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FR Y-6
OMB Number 7100-0297
Approval expires December 31, 2015
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Board of Governors of the Federal Reserve System

FRB RICHMOND
Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844 (c)(1)(A)); Section 8(a) of the International Banking Act (12 U.S.C. § 3106(a)); Sections 11(a)(1), 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); Section 211.13(c) of Regulation K (12 C.F.R. § 211.13(c)); and Section 225.5(b) of Regulation Y (12 C.F.R. § 225.5(b)) and section 10(c)(2)(H) of the Home Owners' Loan Act. Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies and top-tier savings and loan holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report.

I, James S. Mahan, III
Name of the Holding Company Director and Official

Chairman/CEO
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

James S Mahan
Signature of Holding Company Director and Official

03/31/2015
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

☒ is included with the FR Y-6 report
☐ will be sent under separate cover
☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID 3884863
C.I.

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2014
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address
Live Oak Bancshares, Inc.
Legal Title of Holding Company

1741 Tiburon Drive
(Mailing Address of the Holding Company) Street / P.O. Box

Wilmington	NC	28403
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

S. Brett Caines	Chief Financial Officer
Name	Title

910-796-1645
Area Code / Phone Number / Extension

910-799-7104
Area Code / FAX Number

brett.caines@liveoakbank.com
E-mail Address

www.liveoakbank.com
Address (URL) for the Holding Company's web page

Does the reporter request confidential treatment for any portion of this submission?

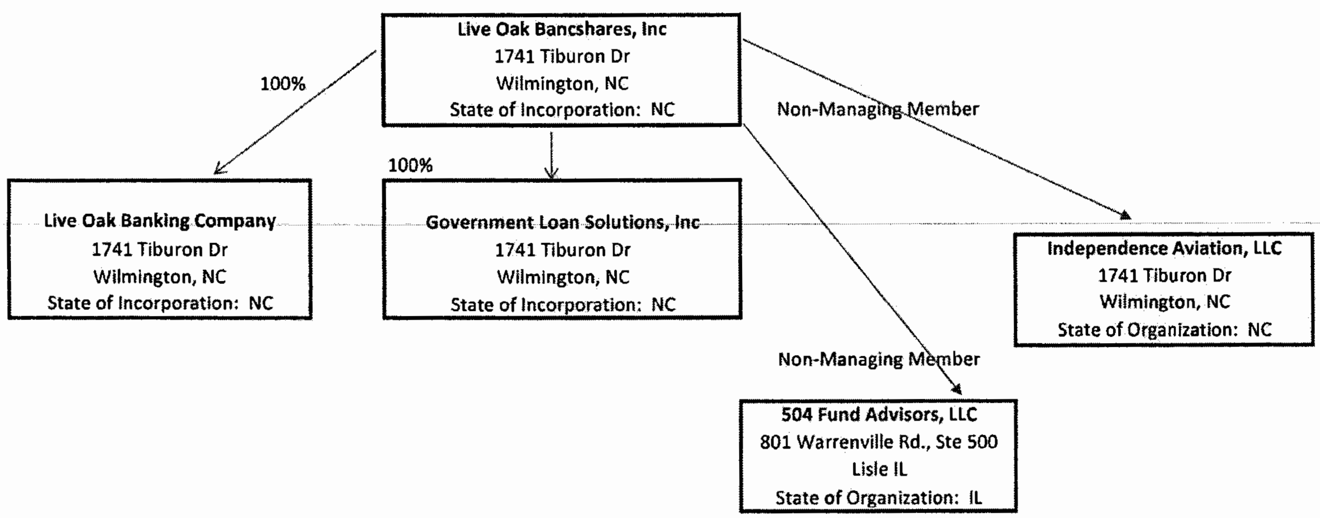
☐ Yes Please identify the report items to which this request applies:

☐ In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.
☐ The information for which confidential treatment is sought is being submitted separately labeled "Confidential."

☒ No

Live Oak Bancshares, Inc.
Organization Chart
12/31/2014

As of 12/31/2014



Form FR Y-6

LIVE OAK BANCSHARES, INC
Wilmington, North Carolina
Fiscal Year Ending December 31, 2014

Report Item 1: Annual Report to Shareholders

The bank holding company prepares an annual report for its shareholders. Copy attached.

Report Item 2: Organizational Chart

ID RSSD	LEGAL NAME	ADDRESS	INTERCOMPANY OWNERSHIP	OWNERSHIP %	MANAGEMENT
3684663	Live Oak Bancshares, Inc	Wilmington, North Carolina, US	Bank Holding Company		Managing Direct Holder of Live Oak Banking Company, Independence Aviation, LLC, and Government Loan Solutions, Inc
3650608	Live Oak Banking Company	Wilmington, North Carolina, US	Subsidiary-State Non-member Bank	100%	Managing Direct Holder of Live Oak #1; Live Oak Bancshares, Inc (Manager)
4305301	Independence Aviation, LLC	Wilmington, North Carolina, US	Subsidiary Non-Bank Other Company	100%	Live Oak Bancshares, Inc (Manager)
4658312	Government Loan Solutions, Inc	Wilmington, North Carolina, US	Subsidiary Non-Bank Other Company	100%	Live Oak Bancshares, Inc (Manager)
4552673	504 Fund Advisors, LLC	Lisle, Illinois, US	Subsidiary Non-Bank Other Company	50%	Live Oak Bancshares, Inc (Limited Partner/NonManaging Member)
4367028	nCino, Inc	Wilmington, North Carolina, US	Subsidiary Non-Bank Other Company	9%	Live Oak Banschares, Inc (Minority Interest)

Report Item 2b: Depository Institution Branch Listing
Detail report enclosed.

Report Item 3: Securities Holders
Detail report enclosed.

Report Item 4: Insiders
Detail report enclosed.

Live Oak Bancshares, Inc.
2013 FR Y-6
Item 2b.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	3650808	LIVE OAK BANKING COMPANY	1741 TIBURON DRIVE	WILMINGTON	NC	28403	NEW HANOVER	UNITED STATES	462249	0	LIVE OAK BANKING COMPANY	3650808	

FR Y-6 12/31/2014

Item 3.1

List of individuals/companies that held voting securities of 5% or more at fiscal year end:

(1)(a) Name/City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number of Each Class of Voting Securities-All Voting Common Stock	(1)(c) Percentage of Each Class of Voting Securities-All Voting Common Stock	(1)(c) Percentage of Each Class of Voting Securities-All Non-Voting Common Stock	
Mahan, III James S. Trustee of the James S. Mahan, III Revocable Trust under agreement dated August 22, 2006 Wilmington, NC, USA	USA	3,104,530	12.99%		
Mahan, Marguerite D. Trustee of the Marguerite D. Mahan Revocable Trust under agreement dated August 22, 2006 Wilmington, NC, USA	USA	2,998,770	12.55%		
Koury, Maurice J. Burlington, NC, USA	USA	1,950,560	8.16%		
Bay Pond Investors USB, LLC Boston, MA, USA	Bermuda	710,810	2.97%	1,444,240	
Bay Pond Partners, L.P. Boston, MA, USA	USA	977,210	4.09%	1,985,530	
Ithan Creek Investors USB, LLC Boston, MA, USA	Cayman Islands	275,810	1.15%	560,390	
Wolf Creek Investors USB, LLC Boston, MA, USA	Bermuda	182,710	0.76%	371,240	
Wolf Creek Partners, L.P. Boston, MA, USA	USA	178,230	0.75%	362,130	
Total Wellington Management Company Group		2,324,770	9.73%	4,723,530	100%
Williams, William L, III Wilmington, NC, USA	USA	1,252,520	5.24%		

Item 3.2

List of individuals/companies that held 5% or more voting securities during the year but not at the end of the year:

Cameron, Bruce B, Estate Wilmington, NC, USA	USA	1,240,690	5.85%
Underwood, Neil Lawrence Wilmington, NC, USA	USA	1,150,010	5.42%

Report Item 4: Insiders

(1), (2), (3)(a)(b)(c), and 4(a)(b)(c)

Name, City, State, Country	Occupation if other than with Bank Holding Company	Title & Position with Bank Holding Company	Title & Position with Subsidiaries	Title & Position with Other Businesses (include names of other businesses)	Voting Shares/Percentage in Bank Holding Company	Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held
William L. Williams, III Wilmington, NC USA	n/a	Vice Chairman and Director	EVP, Corporate Relationship Officer and Director-Live Oak Banking Company Director-504 Fund Advisors Director-GLS, Inc.	n/a	1,252,520 / 5.24%	n/a	Homestay, Inc – 50% Medical Park Hotels, LLC – 25% Billee, LLC – 50% WLW Family Holdings, LLC – 42%
Glen F. Hoffsis Westerville, OH USA	Dean of the College of Veterinary Medicine – Lincoln Memorial University	Director	Director-Live Oak Banking Company	Partner—Greenbriar Veterinary Services Director – Banfield Pet Hospital, Portland, OR	61,290 / 0.26%	n/a	Greenbriar Veterinary Services – 50%
James S. Mahan, III, Trustee of the James S. Mahan Revocable Trust under Agreement dated 8/22/2006 Wilmington, NC USA	n/a	Chairman, CEO and Director	Chairman, CEO and Director-Live Oak Banking Company Chairman/Director-nCino, Inc. Director-504 Fund Advisors Director-GLS, Inc.	Director – Plexus Capital Management, LLC	3,104,530 / 12.99%	n/a	n/a

Marguerite D. Mahan, Trustee of the Marguerite D. Mahan Revocable Trust under Agreement dated 8/22/2006 Wilmington, NC USA	n/a	n/a	n/a	n/a	2,998,770 / 12.55%	n/a	n/a
H. Kel Landis, III Raleigh, NC USA	Principal – Plexus Capital Management, LLC	Director	Director-Live Oak Banking Company	Principal – Plexus Capital Management, LLC	209,400 / 0.88%	n/a	n/a
David G. Lucht Wilmington, NC USA	n/a	Chief Risk Officer and Director	EVP, Chief Risk Officer and Director-Live Oak Banking Company Director-nCino, Inc. Director-504 Fund Advisors Director-GLS, Inc. Manager-Independence Aviation, LLC	n/a	500,000 / 2.09%	n/a	n/a
William H. Cameron Wilmington, NC USA	Partner and Principal of Cameron family businesses	Director	Director-Live Oak Banking Company	President of Cameron Management, Inc.	223,770 / .94%	n/a	Cameron Management, Inc. – 50% WHC Holdings LLC – 100% TriState Properties – 100%
Neil L. Underwood Wilmington, NC USA	n/a	President and Director	President and Director-Live Oak Banking Company Director-nCino	Sole Owner – Underwood Ventures Sole Owner – NuEquity	1,050,010 / 4.39%	n/a	Underwood Ventures – 100% NuEquity – 100%

			Managing Member – Independence Aviation, LLC				
Miltom E. Petty Burlington, NC USA	Chief Financial Officer-Carolina Hosiery Mills, Inc.	Director	Director-Live Oak Banking Company	Chief Financial Officer-Carolina Hosiery Mills, Inc.	81,410 / 0.34%	n/a	n/a
Jerald L. Pullins New Canaan, CT USA	Consultant and Manager/Director of healthcare companies	Director	Director-Live Oak Banking Company	Managing Member, SeniorCare Homes LLC; Chairman of the Board of Directors, US Physical Therapy, Inc; Chairman of the Board of Baldwin Brothers Memorial Cremation Society, Inc.	236,380 / 0.99%	n/a	SeniorCare Homes, LLC-99% voting control
Diane B. Glossman New Hope, PA USA	Retired Investment Analyst and Consultant	Director	Director- Live Oak Banking Company Director – Ambac Assurance Director—Powa Technologies Director – WMI Holdings Director – QBE NA	n/a	5,000 / 0.02%	n/a	n/a
Steven Brett Caines Wilmington, NC USA	n/a	Chief Financial Officer	Chief Financial Officer-Live Oak Banking Company	n/a	426,050 / 1.78%	n/a	n/a

			Director-GLS, Inc. Manager-Independence Aviation, LLC				
Steven J Smits Wilmington, NC USA	n/a	Chief Credit Officer	Chief Credit Officer-Live Oak Banking Company	n/a	60,000 / .25%	n/a	n/a

LIVE OAK BANCSHARES, INC.

2014 Annual Report

2014 Annual Report

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DHG
DIXON HUGHES GOODMAN LLP

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors
Live Oak Bancshares, Inc.
Wilmington, North Carolina

We have audited the accompanying consolidated balance sheets of Live Oak Bancshares, Inc. (the "Company") as of December 31, 2014, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Live Oak Bancshares, Inc. as of December 31, 2014, 2013 and 2012 and the results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Greenville, North Carolina
March 6, 2015

Live Oak Bancshares, Inc.
Consolidated Balance Sheets
December 31, 2014, 2013 and 2012

	December 31, 2014	2013	2012
		(In thousands)	
Assets			
Cash and due from banks	$ 29,902	$ 37,244	$ 44,173
Certificates of deposit with other banks	10,000	-	-
Investment securities available-for-sale	49,318	19,446	15,416
Loans held for sale	295,180	159,438	145,183
Loans held for investment	203,936	141,349	92,669
Allowance for loan losses	(4,407)	(2,723)	(5,108)
Net loans	199,529	138,626	87,561
Premises and equipment, net	35,279	25,036	18,951
Foreclosed assets	371	341	232
Servicing assets	34,999	29,053	24,220
Investments in non-consolidated affiliates	6,345	11,467	-
Other assets	12,392	9,704	6,732
Total assets	$ 673,315	$ 430,355	$ 342,468
Liabilities and Shareholders' Equity			
Liabilities			
Deposits:			
Noninterest-bearing	$ 14,728	$ 13,022	$ 2,479
Interest-bearing	507,352	343,598	284,195
Total deposits	522,080	356,620	286,674
Short term borrowings	6,100	-	-
Long term borrowings	41,849	12,325	12,205
Other liabilities	11,472	9,415	10,668
Total liabilities	581,501	378,360	309,547
Redeemable equity securities	-	3,605	1,161
Shareholders' equity			
Non-cumulative perpetual preferred stock (Series A), 6,800 shares authorized, issued and outstanding	-	-	-
Preferred stock, no par value, 1,000,000 authorized, none issued or outstanding	-	-	-
Class A common stock, no par value, 100,000,000 shares authorized, 23,896,400, 20,318,330 and 20,274,950 shares issued and outstanding, respectively	53,780	18,319	20,535
Class B common stock, no par value, 10,000,000 shares authorized, 4,723,530 shares issued and outstanding in 2014	50,015	-	-
Retained earnings (deficit)	(12,066)	30,262	11,980
Accumulated other comprehensive income (loss)	85	(191)	542
Total shareholders' equity, attributed to Live Oak Bancshares, Inc.	91,814	48,390	33,057
Noncontrolling interest	-	-	(1,297)
Total equity	91,814	48,390	31,760
Total liabilities and shareholders' equity	$ 673,315	$ 430,355	$ 342,468

Live Oak Bancshares, Inc.
Consolidated Statements of Income

For the years ended December 31, 2014, 2013 and 2012

	December 31,		
	2014	2013	2012
	(In thousands, except per share data)		
Interest income			
Loans and fees on loans	$ 19,891	$ 14,481	$ 11,178
Investment securities, taxable	455	391	467
Other interest earning assets	163	430	80
Total interest income	20,509	15,302	11,725
Interest expense			
Deposits	4,731	3,947	2,975
Borrowings	1,121	574	653
Total interest expense	5,852	4,521	3,628
Net interest income	14,657	10,781	8,097
Provision for (recovery of) loan losses	2,793	(858)	2,110
Net interest income after provision for loan losses	11,864	11,639	5,987
Noninterest income			
Loan servicing revenue and revaluation	10,622	7,926	8,346
Net gains on sales of loans	49,977	38,225	33,535
Gain on deconsolidation of subsidiary	-	12,212	-
Equity in loss of non-consolidated affiliates	(2,221)	(2,756)	-
Gain (loss) on sale of sale of securities available for sale	(74)	11	-
Other noninterest income	1,738	849	549
Total noninterest income	60,042	56,467	42,430
Noninterest expense			
Salaries and employee benefits	29,165	20,766	17,968
Travel expense	5,392	4,458	3,115
Professional services expense	4,100	2,237	2,580
Advertising and marketing expense	3,316	2,316	2,181
Occupancy expense	1,771	1,678	679
Data processing expense	2,660	1,749	1,420
Equipment expense	1,422	1,042	738
Other expense	6,644	5,918	4,938
Total noninterest expense	54,470	40,164	33,619
Income before taxes	17,436	27,942	-
Income tax expense	7,388	-	-
Net income	10,048	27,942	14,798
Net loss attributable to noncontrolling interest	-	120	1,297
Net income attributable to Live Oak Bancshares, Inc.	$ 10,048	$ 28,062	$ 16,095
Basic earnings per share	$ .42	$ 1.38	$ .83
Diluted earnings per share	$ .41	$ 1.37	$ .80

Live Oak Bancshares, Inc.
Consolidated Statements of Comprehensive Income

For the years ended December 31, 2014, 2013 and 2012

	December 31,		
	2014	2013	2012
		(In thousands)	
Net income	$ 10,048	$ 27,942	$ 14,798
Other comprehensive income (loss) before tax:			
Net unrealized gain (loss) on investment securities arising during the period	255	(722)	39
Reclassification adjustment for (gain) loss on sale of securities available for sale included in net income	74	(11)	-
Other comprehensive income (loss) before tax	329	(733)	39
Income tax expense	53	-	-
Other comprehensive income (loss), net of tax	276	(733)	39
Total comprehensive income	$ 10,324	$ 27,209	$ 14,837

Live Oak Bancshares, Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2014, 2013 and 2012

	Common stock						
	Shares				Accumulated other	Non-	
	Class A	Class B	Amount	Retained earnings	comprehensive income (loss)	controlling interest	Total equity
				(In thousands)			
Balance at December 31, 2011	1,711,830	17,123,580	$ 19,696	$ 7,384	$ 503	$ -	$ 27,583
Net income (loss)	-	-	-	16,095	-	(1,297)	14,798
Other comprehensive income	-	-	-	-	39	-	39
Sales of common stock	23,790	238,180	588	-	-	-	588
Stock option exercise	94,500	945,500	792	-	-	-	792
Employee stock purchase program	12,270	125,300	289	-	-	-	289
Reclass to redeemable equity securities	-	-	(1,161)	-	-	-	(1,161)
Stock option based compensation expense	-	-	81	-	-	-	81
Restricted stock expense	-		250	-	-	-	250
Dividends (distributions to shareholders)	-	-	-	(11,499)	-	-	(11,499)
Balance at December 31, 2012	1,842,390	18,432,560	20,535	11,980	542	(1,297)	31,760
Net income (loss)	-	-	-	28,062	-	(120)	27,942
Other comprehensive loss	-	-	-	-	(733)	-	(733)
Repurchase of common stock	(13,480)	(134,860)	(444)	-	-	-	(444)
Stock option exercise	4,560	45,440	100	-	-	-	100
Issuance of common stock on acquisition	4,540	45,460	150	-	-	-	150
Employee stock purchase program	8,100	83,620	234	-	-	-	234
Reclass to redeemable equity securities	-	-	(2,444)	-	-	-	(2,444)
Reclassification of all stock to single class	18,472,220	(18,472,220)	-	-	-	-	-
Deconsolidation of subsidiary	-	-	-	-	-	1,417	1,417
Stock option based compensation expense	-	-	38	-	-	-	38
Restricted stock expense	-		150	-	-	-	150
Dividends (distributions to shareholders)	-	-	-	(9,780)	-	-	(9,780)
Balance at December 31, 2013	20,318,330	-	18,319	30,262	(191)	-	48,390
Net income	-	-	-	10,048	-	-	10,048
Other comprehensive income	-	-	-	-	276	-	276
Reclass from redeemable equity securities	-	-	3,605	-	-	-	3,605
Sales of common stock	65,914	-	273	-	-	-	273
Stock option exercise	191,660	-	177	-	-	-	177
Employee stock purchase program	23,006	-	331	-	-	-	331
Issuance of common stock grants	685,700	-	2,992	-	-	-	2,992
Common stock issued in private placement, net of offering cost	2,324,770	4,723,530	74,631	-	-	-	74,631
Debt conversion to common stock	287,020	-	3,052	-	-	-	3,052
Stock option based compensation expense	-	-	272	-	-	-	272
Restricted stock expense	-	-	143	-	-	-	143
Dividends (distributions to shareholders)	-	-	-	(52,376)	-	-	(52,376)
Balance at December 31, 2014	23,896,400	4,723,530	$ 103,795	$ (12,066)	$ 85	$ -	$ 91,814

See Notes to Consolidated Financial Statements

Live Oak Bancshares, Inc.
Consolidated Statements of Cash Flows

For the years ended December 31, 2014, 2013 and 2012

	December 31,		
	2014	2013	2012
		(In thousands)	
Cash flows from operating activities			
Net income	$ 10,048	$ 27,942	$ 14,798
Adjustments to reconcile net income to net cash provided (used) by operations:			
Depreciation and amortization	2,159	1,459	673
Provision for (recovery of) loan losses	2,793	(858)	2,110
Amortization of premium on securities, net of accretion	87	120	99
Amortization (accretion) of discount on unguaranteed loans	2,575	1,410	(136)
Deferred tax expense	4,092	-	-
Originations of loans held for sale	(519,677)	(315,372)	(276,447)
Proceeds from sales of loans held for sale	433,912	339,342	276,676
Net gains (loss) on sale of foreclosed assets	-	(37)	1
Net increase in servicing assets	(5,946)	(4,833)	(5,489)
Net gains on sale of loans held for sale	(49,977)	(38,225)	(33,535)
Loss (gain) on sale of securities available-for-sale	74	(11)	-
Net (gain) loss on sale of premises and equipment	(256)	152	31
Stock option based compensation expense	272	38	81
Stock grants	2,992	-	-
Restricted stock expense	143	150	250
Gain on deconsolidation of subsidiary	-	(12,212)	-
Equity in loss of non-consolidated affiliates	2,221	2,756	-
Non-cash basis recovery in deconsolidation of subsidiary	-	3,976	-
Changes in assets and liabilities:			
Accounts receivable and other assets	(2,407)	(2,077)	(843)
Accrued expenses and other liabilities	(1,101)	825	3,611
Net cash provided (used) by operating activities	(117,996)	4,545	(18,120)
Cash flows from investing activities			
Purchases of securities available-for-sale	(34,721)	(11,858)	(1,773)
Proceeds from sales, maturities, calls, and principal paydown of securities available-for-sale	5,017	6,986	3,139
Proceeds from sale of foreclosed assets	-	622	1,010
Investment in certificates of deposit	(10,000)	-	-
Capital investments in non-consolidated affiliates	(6,613)	(4,570)	-
Net increase in loans held for investment	(66,582)	(52,743)	(10,960)
Proceeds from sale of premises and equipment	2,200	30	-
Purchases of premises and equipment	(14,346)	(7,726)	(14,191)
Net cash used in investing activities	(125,045)	(69,259)	(22,775)
Cash flows from financing activities			
Net increase in deposits	165,460	69,946	64,511
Proceeds from long term borrowings	34,966	-	3,623
Repayment of long term borrowings	(2,390)	(130)	(77)
Proceeds from short term borrowings	6,100	-	-
Stock option exercise	177	100	792
Sale of common stock, net	75,235	234	877
Repurchase of common stock	-	(444)	-
Shareholder dividend distributions	(43,849)	(11,921)	(12,194)
Net cash provided by financing activities	235,699	57,785	57,532
Net increase (decrease) in cash and cash equivalents	(7,342)	(6,929)	16,637
Cash and cash equivalents, beginning	37,244	44,173	27,536
Cash and cash equivalents, ending	$ 29,902	$ 37,244	$ 44,173

See Notes to Consolidated Financial Statements

Live Oak Bancshares, Inc.
Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2014, 2013 and 2012

	December 31,		
	2014	2013	2012
		(In thousands)	
Supplemental disclosure of cash flow information			
Interest paid	$ 5,769	$ 4,525	$ 3,630
Income tax	3,820	-	-
Supplemental disclosures of noncash operating, investing, and financing activities			
Unrealized holding gains (losses) on available-for-sale securities	$ 329	$ (733)	$ 39
Conversion of convertible subordinated debt into common stock	3,052	-	-
Transfers from loans to foreclosed real estate and other repossessions	311	1,273	2,529
Transfers from foreclosed real estate to SBA receivable	281	432	1,286
Loans to facilitate the sale of foreclosed assets	-	147	-
Issuance of common stock on acquisition	-	150	-
Dividends declared but not paid	1,532	2,841	4,982
Non-cash dividend	9,514	-	-

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Live Oak Banking Company (the "Bank") was organized and incorporated under the laws of the State of North Carolina and commenced operations on May 12, 2008. In the first quarter of 2009, Live Oak Bancshares (the "Company") was formed to acquire all the outstanding shares of Live Oak Banking Company. The Bank is headquartered in the city of Wilmington, North Carolina and has a sales office in Atlanta, Georgia. The Bank specializes in providing lending services to small businesses nationwide in targeted industries. The Bank identifies and grows within credit-worthy industries through expertise within those industries. A significant portion of the loans originated by the Bank are guaranteed by the Small Business Administration ("SBA") under the 7(a) program. The guaranteed portion of the loan is available for sale in the secondary market. The Bank routinely engages in the sale of participating interests of the unguaranteed portion. As a state chartered bank, the Bank is subject to regulation by the North Carolina Commissioner of Banks and the Federal Deposit Insurance Corporation.

In 2010, the Bank formed Live Oak Number One, Inc. to hold properties foreclosed on by the Bank. Live Oak Number One is a wholly-owned subsidiary.

During 2011, the Company formed Independence Aviation, LLC, a wholly-owned subsidiary, for the purpose of purchasing an aircraft to be used for business purposes by the Company.

In January 2012, the Company formed nCino, LLC ("nCino") to further develop and sell cloud-based banking software that was built off of the Force.com platform and transformed into a bank operating system used to streamline the lending process of financial institutions. In 2012 nCino was a majority-owned subsidiary of the Company. In 2013 the Company's ownership changed such that nCino became a minority-owned subsidiary of the Company. In December 2013 the legal structure of nCino converted from an LLC to a corporation. At year-end 2013, the Company owned 45.94% of nCino. In June of 2014 the Company divested its ownership in nCino to shareholders in the form of a dividend with a subsequent investment of $6.1 million later in 2014. At December 31, 2014, the Company owned 9.02% of nCino.

In September 2013, the Company acquired Government Loan Solutions ("GLS") as a wholly-owned subsidiary. GLS is a management and technology consulting firm that advises, and offers solutions and services to participants in the government guaranteed lending sector. GLS, which was founded in 2006, primarily provides services in connection with the settlement, accounting, and securitization processes for government guaranteed loans, including loans originated under the SBA 7(a) loan programs and USDA guaranteed loans. The Company accounted for the transaction as a business combination under the acquisition method of accounting, and as such the assets acquired and liabilities assumed in the transaction were recorded at their respective fair values as of the acquisition date. The purchase price was $150 thousand comprised of common stock of the Company. The allocation of the purchase price resulted in tangible assets of $35 thousand, a book of business and business model valued at $155 thousand, goodwill of $272 thousand and liabilities of $314 thousand. Goodwill associated with GLS was written off in 2014.

In December 2013, the Company jointly formed 504 Fund Advisors, LLC ("504 Fund") with Pennant Management, Inc. ("Pennant Management"). As of December 31, 2014, 504 Fund was a 50% owned investment established for the purpose of underwriting and managing SBA 504 loans held by The Pennant 504 Fund ("Pennant 504"). The portfolio managers of Pennant 504 are employees of GLS and an outside owner/manager of the 504 Fund. The Company's wholly owned subsidiaries, Live Oak Bank and GLS, provide various advisory and human resource services to Pennant 504, for which both are reimbursed. The services provided to Pennant 504 do not result in either the Bank or GLS having the ability to directly influence management operations or decisions that directly impact the financial standing of the Company or its subsidiaries. Pennant Management serves as 504 Fund's investment advisor and has voting authority with respect to 100% of the value of its outstanding interests. Accordingly, the Company's investment in the 504 Fund is accounted for under the equity method. The Company's cumulative investment in the 504 Fund was $750 thousand and $250 thousand in 2014 and 2013, respectively. Under the equity method, the carrying amount of this investment was $231 thousand at December 31, 2014.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Basis of Presentation

All information in the Notes to Consolidated Financial Statements has been presented in thousands, except percentage, time period, stock option, share and per share data. The accounting and reporting policies of the Company and the Bank follow generally accepted accounting principles and general practices within the financial services industry. The following is a description of the significant accounting and reporting policies the Company follows in preparing and presenting its consolidated financial statements.

Consolidation Policy

The consolidated financial statements include the financial statements of the Company and wholly-owned subsidiaries of Live Oak Banking Company, Live Oak Number One, Independence Aviation and GLS. All significant intercompany balances and transactions have been eliminated in consolidation. In addition, the Company evaluates its relationships with other entities to identify whether they are variable interest entities and to assess whether it is the primary beneficiary of such entities. If the determination is made that the Company is the primary beneficiary, then that entity is included in the consolidated financial statements. If an entity is not a variable interest entity, the Company also evaluates arrangements in which there is a general partner or managing member to determine whether consolidation is appropriate.

Investments in unconsolidated subsidiaries representing ownership of at least 20% but less than or equal to 50%, are accounted for under the equity method. For these investments, the Company records its investment in non-consolidated affiliates and the portion of income or loss in equity in income of non-consolidated affiliates. The Company periodically evaluates these investments for impairment.

On January 28, 2013, the Company's ownership in nCino declined by 21.54%, from 64.36% to 42.82%. This decrease in ownership and related influence occurred as a result of nCino selling additional equity to outside investors for $7.5 million. As a result, the Company deconsolidated nCino, accounting for its remaining 42.82% investment using the equity method. The gain on the deconsolidation of nCino holdings was $12.2 million, which arose from the combination of a gain of $9.7 million related to the remeasurement of the retained investment in nCino at fair value and $2.5 million related to the recovery of negative net assets in the investee at the date of transfer. The fair value of the investment is a Level 3 measurement (see Note 9) based upon the consideration paid by outside investors for a 33.5% ownership interest in nCino. The Company's investment in nCino was accounted for as an equity method investment at December 31, 2013. As previously indicated, the Company divested of its ownership in nCino via a dividend to shareholders in June 2014. In August 2014 the Company again invested $6.1 million in nCino for 9.02% ownership. The Company's carrying value of its investment in nCino was $6.1 million and $11.3 million as of December 31, 2014 and 2013, respectively. According to the decreased level of influence, the Company's investment in nCino at December 31, 2014 was accounted for as a cost method investment.

The Company will continue to be one of nCino's customers; however, the power to direct the joint venture's most significant activities is now controlled by outside investors.

Business Segments

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Management has determined that the Company has one significant operating segment, which is providing a lending platform for small businesses nationwide. In determining the appropriateness of segment definition, the Company considers the materiality of a potential segment, the components of the business about which financial information is available and regularly evaluates relative to resource allocation and performance assessment.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Private Placement

In connection with the private placement, the Company issued and sold 7,048,300 shares of common stock on August 5, 2014 consisting of 2,323,770 voting shares and 4,723,530 non-voting shares in exchange for total proceeds of $74.6 million, net of offering costs.

In connection with the private placement, the Company also terminated its S-Corporation status and became a taxable corporate entity (C Corporation) on August 3, 2014. The consolidated statement of shareholders' equity presents a contribution to the capital of the corporate entity followed by a constructive distribution to the owners .

Stock Split

On September 23, 2014, the Board of Directors declared a ten-for-one stock split of the Company's Class A and Class B common shares, which was effected in the form of a common stock dividend distributed on October 10, 2014. Except for the amount of authorized shares, all references to share and per share amounts in the consolidated financial statements and accompanying notes to the consolidated financial statements have been retroactively restated to reflect the stock split.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and, valuations of servicing assets.

Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "cash and due from banks".

To comply with banking regulations, the Company is required to maintain certain average cash reserve balances. The daily average cash reserve requirement was approximately $17.2 million, $11.9 million and $9.9 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Certificates of Deposit with other Banks

Certificates of deposit with other banks currently have maturities ranging from March 2016 through December 2018 and bear interest at rates ranging from .55% to 1.85%. None of the certificates of deposit had maturities of three months or less at the time of origination. All investments in certificates of deposit are with FDIC insured financial institutions and none exceed the maximum insurable amount of $250 thousand.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held-to-maturity or trading, are classified as "available-for-sale" and recorded at fair value. Unrealized gains and losses are excluded from earnings and reported in other comprehensive income. The Company's entire portfolio for the periods presented is available-for-sale.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. At each reporting date, the Company evaluates each investment security in a loss position for other than temporary impairment ("OTTI"). The Company evaluates declines in market value below cost for debt securities by assessing the likelihood of selling the security prior to recovering its cost basis. If the Company intends to sell the debt security or it is more-likely-than-not that the Company will be required to sell the debt security prior to recovering its cost basis, the Company will write down the security to fair value with the full charge recorded in earnings. If the Company does not intend to sell the debt security and it is not more-likely-than-not that the Company will be required to sell the debt security prior to recovery, the security will not be considered other-than-temporarily impaired unless there are credit losses associated with the security. In that case: (1) where credit losses exist, the portion of the impairment related to those credit losses should be recognized in earnings; (2) any remaining difference between the fair value and the cost basis should be recognized as part of other comprehensive income. For equity securities, any other-than-temporary impairment is recognized with the full charge recorded in earnings. To determine whether an impairment of equity securities is OTTI, the Company considers whether it has the ability and intent to hold the investment until there is a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary.

In determining whether OTTI exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sales of securities are recorded on the trade date and are determined using the specific identification method.

Loans Held For Sale

Management designates loans as held for sale based on its intent to sell guaranteed portions in the SBA Secondary Market and unguaranteed portions to participant banks and credit unions. Salability requirements of the guaranteed portion include, but are not limited to, full disbursement of the loan commitment amount. Loans originated and intended for sale are carried at the lower of cost or estimated fair value. The cost basis of loans held for sale includes the deferral of loan origination fees and costs. Deferred fees and costs are accreted and amortized for loans classified held for sale until the sale occurs. At loan settlement, the pro-rata portion, based on the percent of the total loan sold, of the remaining deferred fees and costs are recognized as an adjustment to the gain on sale.

As part of our management of the loans held in our portfolio, we will occasionally transfer loans from held for investment to held for sale. Upon transfer, any associated allowance for loan and lease loss is charged off and the carrying value of the loans is adjusted to the estimated fair value. The loans are subsequently accounted for at the lower of cost or fair value, with valuation changes recorded in other non-interest income. Gains or losses on the sale of these loans are also recorded in non-interest income. In certain circumstances, loans designated as held for sale may later be transferred back to the loan portfolio based upon our intent and ability to hold the loans for the foreseeable future. We transfer these loans to loans held for investment at the lower of cost or fair value.

In accordance with SBA regulation, the Bank is required to retain 10% of the principal balance of any SBA 7(a) loan comprised of unguaranteed dollars. With written consent from the SBA, the Bank may sell down to a 5% exposure comprised of unguaranteed dollars. During 2012, the SBA approved the Bank to sell to the 5% retention level participating interests of the unguaranteed portion of loans originated on or before June 30, 2012 that have been fully funded for a period of eighteen months. This approval expired on June 30, 2014. Loans held for sale generally consists of guaranteed dollars and the unguaranteed portion up to the SBA retention minimums discussed above. The gain on sale recognized in income is the sum of the premium on the guaranteed loan, the fair value of the servicing assets recognized, less the discount recorded on the unguaranteed portion of the loan retained.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Generally, all guaranteed portions and unguaranteed portions that meet the required retention balances prescribed by the Small Business Administration and meet salability requirements were classified as held for sale. A negative change in the credit quality of a loan results in the loan classification changing from held for sale to held for investment.

The following summarizes the activity pertaining to loans held for sale for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Balance at beginning of year	$ 159,438	$ 145,183	$ 111,877
Originations	519,677	315,372	276,447
Proceeds from sales	(433,912)	(339,342)	(276,676)
Gain on sale of loans	49,977	38,225	33,535
Balance at end of period	$ 295,180	$ 159,438	$ 145,183

Loans Held for Investment

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal amount adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premium or discount on purchased loans. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method. For sold loans, loan origination fees, net of certain direct origination costs, are recognized as a gain on sale of loans once the loan has sold. Discounts and premiums on any purchased loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Loans designated as held for investment, include the required retention amount defined by the SBA comprised of unguaranteed dollars and loans designated as troubled debt restructurings, nonaccrual, greater than thirty days past due, and risk grade at a 5 or worse as defined by internal risk rating metrics.

Interest income on loans is recognized as earned on a daily accrual basis. The accrual of interest on loans is discontinued when principal or interest is past due 90 days or the loan is determined to be impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectable.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the un-collectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status and other circumstances impacting the probability of collecting scheduled principal and interest payments when due.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Loans classified as troubled debt restructured ("TDR") loans are considered impaired. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

A TDR is a restructuring of a loan in which a concession is granted to a borrower experiencing financial difficulty. A loan is accounted for as a TDR if the Company, for reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise grant. A TDR typically involves a modification of terms such as a reduction of the interest rate below the current market rate for a loan with similar risk characteristics or the waiving of certain financial loan covenants without corresponding offsetting compensation or additional support. The Company measures the impairment loss of a TDR using the methodology for individually impaired loans.

Interest is accrued and credited to income based on the principal amount outstanding. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due or when the loan becomes ninety days past due. When interest accrual is discontinued, all unpaid accrued interest for the current year is reversed. Interest income is subsequently recognized on the cash-basis or cost-recovery method, as appropriate. When facts and circumstances indicate the borrower has regained the ability to meet the required payments, the loan is returned to accrual status. Past due status of loans is determined based on contractual terms. Cash payments of interest on nonaccrual loans will be applied to the principal balance of the loan. Interest accruals are resumed on nonaccrual loans only when the loan is 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. Management's judgment is based on an assessment of the borrower's financial condition and a recent history of payment performance.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans were the subject of a restructuring agreement.

Foreclosed Assets

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value less anticipated cost to sell at the date of foreclosure, establishing a new cost basis. Any write down at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent write downs are charged to other expense. After foreclosure, valuations are periodically performed by management, and the real estate is carried at the lower of carrying amount or fair value, less cost to sell. Costs relating to improvement of the property are capitalized while holding costs of the property are charged to expense in the period incurred.

Premises and Equipment

Premises, furniture and equipment, land improvements and leasehold improvements are carried at cost, less accumulated depreciation. Land is carried at cost. Additions and major replacements or improvements which extend useful lives of property or equipment are capitalized. Maintenance, repairs, and minor improvements are expensed as incurred. Upon retirement or other disposition of the assets, the cost and related depreciation are removed and any resulting gain or loss is reflected in income. Depreciation is computed by the straight-line method over the following estimated useful lives:

	Years
Building	39
Transportation	4-20
Land Improvements	7-15
Furniture and equipment	3-7
Computers and software	3-7
Leasehold improvements	1-3

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Servicing Assets

All sales of the guaranteed portion of loans are executed on a servicing retained basis. The standard SBA loan sale agreement is structured to provide the Company with a "servicing spread" paid from a portion of the interest cash flow of the loan. SBA regulations require the Bank to retain a portion of the cash flow from the interest payments received for a sold loan. This retention requirement is at least 100 basis points in servicing spread with the sale of a guaranteed loan. The portion of the servicing spread that exceeds adequate compensation for the servicing function is recognized as a servicing asset. Industry practice recognizes adequate compensation for servicing SBA loans as 40 basis points. The fair value of the servicing asset is measured at the discounted present value of the excess servicing spread over the expected life of the related loan using appropriate discount rates and assumptions based on industry statistics for prepayment speeds.

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets and are carried at fair value. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of loans, a portion of the cost of originating the loan is allocated to the servicing right based on fair value. Fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as adequate compensation for servicing, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are carried at fair value as of the reporting date. Changes to fair value are reported in net gains on sales of loans.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned.

The Company's investment in a loan is allocated between the retained portion of the loan, the servicing asset, and the sold portion of the loan on the date the loan is sold.

When only a portion of a loan is sold, GAAP requires the Company to reallocate the carrying basis between the portion of the loan sold and the portion of the loan retained based on the relative fair value of the respective portions as of the date of sale. The maximum gain on sale that can be recognized is the difference between the fair value of the guaranteed portion sold and the reallocated basis of the portion of the loan sold. The Company measures the fair value of the guaranteed portion of the loan by the cash premium at which the sale was consummated. The limitation on the maximum gain allowed to be recognized results in a discount recorded on the unguaranteed dollars retained. The carrying value of the retained portion of the loan is discounted based in part on the estimates derived from the Company's comparable nonguaranteed loan sales.

Common Stock

On November 26, 2013, The Company amended its Articles of Incorporation to combine its Class A Voting Common Stock and its Class B Non-Voting Common Stock into a single class of Voting Common Stock with no par value. The combination of the two classes of stock had no effect on the total number of shares outstanding or total equity. Previously the Company had Class A and Class B Common Stock with no par value issued at a 1:10 ratio. The rights, preferences and privileges of Class A and Class B Common Stock were identical in all respects, except that Class A Common Stock entitled the holder to one vote per share, whereas Class B Common Stock was non-voting, except to the extent otherwise required by law.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

On June 11, 2014 the Company amended its Articles of Incorporation to create two classes of common stock. These two classes are identified as Class A and Class B for Voting Common Stock and Non-Voting Common Stock, respectively, in the accompanying 2014 consolidated balance sheet and statement of shareholders' equity. Voting and Non-Voting Common Stock holders have identical rights and privileges, with the exception that Non-Voting shares have no voting power unless circumstances arise where instances creating the Non-Voting Common Shares are modified in any way that negatively impact rights of holder. Stock splits or dividends of Voting and Non-Voting Common Shares shall be in like stock (voting for voting and non-voting for non-voting). Any number of Non-Voting Common Stock may be converted to an equal number of Voting Common Stock at the option of the holder; provided that holder is not the initial transferee or an affiliate of initial transferee.

Advertising Expense

Due to the Company's presence at annual trade shows and the significant discounts received for prepaid print advertising, the Company has a high volume of prepaid marketing expenses, totaling $816 thousand, $396 thousand and $605 thousand at December 31, 2014, 2013 and 2012, respectively. Marketing costs are recognized in the month the event or advertisement takes place. These costs are included in marketing and advertising expense as presented in the statement of operations.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities (excluding deferred tax assets and liabilities related to business combinations or components of other comprehensive income). Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. The effect of a change in tax rates on deferred assets and liabilities is recognized in income taxes during the period that includes the enactment date. A valuation allowance, if needed, reduces deferred tax assets to the expected amount more likely than not to be realized. Realization of deferred tax assets is dependent upon the level of historical income, prudent and feasible tax planning strategies, reversals of deferred tax liabilities and estimates of future taxable income.

The Company evaluates uncertain tax positions at the end of each reporting period. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefit recognized in the financial statements from any such position is measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. Any interest and/or penalties related to income taxes are reported as a component of income tax expense.

The Company has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2014. Fiscal years ending on or after December 31, 2010 remain subject to examination by federal and state tax authorities.

Comprehensive Income

Annual comprehensive income reflects the change in the Company's equity during the year arising from transactions and events other than investment by and distributions to shareholders. The only components of other comprehensive income consist of realized and unrealized gains and losses related to investment securities. Due the Company being a pass through entity prior to July 31, 2014, adjustments to 2013 and 2012 comprehensive income are not tax effected.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Stock Compensation Plans

The Company recognizes compensation cost relating to share-based payment transactions in the financial statements in accordance with GAAP. The cost is measured based on the fair value of the equity or liability instruments issued. The expense measures the cost of employee services received in exchange for stock options and restricted stock based on the grant-date fair value of the award, and recognizes the cost over the vesting period as indicated in the option agreement.

Fair Value of Financial Instruments

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company determines the fair values of its financial instruments based on the fair value hierarchy established per GAAP which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Investment securities available-for-sale and servicing assets are recorded at fair value on a recurring basis. Loans held for sale, certain impaired loans and foreclosed assets are carried at fair value on a non-recurring basis.

nCino Revenue Recognition

After formation in 2012, the investment in nCino was consolidated until deconsolidation occurred in January 2013. Accordingly, the following disclosure applies to the year ended December 31, 2012. nCino enters into arrangements to deliver multiple products or services (multiple-elements). nCino applies software revenue recognition rules and allocates the total revenues among elements based on vendor-specific objective evidence ("VSOE") of fair value of each element.

Revenues are derived from three sources:

(i) Seat License fees, related to term (or time-based) software license revenue;

(ii) Customer Support and Maintenance fees, related to email and phone support, bug fixes and unspecified software updates and upgrades released when, and if available during the maintenance term; and

(iii) Professional Services fees, related to professional services related to implementation of the Company's software, reimbursable travel and training.

Revenues are recognized when all of the following criteria are met:

- *Persuasive evidence of an arrangement exists.* Evidence of an arrangement consists of a written contract signed by both the customer and management prior to the end of the period.

- *Delivery or performance has occurred.* nCino's software is delivered to the customer. Delivery is considered to have occurred when all of a customer's users (number as defined in the MSA contract) have been granted access by the Company to the system and are using it to process Loans.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

• *Fees are fixed or determinable.* Arrangements where a significant portion of the fee is due beyond 90 days from delivery are not considered to be fixed or determinable. Revenues from such arrangements is recognized as payments become due, assuming all other revenue recognition criteria have been met. Fees from seat licenses are generally due in monthly installments or, in certain cases, in advance via annual installments over the term of the agreement beginning on the effective date of the license. Accordingly, fees from seat licenses are not considered to be fixed or determinable until they become due.

• *Collectability is probable.* Collectability is assessed on a customer-by-customer basis, based primarily on creditworthiness as determined by credit checks and analysis, as well as customer payment history. Payment terms generally range from 30 to 90 days from invoice date. If it is determined prior to revenue recognition that collection of an arrangement fee is not probable, revenues are deferred until collection becomes probable or cash is collected, assuming all other revenue recognition criteria are satisfied.

Professional services related to the implementation of nCino's software products are generally performed on a fixed fee basis. Professional services revenue is recognized as the terms of the professional services contracts are completed and culminated with acceptance by the customer.

nCino Unearned Revenue

Unearned revenue represents revenues collected from sales of the nCino's professional service fees, seat licenses, and customer support and annual maintenance services fees that have not been earned as of the balance sheet date. The unearned revenue balance does not represent the total contract value of all noncancelable license agreements in effect. See above nCino Revenue Recognition narrative regarding periods to which this policy applies.

Earnings per share

Basic and diluted earnings per share are computed based on the weighted average number of shares outstanding during each period. Diluted earnings per share reflects the potential dilution that could occur if convertible debt, stock options or restricted stock grants were exercised, resulting in the issuance of common stock that then shared in the net income of the Company.

	December 31,		
	2014	**2013**	**2012**
Basic earnings per share:			
Net income available to common shareholders	$ 10,048	$ 28,062	$ 16,095
Weighted-average basic shares outstanding	23,973,398	20,347,660	19,467,300
Basic earnings per share	$ .42	$ 1.38	$ .83
Diluted earnings per share:			
Net income available to common shareholders, for diluted EPS	$ 10,048	$ 28,062	$ 16,095
Total weighted-average basic shares outstanding	23,973,398	20,347,660	19,467,300
Add effect of dilutive stock options and restricted grants	450,783	91,470	671,060
Total weighted-average diluted shares outstanding	24,424,181	20,439,130	20,138,360
Diluted earnings per share	$ .41	$ 1.37	$ .80
Anti-dilutive securities	328,020	-	-

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Pro forma earnings per share

Because the Company was not a taxable entity prior to August 3, 2014, pro forma amounts for income tax expense and basic and diluted earnings per share have been presented below assuming the Company's effective tax rate of 38.5% for the years ended December 31, 2014, 2013 and 2012, respectively, as if it had been a C Corporation during those periods. In addition, the pro forma results for the year ended December 31, 2014 excludes the initial deferred tax liability recorded as a result of the change in tax status as discussed in Note 8.

	December 31,		
	2014	2013	2012
Pro forma net income available to common shareholders, after tax	$ 10,723	$ 17,258	$ 9,899
Pro forma basic earnings per share	$ .45	$ .85	$ .51
Pro forma diluted earnings per share	$ .44	$ .84	$ .49

Reclassification

Certain reclassifications have been made to the prior period's financial statements to place them on a comparable basis with the current year. Net income and shareholders' equity previously reported were not affected by these reclassifications.

Recent Accounting Pronouncements

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by the Company.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is intended to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. Adoption by the Company is not expected to have a material impact on the consolidated financial statements and related disclosures.

In June 2014, the FASB issued ASU 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. ASU 2014-12 is intended to clarify the accounting for the timing of expense recognition related to employee share-based payments in which a performance target that effects vesting could be achieved after the requisite service period. ASU 2014-12 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Adoption by the Company is not expected to have a material impact on the consolidated financial statements and related disclosures.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations and cash flows.

Note 2. Securities

The carrying amount of securities and their approximate fair values at December 31, 2014, 2013 and 2012 is:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2014				
US government agencies	$ 35,207	$ 127	$ 25	$ 35,309
Residential mortgage-backed securities	13,973	92	56	14,009
	$ 49,180	$ 219	$ 81	$ 49,318
2013				
US government agencies	$ 5,315	$ 56	$ 109	$ 5,262
Residential mortgage-backed securities	14,322	109	247	14,184
	$ 19,637	$ 165	$ 356	$ 19,446
2012				
US government agencies	$ 3,425	$ 96	$ 4	$ 3,517
Residential mortgage-backed securities	11,449	451	1	11,899
	$ 14,874	$ 547	$ 5	$ 15,416

There were no calls or maturities of securities during 2014. Three securities were sold for $2.6 million resulting in a net loss on sale of securities of $74 thousand during the year ended December 31, 2014. A total of nine securities totaling $34.7 million were purchased during the year ended December 31, 2014. Securities purchases consisted of five US government agencies for $30 million, two mortgage-backed securities for $3.7 million and two municipal securities for $1 million. The US agency securities purchases and $10 million in certificate of deposit investments reflected on the balance sheet were part of a strategic investment plan with maturities ranging from 2-4 year terms, utilizing excess cash from the $74.6 million private placement capital raise that took place in August 2014. There was one security called for $1.7 million during 2013. Four securities were sold for $1.6 million resulting in a net gain on sale of securities of $11 thousand during the year ending December 31, 2013. There were no investments sold during the year ended December 31, 2012.

The following table shows gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, for the investment securities with unrealized losses at December 31, 2014.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US government agencies	$ -	$ -	$ 1,224	$ 25	$ 1,224	$ 25
Residential mortgage-backed securities	2,234	4	5,158	52	7,392	56
Total	$ 2,234	$ 4	$ 6,382	$ 77	$ 8,616	$ 81

Note 2. Securities (Continued)

At December 31, 2014, there were six securities, consisting of one US agency security and five mortgage-backed securities, in unrealized loss positions for greater than 12 months; and one mortgage-backed security in an unrealized loss position for less than 12 months. These unrealized losses are primarily the result of volatility in the market and are related to market interest rates. Since none of the unrealized losses relate to marketability of the securities or the issuer's ability to honor redemption obligations, none of the securities are deemed to be other than temporarily impaired. Investments in an unrealized loss position as of December 31, 2013 and 2012 were all in a continuous loss position for less than 12 months.

All residential mortgage-backed securities in the Company's portfolio at December 31, 2014, 2013 and 2012 were backed by U.S. government sponsored enterprises ("GSEs").

The following is a summary of investment securities by maturity at December 31, 2014:

	Available for sale	
	Amortized cost	Fair value
One to five years	$ 33,958	$ 34,085
Five to ten years	2,674	2,674
After 10 years	12,548	12,559
	$ 49,180	$ 49,318

The table above reflects contractual maturities. Actual results will differ as the loans underlying the mortgage-backed securities may repay sooner than scheduled.

At December 31, 2014, 2013 and 2012 investment securities with a fair market value of $1.3 million, $1.3 million and $1.4 million, respectively, were pledged to secure a line of credit with the Company's correspondent bank.

Note 3. Loans and Allowance for Loan Losses

Loan Portfolio Segments

The following describe the risk characteristics relevant to each of the portfolio segments. Each loan category is assigned a risk grade during the origination and closing process based on criteria described later in this section.

Commercial and Industrial
Commercial and industrial loans (C&I) receive similar underwriting treatment as commercial real estate loans in that the repayment source is analyzed to determine its ability to meet cash flow coverage requirements as set forth by Bank policies. Repayment of the Bank's C&I loans generally comes from the generation of cash flow as the result of the borrower's business operations. This business cycle itself brings a certain level of risk to the portfolio. In some instances, these loans may carry a higher degree of risk due to a variety of reasons – illiquid collateral, specialized equipment, highly depreciable assets, uncollectable accounts receivable, revolving balances, or simply being unsecured. As a result of these characteristics, the SBA guarantee on these loans is an important factor in mitigating risk.

Construction and Development
Construction and development loans are for the purpose of acquisition and development of land to be improved through the construction of commercial buildings. Such loans are usually paid off through the conversion to permanent financing for the long-term benefit of the borrower's ongoing operations. At the completion of the project, if the loan is converted to permanent financing or if scheduled loan amortization begins, it is then reclassified to the Owner Occupied Commercial Real Estate segment. Underwriting of construction and development loans typically includes analysis of not only the borrower's financial condition and ability to meet the required debt obligations, but also the general market conditions associated with the area and type of project being funded.

Owner Occupied Commercial Real Estate
Owner occupied commercial real estate loans are extensions of credit secured by owner occupied collateral. Underwriting generally involves intensive analysis of the financial strength of the borrower and guarantor, liquidation value of the subject collateral, the associated unguaranteed exposure, and any available secondary sources of repayment, with the greatest emphasis given to a borrower's capacity to meet cash flow coverage requirements as set forth by Bank policies. Such repayment of owner-occupied loans is commonly derived from the successful ongoing operations of the business occupying the property. These typically include small businesses and professional practices.

Commercial Land
Commercial land loans are extensions of credit secured by farmland. Such loans are often for land improvements relative to agricultural endeavors which may include construction of new specialized facilities. These loans are usually paid off through the conversion to permanent financing, or if scheduled loan amortization begins, for the long-term benefit of the borrower's ongoing operations. Underwriting generally involves intensive analysis of the financial strength of the borrower and guarantor, liquidation value of the subject collateral, the associated unguaranteed exposure, and any available secondary sources of repayment, with the greatest emphasis given to a borrower's capacity to meet cash flow coverage requirements as set forth by Bank policies.

Each of the loan types referenced in the sections above is further segmented into verticals in which the Bank chooses to operate - Death Care, Healthcare (medical, dental, ophthalmic), Pharmacy, Investment Advisors, Veterinary, Family Entertainment, Agriculture and Wine & Craft Beverages. Wine & Craft Beverages is a new area of emphasis for which there is no loan activity as of December 31, 2014. The Bank chooses to finance businesses operating in these industries because of certain similarities. The similarities range from historical default and loss characteristics to business operations. However, there are differences that create the necessity to underwrite these loans according to varying criteria and guidelines. When underwriting a loan, the Bank considers numerous factors such as cash flow coverage, the credit scores of the guarantors, revenue growth and practice ownership experience and debt service capacity. Minimum guidelines have been set with regard to these various factors and deviations from those guidelines requiring compensating strengths when considering a proposed loan.

Note 3. Loans and Allowance for Loan Losses (Continued)

Loans consist of the following:

	2014	2013	2012
Commercial & Industrial	**$ 81,057**	**$ 57,359**	**$ 34,200**
Death Care Management	3,603	1,782	283
Family Entertainment Centers	333	-	-
Healthcare	12,319	8,739	4,996
Independent Pharmacies	34,079	24,026	12,192
Registered Investment Advisors	9,660	2,817	-
Veterinary Industry	20,902	19,978	15,719
Other Industries	161	17	1,010
Construction & Development	**9,526**	**10,286**	**8,503**
Agriculture	3,910	-	-
Death Care Management	92	989	315
Healthcare	2,957	4,997	3,136
Independent Pharmacies	215	101	637
Veterinary Industry	2,207	4,199	4,163
Other Industries	145	-	252
Owner Occupied Commercial Real Estate	**111,620**	**74,461**	**50,577**
Agriculture	259	-	-
Death Care Management	18,879	11,668	3,703
Family Entertainment Centers	872	-	-
Healthcare	26,173	11,129	6,207
Independent Pharmacies	4,750	3,490	3,008
Registered Investment Advisors	2,161	171	-
Veterinary Industry	57,934	47,896	35,554
Other Industries	592	107	2,105
Commercial Land	**1,248**	**-**	**-**
Agriculture	1,248	-	-
Total Loans [2]	**203,451**	**142,106**	**93,280**
Net Deferred Costs	2,060	1,212	592
Discount on SBA 7(a) Unguaranteed [1]	(1,575)	(1,969)	(1,203)
Loans, Net of Unearned	**$ 203,936**	**$ 141,349**	**$ 92,669**

[1] The Company measures the carrying value of the retained portion of loans sold at fair value under ASC Subtopic 825-10. The value of these retained loan balances is discounted based on the estimates derived from comparable unguaranteed loan sales.

[2] Total loans include $21.3 million, $12.4 and $12.0 million of U.S. Government Guaranteed loans as of December 31, 2014, 2013 and 2012, respectively.

Note 3. Loans and Allowance for Loan Losses (Continued)

Credit Risk Profile

The Bank uses internal loan reviews to assess the performance of individual loans by industry segment. Annually, an independent review of the loan portfolio is performed by an external firm. The Bank's annual review of each borrower's financial performance validates adequacy of the risk grade assigned.

The Bank uses a grading system to rank the quality of each loan. The grade is periodically evaluated and adjusted as performance dictates. Loan grades 1 through 4 are passing grades, grade 5 is special mention. Collectively, grades 6 through 8 represent classified loans in the Bank's portfolio. The following guidelines govern the assignment of these risk grades:

Exceptional Loans (1 Rated): These loans are of the highest quality, with strong, well-documented sources of repayment. Debt service coverage ("DSC") is over 1.75X based on historical results. Secondary source of repayment is strong, with a loan to value ("LTV") of 65% or less if secured solely by commercial real estate ("CRE"). Discounted collateral coverage from all sources should exceed 125%. Guarantors have credit scores above 740.

Quality Loans (2 Rated): These loans are of good quality, with good well-documented sources of repayment. DSC is over 1.25X based on historical or pro-forma results. Secondary source of repayment is good, with a LTV of 75% or less if secured solely by CRE. Discounted collateral coverage should exceed 100%. Guarantors have credit scores above 700.

Acceptable Loans (3 rated): These loans are of acceptable quality, with acceptable sources of repayment. DSC of over 1.00X based on historical or pro-forma results. Companies that do not meet these credit metrics must be evaluated to determine if they should be graded below this level.

Acceptable Loans (4 rated): These loans are considered very weak pass. These loans are riskier than a 3-rated credit, but due to various mitigates is not considered a Special Mention or worse. The mitigating factors must clearly be identified to offset further downgrade. Examples of loans that may be put in this category include start-up loans, loans with Sub 1:1 cash flow coverage with other sources of repayment.

Special mention (5 rated): These loans are to be considered as emerging problems, with potentially unsatisfactory characteristics. These loans require greater management attention. A loan may be put into this category if the Bank is unable to obtain financial reporting from a company to fully evaluate its position.

Substandard (6 rated): Loans graded Substandard are inadequately protected by current sound net worth, paying capacity of the borrower, or pledged collateral. They typically have unsatisfactory characteristics causing more than acceptable levels of risk, and have one or more well-defined weaknesses that could jeopardize the repayment of the debt.

Doubtful (7 rated): Loans graded Doubtful have inherent weaknesses that make collection or liquidation in full questionable. Loans graded Doubtful must be placed on non-accrual status.

Loss (8 rated): Loss rated loans are considered uncollectible and of such little value that their continuance as an active Bank asset is not warranted. The asset should be charged off, even though partial recovery may be possible in the future.

Note 3. Loans and Allowance for Loan Losses (Continued)

The following tables summarize the risk grades of each category as of December 31, 2014, 2013 and 2012.

	Risk Grades 1 - 4	Risk Grade 5	Risk Grades 6 - 8	Total
2014				
Commercial & Industrial	**$ 63,777**	**$ 4,546**	**$ 12,734**	**$ 81,057**
Death Care Management	3,603	-	-	3,603
Family Entertainment Centers	333	-	-	333
Healthcare	6,995	538	4,786	12,319
Independent Pharmacies	27,673	2,726	3,680	34,079
Registered Investment Advisors	9,660	-	-	9,660
Veterinary Industry	15,513	1,121	4,268	20,902
Other Industries	-	161	-	161
Construction & Development	**9,526**	**-**	**-**	**9,526**
Agriculture	3,910	-	-	3,910
Death Care Management	92	-	-	92
Healthcare	2,957	-	-	2,957
Independent Pharmacies	215	-	-	215
Veterinary Industry	2,207	-	-	2,207
Other Industries	145	-	-	145
Owner Occupied Commercial Real Estate	**87,883**	**5,219**	**18,518**	**111,620**
Agriculture	259	-	-	259
Death Care Management	16,519	639	1,721	18,879
Family Entertainment Centers	872	-	-	872
Healthcare	22,778	938	2,457	26,173
Independent Pharmacies	4,709	41	-	4,750
Registered Investment Advisors	2,161	-	-	2,161
Veterinary Industry	40,281	3,601	14,052	57,934
Other Industries	304	-	288	592
Commercial Land	**1,248**	**-**	**-**	**1,248**
Agriculture	1,248	-	-	1,248
Total	**$ 162,434**	**$ 9,765**	**$ 31,252**	**$ 203,451**

Note 3. Loans and Allowance for Loan Losses (Continued)

	Risk Grades 1 - 4	Risk Grade 5	Risk Grades 6 - 8	Total
2013				
Commercial & Industrial	**$ 44,786**	**$ 4,769**	**$ 7,804**	**$ 57,359**
Death Care Management	1,782	-	-	1,782
Healthcare	5,538	941	2,260	8,739
Independent Pharmacies	20,969	2,353	704	24,026
Registered Investment Advisors	2,817	-	-	2,817
Veterinary Industry	13,663	1,475	4,840	19,978
Other Industries	17	-	-	17
Construction & Development	**8,981**	**1,305**	**-**	**10,286**
Death Care Management	989	-	-	989
Healthcare	4,934	63	-	4,997
Independent Pharmacies	101	-	-	101
Veterinary Industry	2,957	1,242	-	4,199
Owner Occupied Commercial Real Estate	**57,120**	**3,797**	**13,544**	**74,461**
Death Care Management	11,312	-	356	11,668
Healthcare	9,218	423	1,488	11,129
Independent Pharmacies	3,189	-	301	3,490
Registered Investment Advisors	171	-	-	171
Veterinary Industry	33,226	3,374	11,296	47,896
Other Industries	4	-	103	107
Total	**$ 110,887**	**$ 9,871**	**$ 21,348**	**$ 142,106**

Note 3. Loans and Allowance for Loan Losses (Continued)

	Risk Grades 1 - 4	Risk Grade 5	Risk Grades 6 - 8	Total
2012				
Commercial & Industrial	**$ 26,266**	**$ 2,639**	**$ 5,295**	**$ 34,200**
Death Care Management	283	-	-	283
Healthcare	4,183	53	805	4,996
Independent Pharmacies	11,185	1,007	-	12,192
Veterinary Industry	9,650	1,579	4,490	15,719
Other Industries	1,110	-	-	1,010
Construction & Development	**7,644**	**-**	**859**	**8,503**
Death Care Management	315	-	-	315
Healthcare	2,277	-	859	3,136
Independent Pharmacies	637	-	-	637
Veterinary Industry	4,163	-	-	4,163
Other Industries	252	-	-	252
Owner Occupied Commercial Real Estate	**31,333**	**5,689**	**13,555**	**50,577**
Death Care Management	3,703	-	-	3,703
Healthcare	4,068	-	2,139	6,207
Independent Pharmacies	1,315	-	1,693	3,008
Veterinary Industry	20,964	5,689	8,901	35,554
Other Industries	1,283	-	822	2,105
Total	**$ 65,243**	**$ 8,328**	**$ 19,709**	**$ 93,280**

[1] Total loans include $21.3 million of U.S. Government Guaranteed loans as of December 31, 2014, segregated by risk grade as follows: Risk Grades 1 – 4 = $0, Risk Grade 5 = $1.1 million, Risk Grades 6 – 8 = $20.2 million. As of December 31, 2013 total loans include $12.4 million of U.S. Government Guaranteed loans, segregated by risk grade as follows: Risk Grades 1 – 4 = $0, Risk Grade 5 = $1.1 million, Risk Grades 6 – 8 = $11.3 million. As of December 31, 2012, total loans include $12.0 million of U.S. Government Guaranteed loans segregated by risk grade as follows: Risk Grades 1 – 4 = $0, Risk Grade 5 = $1.3 million, Risk Grades 6 – 8 = $10.7 million.

Note 3. Loans and Allowance for Loan Losses (Continued)

Past Due Loans

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Also, loans less than 30 days past due and accruing are included within current loans shown below. The following table shows an age analysis of past due loans as of December 31, 2014, 2013 and 2012.

	Less Than 30 Days Past Due & Not Accruing	30-89 Days Past Due & Accruing	30-89 Days Past Due & Not Accruing	Greater Than 90 Days Past Due	Total Loans Past Due	Current Loans	Total Loans	Loans 90 Days or More Past Due & Still Accruing
2014								
Commercial & Industrial	**$ 1,025**	**$ 1,433**	**$ 236**	**$ 5,872**	**$ 8,566**	**$ 72,491**	**$ 81,057**	**$ -**
Death Care Management	-	-	-	-	-	3,603	3,603	-
Family Entertainment Centers	-	-	-	-	-	333	333	-
Healthcare	-	1,059	232	2,420	3,711	8,608	12,319	-
Independent Pharmacies	-	98	-	1,224	1,322	32,757	34,079	-
Registered Investment Advisors	-	-	-	-	-	9,660	9,660	-
Veterinary Industry	1,025	276	4	2,228	3,533	17,369	20,902	-
Other Industries	-	-	-	-	-	161	161	-
Construction & Development	**-**	**-**	**-**	**-**	**-**	**9,526**	**9,526**	**-**
Agriculture	-	-	-	-	-	3,910	3,910	-
Death Care Management	-	-	-	-	-	92	92	-
Healthcare	-	-	-	-	-	2,957	2,957	-
Independent Pharmacies	-	-	-	-	-	215	215	-
Veterinary Industry	-	-	-	-	-	2,207	2,207	-
Other Industries	-	-	-	-	-	145	145	-
Owner Occupied Commercial								-
Real Estate	**2,464**	**5,246**	**2,181**	**6,914**	**16,805**	**94,815**	**111,620**	**-**
Agriculture	-	-	-	-	-	259	259	-
Death Care Management	-	-	-	1,721	1,721	17,158	18,879	-
Family Entertainment Centers	-	-	-	-	-	872	872	-
Healthcare	-	145	230	2,082	2,457	23,716	26,173	-
Independent Pharmacies	-	-	-	-	-	4,750	4,750	-
Registered Investment Advisors	-	-	-	-	-	2,161	2,161	-
Veterinary Industry	2,464	5,101	1,951	2,836	12,352	45,582	57,934	-
Other Industries	-	-	-	275	275	317	592	-
Commercial Land	**-**	**-**	**-**	**-**	**-**	**1,248**	**1,248**	**-**
Agriculture	-	-	-	-	-	1,248	1,248	-
Total[1]	**$ 3,489**	**$ 6,679**	**$ 2,417**	**$ 12,786**	**$ 25,371**	**$ 178,080**	**$ 203,451**	**$ -**

Note 3. Loans and Allowance for Loan Losses (Continued)

	Less Than 30 Days Past Due & Not Accruing	30-89 Days Past Due & Accruing	30-89 Days Past Due & Not Accruing	Greater Than 90 Days Past Due	Total Loans Past Due	Current Loans	Total Loans	Loans 90 Days or More Past Due & Still Accruing
2013								
Commercial & Industrial	**$ 891**	**$ 219**	**$ 388**	**$ 2,820**	**$ 4,318**	**$ 53,041**	**$ 57,359**	**$ -**
Death Care Management	-	-	-	-	-	1,782	1,782	-
Healthcare	122	-	-	650	772	7,967	8,739	-
Independent Pharmacies	-	-	-	-	-	24,026	24,026	-
Registered Investment Advisors	-	-	-	-	-	2,817	2,817	-
Veterinary Industry	769	219	388	2,170	3,546	16,432	19,978	-
Other Industries	-	-	-	-	-	17	17	-
Construction & Development	**-**	**-**	**-**	**-**	**-**	**10,286**	**10,286**	**-**
Death Care Management	-	-	-	-	-	989	989	-
Healthcare	-	-	-	-	-	4,997	4,997	-
Independent Pharmacies	-	-	-	-	-	101	101	-
Veterinary Industry	-	-	-	-	-	4,199	4,199	-
Other Industries								
Owner Occupied Commercial Real Estate	**2,620**	**3,601**	**438**	**1,540**	**8,199**	**66,262**	**74,461**	**-**
Death Care Management	-	-	-	-	-	11,668	11,668	-
Healthcare	-	-	-	58	58	11,071	11,129	-
Independent Pharmacies	-	-	-	-	-	3,490	3,490	-
Registered Investment Advisors	-	-	-	-	-	171	171	-
Veterinary Industry	2,620	3,498	438	1,482	8,038	39,858	47,896	-
Other Industries	-	103	-	-	103	4	107	-
Total[1]	**$ 3,511**	**$ 3,820**	**$ 826**	**$ 4,360**	**$ 12,517**	**$ 129,589**	**$ 142,106**	**$ -**

Note 3. Loans and Allowance for Loan Losses (Continued)

	Less Than 30 Days Past Due & Not Accruing	30-89 Days Past Due & Accruing	30-89 Days Past Due & Not Accruing	Greater Than 90 Days Past Due	Total Loans Past Due	Current Loans	Total Loans	Loans 90 Days or More Past Due & Still Accruing
2012								
Commercial & Industrial	**$ 129**	**$ 73**	**$ 209**	**$ 2,617**	**$ 3,028**	**$ 31,172**	**$ 34,200**	**$**
Death Care Management	-	-	-	-	-	283	283	-
Healthcare	-	73	72	509	654	4,342	4,996	-
Independent Pharmacies	-	-	-	-	-	12,192	12,192	-
Veterinary Industry	129	-	137	2,108	2,374	13,345	15,719	-
Other Industries	-	-	-	-	-	1,010	1,010	-
Construction & Development	**-**	**-**	**-**	**-**	**-**	**8,503**	**8,503**	**-**
Death Care Management	-	-	-	-	-	315	315	-
Healthcare	-	-	-	-	-	3,136	3,136	-
Independent Pharmacies	-	-	-	-	-	637	637	-
Veterinary Industry	-	-	-	-	-	4,163	4,163	-
Other Industries						252	252	
Owner Occupied Commercial Real Estate	**2,048**	**412**	**-**	**3,590**	**6,050**	**44,527**	**50,577**	**-**
Death Care Management	-	-	-	-	-	3,703	3,703	-
Healthcare	-	-	-	-	-	6,207	6,207	-
Independent Pharmacies	-	-	-	-	-	3,008	3,008	-
Veterinary Industry	2,048	412	-	2,887	5,347	30,207	35,554	-
Other Industries	-	-	-	703	703	1,402	2,105	-
Total[1]	$ 2,177	$ 485	$ 209	$ 6,207	$ 9,078	$ 84,202	$ 93,280	$ -

[1] Total loans include $21.3 million of U.S. Government Guaranteed loans as of December 31, 2014, of which $11.7 million is greater than 90 days past due, $3.5 million is 30-89 days past due and $6.1 million is included in current loans as presented above. As of December 31, 2013, total loans include $12.4 million of U.S. Government Guaranteed loans, of which $4.1 million is greater than 90 days past due, $2.6 million is 30-89 days past due and $5.8 million is included in current loans as presented above. As of December 31, 2012, total loans include $12.0 million of U.S. Government Guaranteed loans of which $4.7 million is greater than 90 days past due and $7.3 million is included in current loans as presented above.

Note 3. Loans and Allowance for Loan Losses (Continued)

Nonaccrual Loans

Loans that become 90 days delinquent, or in cases where there is evidence that the borrower's ability to make the required payments is impaired, are placed in nonaccrual status and interest accrual is discontinued. If interest on nonaccrual loans had been accrued in accordance with the original terms, interest income would have increased by approximately $443 thousand, $247 thousand and $119 thousand for the years ended December 31, 2014, 2013 and 2012, respectively.

Nonaccrual loans as of December 31, 2014, 2013 and 2012 are as follows:

2014	Loan Balance	Guaranteed Balance	Unguaranteed Exposure
Commercial & Industrial	**$ 7,133**	**$ 6,620**	**$ 513**
Healthcare	2,652	2,368	284
Independent Pharmacies	1,224	1,139	85
Veterinary Industry	3,257	3,113	144
Owner Occupied Commercial Real Estate	**11,559**	**8,935**	**2,624**
Death Care Management	1,721	1,505	216
Healthcare	2,312	1,919	393
Veterinary Industry	7,251	5,236	2,015
Other Industries	275	275	-
Total	**$ 18,692**	**$ 15,555**	**$ 3,137**

2013	Loan Balance	Guaranteed Balance	Unguaranteed Exposure
Commercial & Industrial	**$ 4,099**	**$ 3,849**	**$ 250**
Healthcare	772	660	112
Veterinary Industry	3,327	3,189	138
Owner Occupied Commercial Real Estate	**4,598**	**3,134**	**1,464**
Healthcare	58	-	58
Veterinary Industry	4,540	3,134	1,406
Total	**$ 8,697**	**$ 6,983**	**$ 1,714**

2012	Loan Balance	Guaranteed Balance	Unguaranteed Exposure
Commercial & Industrial	**$ 2,955**	**$ 2,386**	**$ 569**
Healthcare	581	432	149
Veterinary Industry	2,374	1,954	420
Owner Occupied Commercial Real Estate	**5,638**	**2,676**	**2,962**
Veterinary Industry	4,935	2,676	2,259
Other	703	-	703
Total	**$ 8,593**	**$ 5,062**	**$ 3,531**

[1] As of December 31, 2014, 2013 and 2012, U.S. Government Guaranteed loans on nonaccrual status are included in our held for investment portfolio.

Note 3. Loans and Allowance for Loan Losses (Continued)

Allowance for Loan Loss Methodology

The methodology and the estimation process for calculating the Allowance for Loan Losses ("ALL") is described below:

Estimated credit losses should meet the criteria for accrual of a loss contingency, i.e., a provision to the allowance for loan losses ("ALL"), set forth in GAAP. The Company's methodology for determining the ALL is based on the requirements of GAAP, the Interagency Policy Statement on the ALL and other regulatory and accounting pronouncements. The ALL is determined by the sum of three separate components: (i) the impaired loan component, which addresses specific reserves for impaired loans; (ii) the general reserve component, which addresses reserves for pools of homogeneous loans; and (iii) an unallocated reserve component (if any) based on management's judgment and experience. The loan pools and impaired loans are mutually exclusive; any loan that is impaired is excluded from its homogenous pool for purposes of that pool's reserve calculation, regardless of the level of impairment.

The ALL policy for pooled loans is governed in accordance with banking regulatory guidance for homogenous pools of non-impaired loans that have similar risk characteristics. The Company follows a consistent and structured approach for assessing the need for reserves within each individual loan pool.

Loans are considered impaired when, based on current information and events, it is probable that the creditor will be unable to collect all interest and principal payments due according to the originally contracted, or reasonably modified, terms of the loan agreement. The Company has determined that loans that meet the criteria defined below must be reviewed quarterly to determine if they are impaired.

- All commercial loans classified substandard or worse.
- Any other delinquent loan that is in a nonaccrual status, or any loan that is delinquent more than 89 days and still accruing interest.
- Any loan which has been modified such that it meets the definition of a Troubled Debt Restructuring (TDR).

Any loan determined to be impaired is subjected to an impairment analysis, which is a calculation of the portion of the loan which is probable not to be repaid. This portion is the loan's "impairment", and is established as a specific reserve against the loan, or charged against the ALL.

Individual specific reserve amounts imply probability of loss and may not be carried in the reserve indefinitely. When the amount of the actual loss becomes reasonably quantifiable, the amount of the loss is charged off against the ALL, whether or not all liquidation and recovery efforts have been completed. If the total amount of the individual specific reserve that will eventually be charged off cannot yet be sufficiently quantified, but some portion of the impairment can be viewed as an imminent loss, that smaller portion should be charged off against the ALL and the individual specific reserve reduced by a corresponding amount.

For loans that have a low probability of being repaid in full, impaired loans, the reserve amount is calculated on a loan-specific basis. There are three methods of analyzing impaired loans:

- The Fair Market Value of Collateral utilizes the value at which the collateral could be sold considering the appraised value, appraisal discount rate, prior liens and selling costs. The amount of the reserve is the Loan Balance less the Valuation Amount.
- The Present Value of Future Cash Flows takes into account the amount and timing of cash flows and the effective interest rate used to discount the cash flows.
- Loan Pricing uses observable market price. The amount, source and date of the observable market price is documented. The Bank does not use this method as of December 31, 2014.

Note 3. Loans and Allowance for Loan Losses (Continued)

The allowance and the portion that relates to loans individually and collectively evaluated for impairment for year-end 2014, 2013 and 2012 is summarized in the following tables:

December 31, 2014	**Construction & Development**	**Owner Occupied Commercial Real Estate**	**Commercial & Industrial**	**Commercial Land**	**Total**
Allowance for Loan Losses:					
Beginning Balance	$ 350	$ 1,511	$ 862	$ -	$ 2,723
Charge offs	-	(515)	(698)	-	(1,213)
Recoveries	-	72	32	-	104
Provision	236	1,223	1,173	161	2,793
Ending Balance	$ 586	$ 2,291	$ 1,369	$ 161	$ 4,407
Ending Balance Allocated to:					
Loans individually evaluated for impairment	$ -	$ 1,051	$ 676	$ -	$ 1,727
Loans collectively evaluated for impairment	586	1,240	693	161	2,680
Ending Balance	$ 586	$ 2,291	$ 1,369	$ 161	$ 4,407
Loans Receivables [1]:					
Ending balance:					
Loans individually evaluated for impairment	$ -	$ 16,551	$ 10,226	$ -	$ 26,777
Loans collectively evaluated for impairment	9,526	95,069	70,831	1,248	176,674
Ending Balance	$ 9,526	$ 111,620	$ 81,057	$ 1,248	$ 203,451

December 31, 2013	**Construction & Development**	**Owner Occupied Commercial Real Estate**	**Commercial & Industrial**	**Total**
Allowance for Loan Losses:				
Beginning Balance	$ 166	$ 2,667	$ 2,275	$ 5,108
Charge offs	-	(1,260)	(688)	(1,948)
Recoveries	-	33	27	60
Provision	198	(847)	(209)	(858)
Net transfer from (to) loans held for sale	(14)	918	(543)	361
Ending Balance	$ 350	$ 1,511	$ 862	$ 2,723
Ending Balance Allocated to:				
Loans individually evaluated for impairment	$ -	$ 400	$ 254	$ 654
Loans collectively evaluated for impairment	350	1,111	608	2,069
Ending Balance	$ 350	$ 1,511	$ 862	$ 2,723
1Loans Receivables [1]:				
Ending balance:				
Loans individually evaluated for impairment	$ -	$ 10,013	$ 4,677	$ 14,690
Loans collectively evaluated for impairment	10,286	64,448	52,682	127,416
Ending Balance	$ 10,286	$ 74,461	$ 57,359	$ 142,106

Note 3. Loans and Allowance for Loan Losses (Continued)

December 31, 2012	Construction & Development	Owner Occupied Commercial Real Estate	Commercial & Industrial	Total
Allowance for Loan Losses:				
Beginning Balance	$ 46	$ 3,299	$ 1,272	$ 4,617
Charge offs	-	(1,532)	(454)	(1,986)
Recoveries	-	6	120	126
Provision	106	862	1,142	2,110
Net transfer from (to) loans held for sale	14	32	195	241
Ending Balance	$ 166	$ 2,667	$ 2,275	$ 5,108
Ending Balance Allocated to:				
Loans individually evaluated for impairment	$ -	$ 1,733	$ 1,054	$ 2,787
Loans collectively evaluated for impairment	166	934	1,221	2,321
Ending Balance	$ 166	$ 2,667	$ 2,275	$ 5,108
Loans Receivables [1]:				
Ending balance:				
Loans individually evaluated for impairment	$ -	$ 8,945	$ 4,064	$ 13,009
Loans collectively evaluated for impairment	8,503	41,632	30,136	80,271
Ending Balance	$ 8,503	$ 50,577	$ 34,200	$ 93,280

[1] Loans receivable includes $21.3 million of U.S. Government Guaranteed loans as of December 31, 2014, of which $19.5 million are included in loans individually evaluated for impairment and $2.0 million are included in loans collectively evaluated for impairment, as presented above. As of December 31, 2013, loans receivable includes $12.4 million of U.S. Government Guaranteed loans, of which $9.8 million are included in loans individually evaluated for impairment and $2.6 million are included in loans collectively evaluated for impairment, as presented above. As of December 31, 2012, loans receivable includes $12.0 million of U.S. Government Guaranteed loans of which $7.0 million are included in loans individually evaluated for impairment and $5.0 million are included in Loans collectively evaluated for impairment, as presented above.

Loans individually evaluated for impairment as of December 31, 2014, 2013 and 2012 are summarized in the following tables.

2014	Unpaid Principal Balance	Guaranteed Balance [1]	Unguaranteed Exposure
Commercial & Industrial	**$ 10,226**	**$ 8,341**	**$ 1,885**
Healthcare	4,217	3,540	677
Veterinary Industry	3,806	3,309	497
Independent Pharmacies	2,203	1,492	711
Owner Occupied Commercial Real Estate	**16,551**	**11,155**	**5,396**
Healthcare	2,312	1,919	393
Veterinary Industry	12,243	7,456	4,787
Death Care Management	1,721	1,505	216
Other Industries	275	275	-
Total	$ 26,777	$ 19,496	$ 7,281

Note 3. Loans and Allowance for Loan Losses (Continued)

2013	Unpaid Principal Balance	Guaranteed Balance [1]	Unguaranteed Exposure
Commercial & Industrial	**$ 4,677**	**$ 4,100**	**$ 577**
Healthcare	772	660	112
Veterinary Industry	3,905	3,440	465
Owner Occupied Commercial Real Estate	**10,013**	**5,740**	**4,273**
Healthcare	58	-	58
Veterinary Industry	9,955	5,740	4,215
Total	**$ 14,690**	**$ 9,840**	**$ 4,850**

2012	Unpaid Principal Balance	Guaranteed Balance [1]	Unguaranteed Exposure
Commercial & Industrial	**$ 4,064**	**$ 3,031**	**$ 1,033**
Healthcare	714	432	282
Veterinary Industry	3,350	2,599	751
Owner Occupied Commercial Real Estate	**8,945**	**3,932**	**5,013**
Healthcare	703	-	703
Veterinary Industry	8,242	3,932	4,310
Total	**$ 13,009**	**$ 6,963**	**$ 6,046**

[1] Loans individually evaluated for impairment as of December 31, 2014, 2013 and 2012 are included in the held for investment portfolio.

Note 3. Loans and Allowance for Loan Losses (Continued)

The following table presents evaluated balances of loans classified as impaired at December 31, 2014, 2013 and 2012 that carried an associated reserve as compared to those with no reserve. The recorded investment includes accrued interest, net deferred loan fees or costs and any non-accreted loan discount.

2014	Unpaid Principal Balance	Recorded Investment	Total Reserve	Average Recorded Investment	Interest Income Recognized
Loans with no allowance	**$ 1,213**	**$ 1,197**	**$ -**	**$ 1,998**	**$ 113**
Commercial & Industrial	**239**	**237**	**-**	**363**	**64**
Healthcare	3	3	-	88	2
Independent Pharmacies	194	194	-	86	57
Veterinary Industry	42	40	-	189	5
Owner Occupied Commercial Real Estate	**974**	**960**	**-**	**1,635**	**49**
Death Care Management	-	-	-	66	-
Healthcare	41	41	-	147	-
Veterinary Industry	933	919	-	1,422	49
Loans with an allowance	**25,564**	**23,805**	**1,727**	**20,076**	**361**
Commercial & Industrial	**9,987**	**9,747**	**676**	**6,583**	**97**
Healthcare	4,214	4,202	361	3,333	38
Independent Pharmacies	2,009	2,005	206	621	17
Veterinary Industry	3,764	3,540	109	2,629	42
Owner Occupied Commercial Real Estate	**15,577**	**14,058**	**1,051**	**13,493**	**264**
Death Care Management	1,721	1,720	20	414	-
Healthcare	2,271	2,268	82	1,967	-
Veterinary Industry	11,310	9,796	947	11,036	264
Other Industries	275	274	2	76	-
Total	**$ 26,777**	**$ 25,002**	**$ 1,727**	**$ 22,074**	**$ 474**

2013	Unpaid Principal Balance	Recorded Investment	Total Reserve	Average Recorded Investment	Interest Income Recognized
Loans with no allowance	**$ 241**	**$ 334**	**$ -**	**$ 598**	**$ 8**
Commercial & Industrial	**-**	**24**	**-**	**2**	**-**
Healthcare	-	24	-	2	-
Owner Occupied Commercial Real Estate	**241**	**310**	**-**	**596**	**8**
Healthcare	58	58	-	38	2
Veterinary Industry	183	252	-	558	6
Loans with an allowance	**14,449**	**14,912**	**654**	**13,041**	**389**
Commercial & Industrial	**4,677**	**4,910**	**254**	**4,486**	**86**
Healthcare	772	812	35	644	6
Veterinary Industry	3,905	4,098	219	3,842	80
Owner Occupied Commercial Real Estate	**9,772**	**10,002**	**400**	**8,555**	**303**
Veterinary Industry	9,772	10,002	400	8,555	303
Total	**$ 14,690**	**$ 15,246**	**$ 654**	**$ 13,639**	**$ 397**

Note 3. Loans and Allowance for Loan Losses (Continued)

2012	Unpaid Principal Balance	Recorded Investment	Total Reserve	Average Recorded Investment	Interest Income Recognized
Loans with no allowance	$ 133	$ 137	$ -	$ 284	$ -
Owner Occupied	133	137	-	284	-
Other	-	-	-	-	-
Veterinary Industry	133	137	-	284	-
Loans with an allowance	12,876	13,513	2,787	10,911	199
Commercial & Industrial	4,064	4,414	1,054	3,571	65
Healthcare	714	778	330	525	7
Veterinary Industry	3,350	3,636	724	3,046	58
Owner Occupied Commercial Real Estate	8,812	9,099	1,733	7,340	134
Other	703	730	73	125	-
Veterinary Industry	8,109	8,369	1,660	7,215	134
Total	$ 13,009	$ 13,650	$ 2,787	$ 11,195	$ 199

[1] Loans individually evaluated for impairment as of December 31, 2014, 2013 and 2012 are included in the held for investment portfolio.

The following tables represent the types of troubled debt restructurings ("TDR") that were made during the twelve months ended

December 31, 2014:

	Number of Loans	Loan Balance	Guaranteed Balance	Unguaranteed Exposure
Commercial & Industrial	6	$ 2,066	$ 1,513	$ 553
Veterinary Industry	3	1,559	1,513	46
Payment Deferral	3	1,559	1,513	46
Independent Pharmacies	3	507	-	507
Extend Amortization	2	363	-	363
Interest Only	1	144	-	144
Owner Occupied Commercial Real Estate	2	1,725	1,505	220
Veterinary Industry	1	4	-	4
Interest Only	1	4	-	4
Death Care Management	1	1,721	1,505	216
Payment Deferral	1	1,721	1,505	216
Total Loans	8	$ 3,791	$ 3,018	$ 773

Note 3. Loans and Allowance for Loan Losses (Continued)

December 31, 2013:

	Number of Loans	Loan Balance	Guaranteed Balance	Unguaranteed Exposure
Owner Occupied Commercial Real Estate	**3**	**$ 161**	**$ -**	**$ 161**
Veterinary Industry	3	161	-	161
Extend Amortization	1	30	-	30
Extend Amortization, Interest Only	1	65	-	65
Payment Deferral	1	66	-	66
Total Loans	3	$ 161	$ -	$ 161

December 31, 2012:

	Number of Loans	Loan Balance	Guaranteed Balance	Unguaranteed Exposure
Commercial & Industrial	**8**	**$ 1,508**	**$ 1,015**	**$ 493**
Healthcare	2	142	-	142
Extend Amortization	2	142	-	142
Veterinary Industry	6	1,366	1,015	351
Extend Amortization	2	845	776	69
Extend Amortization, Interest Only	2	137	-	137
Payment Deferral	2	384	239	145
Owner Occupied Commercial Real Estate	**7**	**3,615**	**1,043**	**2,572**
Veterinary Industry	7	3,615	1,043	2,572
Interest Only	1	430	-	430
Payment Deferral	6	3,185	1,043	2,142
Total Loans	15	$ 5,123	$ 2,058	$ 3,065

Note 3. Loans and Allowance for Loan Losses (Continued)

The following tables represent the recorded investment in TDR loans entered into during the twelve months ended:

December 31, 2014:

	Number of Loans	Pre-modification Recorded Investment	Post-modification Recorded Investment
Commercial & Industrial	**6**	**$ 2,064**	**$ 2,064**
Veterinary Industry	3	1,558	1,558
Payment Deferral	3	1,558	1,558
Independent Pharmacies	3	506	506
Extend Amortization	2	363	363
Interest Only	1	143	143
Owner Occupied Commercial Real Estate	**2**	**1,723**	**1,723**
Veterinary Industry	1	4	4
Interest Only	1	4	4
Death Care Management	1	1,719	1,719
Payment Deferral	1	1,719	1,719
Total Loans	**8**	**$ 3,787**	**$ 3,787**

December 31, 2013:

	Number of Loans	Pre-modification Recorded Investment	Post-modification Recorded Investment
Owner Occupied Commercial Real Estate	**3**	**$ 255**	**$ 232**
Veterinary Industry	3	255	232
Extend Amortization	1	59	51
Extend Amortization, Interest Only	1	74	90
Payment Deferral	1	122	91
Total Loans	**3**	**$ 255**	**$ 232**

Note 3. Loans and Allowance for Loan Losses (Continued)

December 31, 2012:

	Number of Loans	Pre-modification Recorded Investment	Post-modification Recorded Investment
Commercial & Industrial	**$ 8**	**$ 1,469**	**$ 1,628**
Healthcare	2	145	176
Extend Amortization	2	145	176
Veterinary Industry	6	1,324	1,452
Extend Amortization	2	785	876
Extend Amortization	2	145	165
Payment Deferral	2	394	411
Owner Occupied Commercial Real Estate	**7**	**3,639**	**3,750**
Veterinary Industry	7	3,639	3,750
Interest Only	1	438	455
Payment Deferral	6	3,201	3,295
Total Loans	$ 15	$ 5,108	$ 5,378

Note 3. Loans and Allowance for Loan Losses (Continued)

Concessions made to improve a loan's performance have varying degrees of success. The following tables present loans that were modified as TDRs within the previous twelve months ending December 31, 2014, 2013 and 2012, for which there was a payment default:

December 31, 2014:	Number of Loans	Post-modification Recorded Investment
Default (Charge-off)		
Commercial & Industrial	**2**	**$ 1,558**
Veterinary Industry	2	1,558
Payment Deferral	2	1,558
Owner Occupied Commercial Real Estate	**2**	**1,723**
Death Care Management	1	1,719
Payment Deferral	1	1,719
Veterinary Industry	1	4
Interest Only	1	4
Default (NonAccrual)	**1**	-
Commercial & Industrial	**1**	-
Veterinary Industry	1	-
Payment Deferral	1	-
Total TDRs in default	5	3,281
No Defaults (paying as restructured)	**3**	**506**
Commercial & Industrial	**3**	**506**
Independent Pharmacies	3	506
Extend Amortization	2	363
Interest Only	1	143
Total TDRs paying as restructured	3	506
Total TDRs	8	$ 3,787

Note 3. Loans and Allowance for Loan Losses (Continued)

December 31, 2013:

	Number of Loans	Post-modification Recorded Investment
Default (Charge-off)		
Commercial & Industrial	**1**	**$ 51**
Veterinary Industry	1	51
Extend Amortization	1	51
Default (NonAccrual)		
Owner Occupied Commercial Real Estate	**2**	**181**
Veterinary Industry	2	181
Extend Amortization, Interest Only	1	90
Payment Deferral	1	91
Total TDRs in default	3	232
Total TDRs paying as restructured	-	-
Total TDRs	3	$ 232

December 31, 2012:

	Number of Loans	Post-modification Recorded Investment
Default (Charge-off)		
Commercial & Industrial	**2**	**$ 876**
Veterinary Industry	2	876
Extend Amortization	2	876
Default (NonAccrual)		
Commercial & Industrial	**4**	**341**
Healthcare	2	176
Extend Amortization	2	176
Veterinary Industry	2	165
Extend Amortization, Interest Only	2	165
Owner Occupied Commercial Real Estate	**5**	**2,361**
Veterinary Industry	5	2,361
Interest Only	1	455
Payment Deferral	4	1,906
Total TDRs in default	11	3,578
No Defaults (paying as restructured)		
Commercial & Industrial	**2**	**411**
Veterinary Industry	2	411
Payment Deferral	2	411
Owner Occupied Commercial Real Estate	**2**	**1,389**
Veterinary Industry	2	1,389
Payment Deferral	2	1,389
Total TDRs paying as restructured	4	1,800
Total TDRs	15	$ 5,378

[1] Loan is interest only, interest rate reduction and extended amortization.

Note 4. Servicing Assets

Loans serviced for others are not included in the accompanying balance sheet. The unpaid principal balances of loans serviced for others were $1.3 billion, $1.0 billion and $766.2 million at December 31, 2014, 2013, and 2012, respectively.

The following summarizes the activity pertaining to servicing rights:

	2014	2013	2012
Balance at beginning of year	$ 29,053	$ 24,220	$ 18,731
Additions, net	8,147	7,180	5,453
Changes in fair value	(2,201)	(2,347)	36
Balance at end of period	$ 34,999	$ 29,053	$ 24,220

The fair value of servicing rights was determined using discount rates ranging from 8.5% to 13.4% on December 31, 2014, 9.1% to 16.3% on December 31, 2013 and 8.9% to 15.0% on December 31, 2012. The fair value of servicing rights was determined using prepayment speeds ranging from 4.4% to 8.5% on December 31, 2014, 0% to 11.88% on December 31, 2013 and 0% to 9.60% on December 31, 2012, depending on the stratification of the specific right.

The fair value of servicing rights is highly sensitive to changes in the above underlying assumptions. Changes in prepayment speed assumptions have the most significant impact on the fair value of servicing rights. Generally, as interest rates rise on variable rate loans, loan prepayments increase due to an increase in refinance activity, which results in an decrease in the fair value of servicing assets. Measurement of fair value is limited to the conditions existing and the assumptions used as of a particular point in time, and those assumptions may not be appropriate if they are applied at a different time.

Note 5. Premises, Equipment and Leases

Components of Premises and Equipment

Components of premises and equipment and total accumulated depreciation at December 31, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
Buildings	$ 8,000	$ 8,285	$ -
Land improvements	1,487	1,575	-
Furniture and equipment	3,077	3,064	521
Computers and software	630	557	281
Leasehold improvements	239	237	277
Land	3,623	3,623	1,750
Transportation	14,047	9,383	9,383
Deposits on fixed assets	7,323	709	8,120
Premises and equipment, total	38,426	27,433	20,332
Less accumulated depreciation	(3,147)	(2,397)	(1,381)
Premises and equipment, net of depreciation	$ 35,279	$ 25,036	$ 18,951

Deposits on fixed assets consist of construction in process on a newly leased off-site facility and the Company's second building at is headquarters campus. Depreciation expense for the years ended December 31, 2014, 2013 and 2012 amounted to $2.2 million, $1.5 million and $673 thousand, respectively.

Note 5. Premises, Equipment and Leases (Continued)

Lease Obligations

Pursuant to the terms of non-cancelable lease agreements in effect at December 31, 2014 pertaining to Company premises and equipment, future minimum rent commitments under various operating leases are as follows:

Year	Amount
2015	$ 340
2016	242
2017	213
2018	198
Total	$ 993

The Company's total rent expense related to the aforementioned leases for 2014, 2013, and 2012 was $373 thousand, $286 thousand and $459 thousand, respectively.

Note 6. Deposits

The aggregate amount of time deposits in denominations of $250 thousand or more at December 31, 2014 was approximately $177 million. The aggregate amount of time deposits in denominations of $100 thousand or more at December 31, 2013 and 2012 was approximately $112 million and $118 million, respectively. At December 31, 2014, the scheduled maturities of time deposits are as follows:

	Amount
2015	$ 186,642
2016	39,246
2017	45,741
2018	9,274
2019	14,767
	$ 295,670

Note 7. Borrowings

As of December 31, 2014, 2013 and 2012 total outstanding long-term borrowings consisted of the following:

	December 31, 2014	2013	2012
Short term borrowings	$ 6,100	$ -	$ -
On September 18, 2014, the Company entered into a line of credit of $6.1 million with an unaffiliated commercial bank, secured by 1,900,000 shares of nCino common stock. At December 31, 2014 there was $6.1 million advanced on the line of credit. Interest accrues at 30 day LIBOR (.16% at December 31, 2014) plus 3.50% for a term of 12 months. Payments are interest only with all principal and accrued interest due on September 18, 2015. There was no remaining available credit on this line of credit at December 31, 2014			
Total short term borrowings	$ 6,100	$ -	$ -

Note 7. Borrowings (Continued)

	2014	2013	2012
Long term borrowings			
In April 2011, the Company elected to participate in the U.S. Treasury's Small Business Lending Fund program ("SBLF") whereby the U.S. Treasury agreed to purchase $6.8 million in senior securities. During the initial interest period the applicable interest rate is set at 1.5%. For all remaining interest periods, which commenced on January 1, 2012, the interest rate is determined based on a formula which encompasses the percentage change in qualified lending as well as a non-qualifying portion percentage. This rate can range from 1.5% to 10.8%. At December 31, 2014 the interest rate was 1.50%. Interest is payable quarterly in arrears. With the approval of the Bank's regulator, the Bank may exit the Small Business Lending Fund at any time simply by repaying the funding provided along with any accrued but unpaid interest. If the institution wishes to repay its SBLF funding in partial payments, each partial payment must be at least 25% of the original funding amount. All senior securities will mature on September 13, 2021 at which time all principal and accrued interest will be due.	$ 6,800	$ 6,800	$ 6,800
Effective January 1, 2012, the Company issued $3.6 million in five-year 10% fixed rate Senior Notes payable to outside investors and existing shareholders maturing on December 31, 2016. Interest payments are made quarterly beginning March 31, 2012, with principal repayment due at maturity. On August 22, 2014 the terms of Senior Notes were amended to allow conversion to equity. On September 30, 2014, the Senior Notes payable to investors were converted to equity in the Company at $10.63 per share, with cash paid in lieu of fractional shares at a rate of $10.63 per share.	-	3,623	3,623
On June 29, 2011, the Bank financed the purchase of an airplane by entering into a promissory note with an unaffiliated commercial bank in the amount of $1.9 million which carried a fixed rate of 5.75% for a term of 59 months. Monthly payments were set at $16 thousand with all principal and accrued interest due on June 29, 2016. The airplane securing this note was sold during 2014 and the note payable was paid in full on September 19, 2014.	-	1,693	1,782
On May 12, 2014, Independence Aviation financed the purchase of an airplane by entering into a promissory note with the same aforementioned unaffiliated commercial bank in the amount of $6 million which carries a fixed rate of 4.97% for a term of 59 months. Monthly payments are set at $48 thousand with all principal and accrued interest due on May 12, 2019.	5,842	-	-

Note 7. Borrowings (Continued)

	2014	2013	2012
On September 11, 2014, The Company financed the construction of an additional building located on the Company's Tiburon Drive main campus for a $24 million construction line of credit with an unaffiliated commercial bank, secured by both properties at its Tiburon Drive main facility location. As of December 31, 2014, $16.9 million had been advanced on the construction line of credit. Payments are interest only through September 11, 2016 at a fixed rate of 3.95% for a term of 84 months. Monthly principal and interest payments beginning in October 2016 will be $146 thousand with all principal and accrued interest due on September 11, 2021. The terms of this loan require the Company to maintain minimum capital, liquidity and Texas ratios. There is $7.1 million of remaining available credit on this construction line at December 31, 2014.	$ 16,914	$ -	$ -
On September 18, 2014, the Company entered into a note payable line of credit of $8.1 million with an unaffiliated commercial bank, with the first advance of $5 million on December 14, 2014. The note is unsecured and accrues interest at LIBOR plus 3.50% for a term of 36 months. Payments are interest only with all principal and accrued interest due on September 18, 2017. There were no interest payments made for the year ended December 31, 2014. There is $3.1 million of remaining available credit on this note at December 31, 2014.	5,000	-	-
On August 1, 2014, the Company entered into a note payable line of credit of $15 million with an unaffiliated commercial bank, secured by 100% of Live Oak Banking Company's outstanding common stock. At December 31, 2014 there was $7.2 million advanced on this line of credit. Interest accrues at LIBOR plus 4.00% for a term of 36 months. Payments are interest only with all principal and accrued interest due on August 1, 2017. The terms of this loan require the Company to maintain minimum capital, liquidity and Texas ratios. There is $7.8 million of remaining available credit on this line of credit at December 31, 2014.	7,210	-	-
With the acquisition of GLS on September 1, 2013, the Company assumed the obligation to pay a former GLS partner $250 thousand at $10 thousand a month over a 24 month period.	83	209	-
Total long term borrowings	$ 41,849	$ 12,325	$ 12,205

Principal amounts due for the next five years on all long-term debt at December 31, 2014 are as follows: 2015 - $367 thousand; 2016-$437 thousand; 2017 - $13.1 million; 2018 – $922 thousand; 2019 – $5.2 million; thereafter - $21.8 million.

Note 8. Income Taxes

Income tax expense was as follows:

	Year Ended December 31 2014
Current income tax expense	$ 3,296
Deferred income tax expense	4,092
Income tax expense, as reported	$ 7,388

In connection with the private placement discussed in Note 1, the Company terminated its S-Corporation status and became a taxable entity (C Corporation) on August 3, 2014. As such, periods prior to August 3, 2014 will not reflect income tax expense. The reported income tax expense for the year ended December 31, 2014 reflects the initial recording of the deferred tax net liability of $3.2 million, which is the result of timing differences in the recognition of income/deductions for generally accepted accounting principles (GAAP) and tax purposes. Note 1 of the notes to consolidated financial statements present pro forma results of operations as if the Company were a C corporation for all periods.

Reported income tax expense differed from the amounts computed by applying the U.S. federal statutory income tax rate of 35% to income before income taxes for the five months ended December 31, 2014 (the period the Company was a taxable entity) as follows:

	Year Ended December 31 2014
Income tax expense computed at the statutory rate	$ 3,391
Initial recording of deferred tax liability	3,252
State income tax, net of federal benefit	339
Increase in taxes due to nondeductible expenses	406
	$ 7,388

Components of deferred tax assets and liabilities are as follows:

	December 31 2014
Deferred tax assets:	
Allowance for loan losses	$ 1,697
SBA guaranty reserve	273
Other	412
	2,382
Deferred tax liabilities:	
Unguaranteed loan discount	3,144
Premises and equipment	2,461
Deferred loan fees and costs, net	869
	6,474
Net deferred tax liability	$ 4,092

The Company does not have any uncertain tax positions and does not have any interest and penalties recorded in the income statement for the year ended December 31, 2014. The Company files a consolidated income tax return in the US federal tax jurisdiction.

Note 9. Fair Value of Financial Instruments

Fair Value Hierarchy

There are three levels of inputs in the fair value hierarchy that may be used to measure fair value. Financial instruments are considered *Level 1* when valuation can be based on quoted prices in active markets for identical assets or liabilities. *Level 2* financial instruments are valued using quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or models using inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered *Level 3* when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

Financial Instruments Measured at Fair Value

The following sections provide a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the fair value hierarchy:

Securities: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Impaired Loans: Impairment of a loan is based on the fair value of the collateral of the loan for collateral-dependent loans. Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral. For non-collateral dependent loans impairment is determined by the present value of expected future cash flows.

Servicing Assets: Servicing rights do not trade in an active, open market with readily observable prices. While sales of servicing rights do occur, the precise terms and conditions typically are not readily available. Accordingly, the Company estimates the fair value of servicing rights using discounted cash flow models incorporating numerous assumptions from the perspective of market participant including servicing income, servicing costs, market discount rates and prepayment speeds. Due to the nature of the valuation inputs, servicing rights are classified within Level 3 of the valuation hierarchy.

Note 9. Fair Value of Financial Instruments (Continued)

Foreclosed Assets: Foreclosed real estate is adjusted to fair value less selling costs upon transfer of the loans to foreclosed real estate. Subsequently, foreclosed real estate is carried at the lower of carrying value or fair value less selling costs. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records foreclosed real estate as nonrecurring Level 3.

Recurring Fair Value

The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis.

December 31, 2014	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale				
US government agencies	$ 35,309	$ -	$ 35,309	$ -
Residential mortgage backed securities	14,009	-	14,009	-
Servicing assets	34,999	-	-	34,999
Total assets at fair value	$ 84,317	$ -	$ 49,318	$ 34,999

December 31, 2013	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale				
US government agencies	$ 5,262	$ -	$ 5,262	$ -
Residential mortgage backed securities	14,184	-	14,184	-
Servicing assets	29,053	-	-	29,053
Total assets at fair value	$ 48,499	$ -	$ 19,446	$ 29,053

December 31, 2012	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale				
US government agencies	$ 3,517	$ -	$ 3,517	$ -
Residential mortgage backed securities	11,899	-	11,899	-
Servicing assets	24,220	-	-	24,220
Total assets at fair value	$ 39,636	$ -	$ 15,416	$ 24,220

See Note 5 for a rollforward of recurring Level 3 fair values for servicing assets.

Note 9. Fair Value of Financial Instruments (Continued)

Non-recurring Fair Value

The tables below present the recorded amount of assets and liabilities measured at fair value on a non-recurring basis.

December 31, 2014	Total	Level 1	Level 2	Level 3
Impaired loans	$ 24,016	$ -	$ -	$ 24,016
Foreclosed assets	371	-	-	371
Total assets at fair value	$ 24,387	$ -	$ -	$ 24,387

December 31, 2013	Total	Level 1	Level 2	Level 3
Impaired loans	$ 13,907	$ -	$ -	$ 13,907
Foreclosed assets	341	-	-	341
Total assets at fair value	$ 14,248	$ -	$ -	$ 14,248

December 31, 2012	Total	Level 1	Level 2	Level 3
Impaired loans	$ 10,089	$ -	$ -	$ 10,089
Foreclosed assets	232	-	-	232
Total assets at fair value	$ 10,321	$ -	$ -	$ 10,321

Level 3 Analysis

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2014, 2013 and 2012, the significant unobservable inputs used in the fair value measurements were as follows:

December 31, 2014 Level 3 Assets with Significant Unobservable Inputs	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
Impaired Loans	$ 24,016	Discounted appraisals Discounted expected cash flows	Appraisal adjustments [1] Interest rate & repayment term	10% to 20% Weighted Average discount rate 4.88%
Foreclosed Assets	$ 371	Discounted appraisals	Appraisal adjustments [1]	10% to 20%

December 31, 2013 Level 3 Assets with Significant Unobservable Inputs	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
Impaired Loans	$ 13,907	Discounted appraisals Discounted expected cash flows	Appraisal adjustments [1] Interest rate & repayment term	6% to 10% Weighted Average discount rate 4.42%
Foreclosed Assets	$ 341	Discounted appraisals	Appraisal adjustments [1]	6% to 10%

Note 9. Fair Value of Financial Instruments (Continued)

December 31, 2012 Level 3 Assets with Significant Unobservable Inputs	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
Impaired Loans	$ 10,089	Discounted appraisals	Appraisal adjustments (1)	6% to 10%
Foreclosed Assets	$ 232	Discounted appraisals	Appraisal adjustments (1)	6% to 10%

(1) Appraisals may be adjusted by management for customized discounting criteria, estimated sales costs, and proprietary qualitative adjustments. Prior to 2014 appraisal adjustments included a $25 thousand reduction on each impaired loan reflecting costs the Company anticipated to incur as part of the SBA's required collection process.

Impaired loans and foreclosed assets classified as Level 3 are based on management's judgment and estimation.

Estimated Fair Value of Other Financial Instruments

GAAP also requires disclosure of fair value information about financial instruments carried at book value in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments not measured at fair value on the balance sheets:

Cash and due from banks: The carrying amounts reported in the balance sheet for cash and due from banks approximate their fair values.

Certificates of Deposit with Other Banks: The fair value of certificates of deposit with other banks is estimated based on discounting cash flows using the rates currently offered for instruments of similar remaining maturities.

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable.

Loans held for sale: The fair values of loans held for sale are based on quoted market prices, where available, and determined by discounting estimated cash flows using interest rates approximating the Company's current origination rates for similar loans adjusted to reflect the inherent credit risk.

Accrued Interest: The carrying amounts of accrued interest approximate fair value.

Servicing assets: The fair values of servicing assets are based upon discounted cash flows using market-based assumptions.

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 amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Note 9. Fair Value of Financial Instruments (Continued)

Short and long term borrowings: The fair values of the Company's borrowings are estimated using discounted cash flow analyses based on the Company's current incremental debt rates for similar types of debt arrangements.

The carrying amounts and estimated fair values of the Company's financial instruments are as follows:

December 31, 2014	Carrying Amount	Quoted Price In Active Markets for Identical Assets /Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Ending Balance
Financial assets					
Cash and due from banks	$ 29,902	$ 29,902	$ -	$ -	$ 29,902
Certificates of deposit with other banks	10,000	9,861	-	-	9,861
Investment securities, available for sale	49,318	-	49,318	-	49,318
Loans held for sale	295,180	-	-	304,504	304,504
Loans, net of allowance for loan losses	199,529	-	-	194,007	194,007
Servicing assets	34,999	-	-	34,999	34,999
Accrued interest receivable	3,059	3,059	-	-	3,059
Financial liabilities					
Deposits	522,080	-	522,058	-	522,058
Accrued interest payable	190	190	-	-	190
Short term borrowings	6,100	-	-	6,100	6,100
Long term borrowings	41,849	-	-	44,738	44,738

December 31, 2013	Carrying Amount	Quoted Price In Active Markets for Identical Assets /Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Ending Balance
Financial assets					
Cash and due from banks	$ 37,244	$ 37,244	$ -	$ -	$ 37,244
Investment securities, available for sale	19,446	-	19,446	-	19,446
Loans held for sale	159,438	-	-	172,169	172,169
Loans, net of allowance for loan losses	138,626	-	-	142,444	142,444
Servicing assets	29,053	-	-	29,053	29,053
Accrued interest receivable	1,842	1,842	-	-	1,842
Financial liabilities					
Deposits	356,620	-	354,611	-	354,611
Accrued interest payable	107	107	-	-	107
Long term borrowings	12,325	-	-	14,334	14,334

Note 9. Fair Value of Financial Instruments (Continued)

December 31, 2012	Carrying Amount	Quoted Price In Active Markets for Identical Assets /Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Ending Balance
Financial assets					
Cash and due from banks	$ 44,173	$ 44,173	$ -	$ -	$ 44,173
Investment securities, available for sale	15,416	-	15,416	-	15,416
Loans held for sale	145,183	-	-	155,851	155,851
Loans, net of allowance for loan losses	87,561	-	-	88,937	88,937
Servicing assets	24,220	-	-	24,220	24,220
Accrued interest receivable	1,457	1,457	-	-	1,457
Financial liabilities					
Deposits	286,674	-	286,046	-	286,046
Accrued interest payable	81	81	-	-	81
Long term borrowings	12,205	-	-	14,560	14,560

Note 10. Benefit Plans

Defined Contribution Plan

The Company maintains an employee benefit plan pursuant to Section 401(k) of the Internal Revenue Code. The plan covers substantially all employees who are at least 21 years of age and have completed one month of service. Participants may contribute a percentage of compensation, subject to a maximum allowed under the Code. In addition, the Company makes certain matching contributions and may make additional contributions at the discretion of the Board of Directors. Company expense relating to the plan for the years ended December 31, 2014, 2013, and 2012 amounted to $867 thousand, $602 thousand and $397 thousand, respectively.

Flexible Benefits Plan

The Company maintains a Flexible Benefits Plan which covers substantially all employees. Participants may set aside pre-tax dollars to provide for future expenses such as health care.

Employee Stock Purchase Plan

In 2010, the Company adopted an Employee Stock Purchase Plan (2010 ESPP). Under this plan, eligible employees were able to withhold post-tax dollars from their monthly payroll to be placed in a money market account for bi-annual purchases of the Company's Class A and Class B stock. In order for employees to be eligible to contribute to this program, they must have completed one year of service with the Company. Eligible employees' money market accounts were swept on March 15th and September 15th each year, up to the amount that would purchase whole shares of stock, not to exceed $25 thousand per employee per calendar year. In order to preserve the S-Corporation election, the Company discontinued the 2010 ESPP in October 2013.

Subsequent to conversion to a C corporation in 2014, the Company again adopted an Employee Stock Purchase Plan (ESPP) on October 8, 2014, within the meaning of Section 423 of the Internal Revenue Code of 1986, as amended. Under this plan eligible employees were able to purchase available shares with post-tax dollars as of the grant date. In order for employees to be eligible to participate in this plan they must be employed or on an authorized leave of absence from the Company or any subsidiary immediately prior to the grant date. ESPP stock purchases cannot exceed $25 thousand per employee per calendar year. Options to purchase shares under the ESPP in 2014 were granted at a 15% discount to fair market value. Expense recognized in relation to the ESPP was $58 thousand in fiscal 2014.

Note 10. Benefit Plans (Continued)

Restricted Stock Plan

In 2010, the Company adopted a Restricted Stock Plan. Under this plan, a total of 1,350,000 shares of Common Stock are available for issuance to eligible employees. Restricted stock grants vest in equal installments over a two to four year period from the date of the grant. In 2010, a total of 500,010 restricted shares were issued at $1.50 per share and these shares fully vested in 2013. In 2013, 100,000 restricted shares were granted at $3.00 per share to an eligible employee and 50,000 restricted shares were granted at $2.99 per share in connection with the GLS acquisition.

The following is a summary of non-vested stock restricted stock activity for the Company for the year ended December 31, 2014.

	Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2013	120,834	$ 3.00
Granted	-	-
Vested	(47,917)	3.00
Forfeited	(72,917)	3.00
Non-vested at December 31, 2014	-	$ -

Total recognized restricted stock expense was $143 thousand, $150 thousand and $250 thousand for the years ended December 31, 2014, 2013, and 2012, respectively. At December 31, 2014, there was no unrecognized restricted stock expense or unvested shares, to be recognized in the future.

Employee Profit Sharing Plan

The Employee Profit Sharing Plan allows eligible employees to participate in a profit sharing bonus pool based on the profitability of the Company. The plan awards each participating employee a quarterly and annual bonus based on the ratio of the employee's salary at the end of the period to the aggregate salaries of all participating employees. The employees profit sharing plan terminated in 2013, accordingly there were no expenses related to this plan in 2014. Total expenses related to this plan were $4.0 million and $4.5 million for the years ended December 31, 2013 and 2012, respectively.

Employee Bonus Plan

In 2014 the Company adopted an employee bonus plan whereby eligible employees are qualified to receive quarterly and annual bonus payments based on the profitability of the Company. Total expenses related to the employee bonus plan were $2.2 million for the year ended December 31, 2014.

Outside Director Profit Sharing Plan

Effective January 1, 2013, the Company adopted the Outside Director Profit Sharing Plan. Eligible directors participate in a discretionary award based on their annual director fees in the same quarterly percentage payout awarded under the Company's Former Employee Profit Sharing Plan. Total expenses related to this plan were $48 thousand for the year ended December 31, 2014.

Note 10. Benefit Plans (Continued)

Stock Option Plans

In 2008 the Company adopted both an Incentive Stock Option (ISO) Plan and a Non-Qualified Stock Option (NQSO) Plan. Options granted under both plans expire no more than 10 years from date of grant. Exercise prices under both plans are set by the Board of Directors at the date of grant, but shall not be less than 100% of fair market value of the related stock at the date of the grant. Options vest over three to seven year periods from the date of the grant for both plans.

Compensation cost relating to share-based payment transactions are recognized in the financial statements with measurement based upon the fair value of the equity or liability instruments issued. For the years ended December 31, 2014, 2013, and 2012, the Company recognized $272 thousand, $38 thousand and $81 thousand in compensation expense for stock options, respectively.

Activity under the stock option plan during the year ended December 31, 2014 is summarized below.

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2013	225,000	$ 1.68	-	-
Exercised	191,660	.92	-	-
Forfeited	170,590	4.40	-	-
Granted	1,878,020	5.49	-	-
Outstanding at December 31, 2014	1,740,770	$ 5.52	9.29 years	$ 8,897,318
Exercisable at December 31, 2014	33,340	$ 1.52	6.79 years	$ 303,594

Note 10. Benefit Plans (Continued)

The following is a summary of non-vested stock option activity for the Company.

	Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2011	621,660	$ 0.33
Granted	-	-
Vested	421,660	0.27
Forfeited	-	-
Non-vested at December 31, 2012	200,000	0.45
Granted	-	-
Vested	108,250	0.45
Forfeited	-	-
Non-vested at December 31, 2013	91,750	0.45
Granted	1,878,020	1.13
Vested	91,750	0.44
Forfeited	170,590	0.58
Non-vested at December 31, 2014	1,707,430	$ 1.19

At December 31, 2014, unrecognized compensation costs relating to stock options amounted to $2 million which will be expensed over the next 6.01 years.

The weighted average fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The expected volatility is based on historical volatility. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on historical exercise experience. The dividend yield assumption is based on the Company's history and expectation of dividend payouts, exclusive of dividends commensurate with shareholders tax burdens as a pass through entity through July 31, 2014. Weighted average assumptions used for options granted during 2014 were as follows: risk free rate of 2.27%, dividend yield of 5.18%, volatility of 29.70% and average life of 4-7 years. There were no grants under the plans during 2013 or 2012.

Redeemable Equity Securities

In 2013 the Company entered into an agreement with a third party financial institution which provides personal loans to the Company's employees. In this arrangement the Company was obligated to repurchase its shares collateralizing personal employee loans only in the event of default. The repurchase of Company stock in under this arrangement is at the greater of $3.00 per share or the price per share required to pay and satisfy in full each loan, including without limitation the entire principal balance and any accrued unpaid interest and any applicable fees and costs owed with respect to the applicable loan until paid in full. Due to this arrangement containing provisions allowing for a cash settlement, the intrinsic value was reflected as mezzanine equity. During 2014, the obligation for the Company to repurchase stock under the above arrangement was terminated.

Note 11. Commitments and Contingencies

Litigation

In the normal course of business the Company is involved in various legal proceedings. Management believes that the outcome of such proceedings will not materially affect the financial position, results of operations or cash flows of the Company.

Financial Instruments with Off-balance-sheet Risk

The Company is 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 and standby letters of credit. These instruments involve, to varying degrees, credit risk in excess of the amount recognized in the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as for on-balance-sheet instruments. A summary of the Company's commitments at December 31, 2014, 2013 and 2012 is as follows:

	2014	2013	2012
Commitments to extend credit	$ 537,951	$ 221,487	$ 216,010
Plexus Capital - Fund II Investment Commitment	100	100	-
Plexus Capital - Fund III Investment Commitment	350	413	138
Total unfunded off-balance sheet credit risk	$ 538,401	$ 222,000	$ 216,148

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate and income-producing commercial properties. In 2012, the Company began issuing commitment letters after approval of the loan by the Credit Department. The commitment letter expires ninety days after the issuance.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances which the Company deems necessary. There were no standby letters of credit for the periods presented.

Concentrations of Credit Risk

Although the Company is not subject to any geographic concentrations, a substantial amount of the Company's loans and commitments to extend credit have been granted to customers in the independent pharmacy and veterinary verticals. The concentrations of credit by type of loan are set forth in Note 2. The distribution of commitments to extend credit approximates the distribution of loans outstanding. The Company does not have a significant number of credits to any single borrower or group of related borrowers whereby their retained exposure exceeds $2.0 million.

The Company from time-to-time may have cash and cash equivalents on deposit with financial institutions that exceed federally-insured limits.

Note 12. Regulatory Matters

Dividends

The Bank, as a North Carolina banking corporation, may pay dividends to shareholders provided the bank does not make distributions that reduce its capital below its applicable required capital, pursuant to North Carolina General Statutes Section 53C-4-7. However, regulatory authorities may limit payment of dividends by any bank when it is determined that such a limitation is in the public interest and is necessary to ensure financial soundness of the bank.

Capital Requirements

The Company (on a consolidated basis) and the Bank are 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 Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting principles. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2014, 2013 and 2012, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2014, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category.

Note 12. Regulatory Matters (Continued)

Capital amounts and ratios as of December 31, 2014, 2013 and 2012, are presented in the table below.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Consolidated - December 31, 2014						
Total Capital (to Risk-Weighted Assets)	$ 99,340	19.63%	$ 40,490	8.00%	$ 50,612	10.00%
Tier I Capital (to Risk-Weighted Assets)	$ 88,132	17.41%	$ 20,245	4.00%	$ 30,367	6.00%
Tier I Capital (to Average Assets)	$ 88,132	13.38%	$ 26,349	4.00%	$ 32,936	5.00%
Bank - December 31, 2014						
Total Capital (to Risk-Weighted Assets)	$ 63,243	13.36%	$ 37,857	8.00%	$ 47,321	10.00%
Tier I Capital (to Risk-Weighted Assets)	$ 58,836	12.43%	$ 18,928	4.00%	$ 28,392	6.00%
Tier I Capital (to Average Assets)	$ 58,836	9.34%	$ 25,200	4.00%	$ 31,500	5.00%
Bank - December 31, 2013						
Total Capital (to Risk-Weighted Assets)	$ 50,812	15.95%	$ 25,486	8.00%	$ 31,857	10.00%
Tier I Capital (to Risk-Weighted Assets)	$ 48,089	15.09%	$ 12,747	4.00%	$ 19,121	6.00%
Tier I Capital (to Average Assets)	$ 48,089	10.39%	$ 18,514	4.00%	$ 23,142	5.00%
Bank - December 31, 2012						
Total Capital (to Risk-Weighted Assets)	$ 41,438	17.91%	$ 18,505	8.00%	$ 22,593	10.00%
Tier I Capital (to Risk-Weighted Assets)	$ 38,514	16.65%	$ 13,900	4.00%	$ 17,529	6.00%
Tier I Capital (to Average Assets)	$ 38,514	10.63%	$ 17,990	4.00%	$ 20,889	5.00%

The Company's most significant asset in 2013 and 2012 was its investment in the Bank. Consequently, the information concerning capital ratios is substantially the same for the Company and the Bank for those years.

Note 13. Transactions with Related Parties

The Company has entered into transactions with its directors, employees, significant shareholders and their affiliates (related parties). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal risk or present other unfavorable features.

At December 31, 2013 there were no related party loans. During 2014 the Company disbursed \$2.0 million in principal additions and transferred \$5.1 million due to changes in related-party status, with total principal curtailments received of \$419 thousand. At December 31, 2014 total related party loans were \$6.7 million.

Deposits from related parties held by the Company at December 31, 2014, 2013, and 2012 amounted to \$89.0 million, \$33.3 million, and \$25.8 million, respectively.

During the years ended December 31, 2014, 2013 and 2012, the Company invested \$63 thousand, \$125 thousand and \$138 thousand, respectively, in Plexus Funds II and III, L.P. which is included in other assets at December 31, 2014, 2013 and 2012 with a balance of \$1 million, \$1 million and \$363 thousand, respectively. A member of the Company's Board of Directors is also a member of Plexus Capital, the administrator of Plexus Fund II, L.P.

During the years ended December 31, 2014 and 2013, the Company leased office space from related parties. The Company's total lease payments to related parties for 2014, 2013, and 2012 was \$100 thousand, \$119, and \$218 thousand, respectively.

In January 2012, the Company formed nCino to further develop and sell cloud-based banking software that was initially built off of the Force.com platform and transformed into a bank operating system used to streamline the lending process at the Bank. nCino was a majority-owned subsidiary of the Company during the year ended December 31, 2012. In January 2013, the investment in nCino was deconsolidated and subsequently accounted for under the equity method. In June 2014, the Company divested its investment in nCino in the form of a dividend to shareholders with a subsequent investment of \$6.1 million later in 2014. The investment in nCino is included in investments in non-consolidated affiliates December 31, 2014. In 2014 and 2013 (subsequent to deconsolidation) the Company had business transactions with nCino amounting to \$1.6 million and \$1 million, respectively, for services purchased related to the Bank's loan technology platform.

Note 14. Parent Company Only Financial Statements (Continued)

Statements of Cash Flows

	Years Ended December 31,		
	2014	2013	2012
Cash flows from operating activities			
Net income	$ 10,048	$ 27,942	$ 14,798
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed net loss (income) of subsidiaries in excess of dividends of subsidiaries	(9,695)	(9,757)	(4,074)
Equity in loss of non-consolidated affiliates	2,221	2,756	-
Gain on deconsolidation of subsidiary	-	(12,212)	-
Stock option based compensation expense	272	38	81
Restricted stock expense	143	150	250
Stock grants	2,992	-	-
Net change in other assets	(6,899)	(73)	(362)
Net change in other liabilities	1,351	619	(80)
Net cash provided by (used in) operating activities	433	9,463	10,613
Cash flows from investing activities			
Capital investment in subsidiaries	(950)	-	(194)
Capital investment in non-consolidated affiliates	(6,614)	(4,570)	-
Net change in advances to subsidiaries	-	3,624	(3,624)
Purchases of premises and equipment	(20,227)	-	-
Net cash used in investing activities	(27,791)	(946)	(3,818)
Cash flows from financing activities			
Proceeds from borrowings	35,224	-	3,623
Repayments of borrowings	(571)	-	(3,165)
Repurchase of common stock	-	(444)	-
Stock options exercised	177	100	792
Proceeds from sale of common stock, net	75,235	234	877
Shareholder dividend distributions	(43,848)	(11,921)	(9,356)
Net cash provided by (used in) financing activities	66,217	(12,031)	(7,229)
Net change in cash and cash equivalents	38,859	(3,514)	(434)
Cash and cash equivalents at beginning of year	**52**	**3,566**	**4,000**
Cash and cash equivalents at end of year	$ 38,911	$ 52	$ 3,566

Note 15. Subsequent Events

Management has evaluated subsequent events through the date the financial statements were available to be issued and determined that the following events required disclosure:

Change to Self Insured Heath Plan
On January 1, 2015 the Company switched from a fully insured health, pharmacy, dental, vision and short-term disability plan ("health plan") to a self-insured health plan managed by a third party administrator. Both medical and pharmacy claims are backed by a stop-loss contract that limits max out of pocket to 25% of total expected claims paid.

Proposed Acquisition of Independence Trust Company
On January 13, 2015 the Company entered into an Agreement and Plan of Merger with Independence Holding Corporation and its wholly-owned subsidiary, Independence Trust Company, a federally charted savings bank (together referred to as "ITC" hereafter). Under this agreement, the Company will acquire control of ITC in a purchase of 100% of the outstanding shares of ITC for an all cash price of $8,350,000. As of December 31, 2014, ITC had total unaudited assets of $4.7 million and equity of $4.5 million. The acquisition of ITC is subject to regulatory approval.

ITC currently acts as a trustee of preneed funeral, preneed cemetery, merchandise and services and perpetual care cemetery trust assets in 32 states.

Option Grants
Effective January 30 and February 20, 2015, the Company issued an aggregate of 394,753 options vesting over seven years. Exercise price is $10.63 per share and weighted average date of grant fair value using the Black-Scholes option-pricing model is $3.83 per share. Vesting is to occur at 10% per year for the first five years and then 25% in years six and seven. Unrecognized compensation expense associated with these grants is $1.5 million to be recognized over the next seven years.

Change in Control of 504 Fund Advisors, LLC
On February 2, 2014 the Company acquired control of 504 Fund Advisors, LLC ("504 Fund") by increasing its ownership from 50% to 91.3%. The acquisition of an additional 41.3% of ownership occurred in exchange for future net income of 504 Fund. Total contingent consideration is $620 thousand. Total unaudited assets as of January 31, 2015 were $1.1 million and capital was $410 thousand. The Company has invested $750 thousand in 504 Fund since inception. Under the equity method, the carrying amount of this investment was $231 thousand at December 31, 2014.

nCino sale and Repayment of Short Term Borrowing
On February 12, 2015 the Company sold 100% of its 9.02% ownership in nCino to third party investors for an after tax gain of $2.3 million. This investment was accounted for under the cost method. On February 23, 2015, gross proceeds from this sale were used to repay in full the $6.1 million in short term borrowings disclosed in Note 7.

Secured Borrowing
On February 23, 2015 the Company transferred two related party loans to an unrelated third party financial institution in exchange for $4.7 million. The exchange price equated to the unpaid principal balance plus accrued but uncollected interest at the time of transfer. The terms of the transfer agreement with the third party institution identified the transaction as a secured borrowing for accounting purposes. As such, upon receipt of funds from the third party institution the Company recorded a secured borrowing for $4.7 million.