 2014.

As of December 31, 2014, 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.

PROAMÉRICA BANK
NOTES TO FINANCIAL STATEMENTS

Note 11 – Regulatory Matters (continued)

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, 2014:						
Total capital (to risk-weighted assets)	\$ 27,589	20.50%	\$ 10,765	8.00%	\$ 13,457	10.00%
Tier 1 capital (to risk-weighted assets)	25,901	19.25%	5,383	4.00%	8,074	6.00%
Tier 1 capital (to average assets)	25,901	16.00%	6,563	4.00%	8,204	5.00%
As of December 31, 2013:						
Total capital (to risk-weighted assets)	\$ 26,196	21.02%	\$ 9,970	8.00%	\$ 12,462	10.00%
Tier 1 capital (to risk-weighted assets)	24,626	19.76%	4,985	4.00%	7,478	6.00%
Tier 1 capital (to average assets)	24,626	16.68%	5,906	4.00%	7,382	5.00%

Note 12 – Regulatory Capital

The Federal Reserve and the Federal Deposit Insurance Corporation approved final capital rules in July 2013, that substantially amend the existing capital rules for banks. These new rules reflect, in part, certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010 (which standards are commonly referred to as “Basel III”) as well as requirements contemplated by the Dodd-Frank Act.

Under the new capital rules, the Bank will be required to meet certain minimum capital requirements that differ from current capital requirements. The rules implement a new capital ratio of common equity Tier 1 capital to risk-weighted assets. Common equity Tier 1 capital generally consists of retained earnings and common stock (subject to certain adjustments) as well as accumulated other comprehensive income (“AOCI”), except to the extent that the Bank exercises a one-time irrevocable option to exclude certain components of AOCI as of March 31, 2015. The Bank will also be required to establish a “conservation buffer,” consisting of a common equity Tier 1 capital amount equal to 2.5% of risk-weighted assets to be phased in by 2019. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases, and discretionary bonuses to executive officers.

The prompt corrective action rules are modified to include the common equity Tier 1 capital ratio and to increase the Tier 1 capital ratio requirements for the various thresholds. For example, the requirements for the Bank to be considered well-capitalized under the rules will be a 5.0% leverage ratio, a 6.5% common equity Tier 1 capital ratio, an 8.0% Tier 1 risk-based capital ratio, and a 10.0% total risk-based capital ratio. To be adequately capitalized, those ratios are 4.0%, 4.5%, 6.0%, and 8.0%, respectively.

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS

Note 12 – Regulatory Capital (continued)

The rules modify the manner in which certain capital elements are determined. The rules make changes to the methods of calculating the risk-weighting of certain assets, which in turn affects the calculation of the risk-weighted capital ratios. Higher risk weights are assigned to various categories of assets, including commercial real estate loans, credit facilities that finance the acquisition, development or construction of real property, certain exposures or credit that are 90 days past due or are nonaccrual, securitization exposures, and in certain cases mortgage servicing rights and deferred tax assets.

The Bank is required to comply with the new capital rules on January 1, 2015, with a measurement date of March 31, 2015. The conservation buffer will be phased-in beginning in 2016, and will take full effect on January 1, 2019. Certain calculations under the rules will also have phase-in periods.

Note 13 – Fair Value

Fair value measurements using fair value hierarchy – Accounting Standards Codification (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 – 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 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 – 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, 2014 and 2013.

PROAMÉRICA BANK
NOTES TO FINANCIAL STATEMENTS

Note 13 – Fair Value (continued)

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.

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 2014 and 2013:

	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)	
December 31, 2014				
Assets measured on a non-recurring basis				
Impaired loans	\$ -	\$ 164,775	\$ 674,506	\$ 839,281
	<u>\$ -</u>	<u>\$ 164,775</u>	<u>\$ 674,506</u>	<u>\$ 839,281</u>
December 31, 2013				
Assets measured on a non-recurring basis				
Impaired loans	\$ -	\$ 1,701,539	\$ 212,584	\$ 1,914,123
	<u>\$ -</u>	<u>\$ 1,701,539</u>	<u>\$ 212,584</u>	<u>\$ 1,914,123</u>

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS

Note 14 – Fair Value of Financial Instruments

The following tables' present information about the Bank's financial assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2014 and December 31, 2013. 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, 2014.

Cash and due from banks, federal funds sold, 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.

Note 14 – Fair Value of Financial Instruments (continued)

Loans, net – For variable-rate loans that re-price frequently and have no significant change in credit risk, fair values are based on carrying values. 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.

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 3.

Accrued interest receivable and payable – The carrying amounts of accrued interest receivable and payable approximate their fair value in a Level 1.

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.

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, 2014.

PROAMÉRICA BANK

NOTES TO FINANCIAL STATEMENTS

Note 14 – Fair Value of Financial Instruments (continued)

December 31, 2014	Carrying Amount	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Assets				
Cash and due from banks	\$ 1,189,844	\$ 1,189,844	\$ -	\$ -
Federal funds sold	29,645,000	29,645,000	-	-
Interest-bearing balances with other financial institutions	8,566,429	8,566,429	-	-
Time deposits with other financial institutions	4,949,874	-	4,954,571	-
Federal Home Loan Bank stock	567,900	-	-	567,900
Loans, net	115,401,302	-	164,775	116,691,225
Accrued interest receivable	291,147	291,147	-	-
Liabilities				
Deposits				
Noninterest-bearing demand	\$ 28,655,245	\$ 28,655,245	\$ -	\$ -
Interest-bearing accounts	107,417,539	-	107,732,755	-
Accrued interest payable	39,938	39,938	-	-
December 31, 2013				
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, net	109,463,708	-	-	112,562,000
Other real estate owned	-	-	-	-
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	-	-

Note 15 – Preferred Stock

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.

Note 15 – Preferred Stock (continued)

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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