BAY COMMERCIAL BANK
1280 Civic Drive, Suite 100
Walnut Creek, California 94596

April 26, 2010

Dear Fellow Shareholders:

You are cordially invited to attend the 2010 Annual Meeting of Shareholders (the "Annual Meeting") of Bay Commercial Bank (the "Bank"), to be held on May 28, 2010, at 4:00 p.m. local time, in the Board room of the Bank at 1280 Civic Drive, Suite 100, Walnut Creek, California, 94596. Enclosed are the Notice of the Annual Meeting, a Proxy Statement describing the business to be transacted at the Annual Meeting, and a proxy card for use in voting your shares. A copy of the Bank's Annual Report for the year ended December 31, 2009 (the "2009 Annual Report") accompanies the Proxy Statement.

At the Annual Meeting, shareholders will be asked:

(i) to elect all seven (7) of the authorized directors of the Bank, each to serve for a one-year term; and
(ii) to approve an amendment to the Bank's Articles of Incorporation to increase the number of authorized shares of common stock from 10,000,000 to 100,000,000; and
(iii) to ratify the Board of Directors' selection of Moss Adams LLP, independent public accountants, as the independent accounting firm for the Bank for the fiscal year ending December 31, 2010.

The Board of Directors of the Bank unanimously recommends that you vote **FOR** the election of the director nominees named in the enclosed Proxy Statement, **FOR** the approval of the proposed amendment to the Bank's articles of incorporation and **FOR** the ratification of the appointment of Moss Adams LLP.

We hope that you will be able to attend the Annual Meeting. Regardless of whether you plan to attend the Annual Meeting, please complete, date, sign, and promptly return the enclosed proxy card in the envelope provided. If your shares are held through a bank or broker, check your proxy card to see if you can also vote by telephone or via the internet.

Sincerely yours,

James L. Apple
Chairman of the Board

George J. Guarini
Chief Executive Officer

BAY COMMERCIAL BANK
1280 Civic Drive, Suite 100
Walnut Creek, California 94596

NOTICE OF ANNUAL MEETING F SHAREHOLDERS
To be held on May 28, 2010

NOTICE IS HEREBY GIVEN that the 2010 Annual Meeting of Shareholders (the "Annual Meeting") of Bay Commercial Bank (the "Bank") will be held at 4:00 p.m., local time, on May 28, 2010, in the Board room of the Bank at 1280 Civic Drive, Suite 100, Walnut Creek, California, 94596, to consider and act upon the following matters:

1. to elect all seven (7) of the authorized directors of the Bank, each to serve for a one-year term;

2. to approve an amendment to the Bank's Articles of Incorporation to increase the number of authorized shares of common stock from 10,000,000 to 100,000,000; and

3. to ratify the Board of Directors' selection of Moss Adams LLP, independent public accountants, as the independent accounting firm for the Bank for the fiscal year ending December 31, 2010

Only shareholders of record as of the close of business on March 30, 2010 are entitled to notice of, and to vote at, the Annual Meeting or any adjournment or postponement thereof.

The Board of Directors of the Bank unanimously recommends that you vote **FOR** the election of the director nominees named in the enclosed Proxy Statement, **FOR** the approval of the proposed amendment to the Bank's articles of incorporation and **FOR** the ratification of the appointment of Moss Adams LLP.

You are cordially invited to attend the Annual Meeting in person. However, whether or not you expect to attend the Annual Meeting in person, we urge you to complete, sign and date the enclosed proxy as promptly as possible and return it in the enclosed envelope. If your shares are held through a bank or broker, check your proxy card to see if you can also vote by telephone or via the internet.

By Order of the Board of Directors

Kerry L. Colwell
Chief Executive Officer and Secretary

Walnut Creek, California
April 26, 2010

PROXY STATEMENT

BAY COMMERCIAL BANK
1280 Civic Drive, Suite 100
Walnut Creek, California 94596
(925) 476-1800

PROXY STATEMENT
FOR THE ANNUAL MEETING OF SHAREHOLDERS

This Proxy Statement is furnished in connection with the solicitation of proxies by, and on behalf of, the Board of Directors of Bay Commercial Bank (we, us, our and the "Bank"), a California corporation, for use at the Annual Meeting of Shareholders of the Bank to be held on May 28, 2010, at 4:00 p.m. local time, in the Board room of the Bank, 1280 Civic Drive, Suite 100, Walnut Creek, California, 94596 and at all postponements or adjournments thereof (the "Annual Meeting").

Purpose of the Annual Meeting

At the Annual Meeting, holders of the Bank's common stock, no par value (the "Common Stock"), will be asked to act on the following proposals:

1. To elect all seven (7) of the authorized directors of the Bank, each to serve for a one-year term;

2. To approve an amendment to the Bank's Articles of Incorporation to increase the number of shares of Common Stock authorized from 10,000,000 to 100,000,000; and

3. To ratify the Board of Directors' selection of Moss Adams, LLP independent public accountants, as the independent accounting firm for the Bank for the fiscal year ending December 31, 2010.

In their discretion, the holders of proxies will have discretion to vote on any other matters that may properly come before the Annual Meeting. At this time, the Board of Directors is not aware of any other matters that will come before the Annual Meeting for action by the shareholders.

Voting Securities

Only shareholders of record as of the close of business on March 30, 2010 (the "Record Date") are entitled to notice of and to vote at the Annual Meeting. At the close of business on the Record Date, the Bank had outstanding one million five hundred forty-nine thousand, seven hundred and ninety-four (1,549,794) shares of its Common Stock.

Each holder of record of Common Stock is entitled to one (1) vote, in person or by proxy, for each share of the Common Stock held as of the Record Date, except that shareholders may have cumulative voting rights with respect to the election of directors.

Cumulative voting allows a shareholder to cast for any candidate a number of votes greater than the number of votes that the shareholder normally is entitled to cast. A shareholder may cumulate votes either (i) by giving one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which that shareholder's shares are normally entitled or (ii) by distributing the shareholder's votes on the same principle among as many candidates as the shareholder sees fit No shareholder can cumulate votes unless, prior to the Annual Meeting, the shareholder has given notice of the intent to cumulate. If any shareholder has given notice to cumulate, then all shareholders may cumulate their votes for candidates in nomination. The seven (7) candidates receiving the highest number of votes shall be elected. The Board of Directors does not, at this time, intend to give such notice or to cumulate the votes it may hold pursuant to the proxies solicited herein unless the required notice by a shareholder is given. Therefore, discretionary authority to cumulate votes in such event is solicited in this Proxy Statement.

Revocability of Proxies

Any person giving a proxy has the power to revoke or suspend it before its exercise. A proxy is revocable before the Annual Meeting by sending written notice or a duly executed proxy bearing a later date to Keary L. Colwell, Chief Financial Officer and Secretary of the Bank, at the principal executive offices of the Bank. In addition, a shareholder giving a proxy may revoke it by attending the Annual Meeting and voting in person. If your shares are held in "street name" through a bank, broker or other nominee, you must follow the instructions on the form you receive from your bank, broker or other nominee with respect to revoking your proxy.

Votes Required

The following paragraphs explain the vote required for each proposal. In each case, a quorum must be present for the vote to be valid. Under the Bank's bylaws, a majority of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum.

PROPOSAL ONE: ELECTION OF DIRECTORS. The validly-nominated nominees for election as directors who rank first, second, third, fourth, fifth, sixth, and seventh in number of votes received, will be elected as directors, even if some or all of such nominees receive less than a majority of the total votes.

PROPOSAL TWO: APPROVAL OF THE AMENDMENT OF THE ARTICLES OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES. Approval of this proposal requires the affirmative vote of the holders of a majority of the outstanding shares of Common Stock. Based on 1,549,794 outstanding shares of Common Stock as of the Record Date, approval of Proposal Two requires the affirmative vote of the holders of at least 774,898 shares of Common Stock represented and voting at the Annual Meeting.

PROPOSAL THREE: RATIFICATION OF SELECTION OF INDEPENDENT ACCOUNTING FIRM FOR 2010. Approval of this proposal requires an affirmative vote of the holders of a majority of the shares of the Common Stock represented and voting.

Such other matters, if any, as may properly come before the Annual Meeting will generally require the affirmative vote of the holders of a majority of the shares of the Common Stock represented.
With regard to the election of directors, votes may be cast in favor or withheld; votes that are withheld will be excluded from the vote and will have no effect. Abstentions may be specified on all proposals

other than the election of directors and will be counted as shares that are present or represented at the Annual Meeting for purposes of determining a quorum on the proposal on which the abstention is specified. However, because approval of the proposed amendment to the Articles of Incorporation requires the affirmative vote of a majority of the outstanding shares, and because ratification of the selection of the independent accounting firm requires the affirmative vote of the holders of a majority of the shares of the Common Stock represented and voting, abstentions will have the effect of a negative vote with respect to each of these proposals.

Under applicable California law, broker non-votes are counted for the purpose of determining the presence or absence of a quorum for the transaction of business but are not otherwise counted. Therefore, broker non-votes will have no effect on the outcome of the election of directors or the ratification of the selection of the independent accounting firm but will have the same effect as a vote against the approval of the proposed amendment to the Bank's Articles of Incorporation).

Unless otherwise instructed, each valid proxy returned which is not revoked will be voted FOR the election as directors of the nominees named in this Proxy Statement, FOR the approval of the proposed amendment to the Bank's Articles of Incorporation FOR the ratification of the selection of the independent accounting firm, and at the proxy holders' discretion, on such other matters, if any, that may come before the Annual Meeting (including any proposal to adjourn the Annual Meeting). At this time, the Board of Directors is not aware of any other matters to come before the Annual Meeting.

Solicitation of Proxies

The Bank will bear the entire cost of preparing, assembling, printing and mailing proxy materials furnished by the Board of Directors to shareholders. Copies of proxy materials also will be furnished to brokerage houses, fiduciaries and custodians to be forwarded to the beneficial owners of the Common Stock. In addition to the solicitation of proxies by use of the mail, some of the officers, directors and regular employees of the Bank and the Bank may (without additional compensation) solicit proxies by telephone or personal interview, the costs of which the Bank will bear.

Annual Report

A copy of the Bank's 2009 Annual Audited Financial Report for December 31, 2009 (the "2009 Annual Report") is attached. Additional copies of the 2009 Annual Report are available without cost upon request by writing to Keary L. Colwell, Chief Financial Officer, Bay Commercial Bank, 1280 Civic Drive, Suite 100, Walnut Creek, California 94596.

Market Makers

The Bank's Common Stock is traded on the OTC Bulletin Board under the symbol BCML.OB. A list of the brokerage firms making a market in the Bank's Common Stock are listed on the Bank's website at *www.baycommercialbank.com.*

Forward Looking Statements

This document includes forward-looking statements within the meaning of the "Safe-Harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, but are not limited to, statements regarding the proposed private offering and the anticipated use of proceeds of the offering, discussed under "Proposal Two: Approval of the Amendment to the Articles of Incorporation to Increase the Number of Authorized Shares of Common Stock." The Bank cautions that these statements are qualified by important factors that could cause actual results to differ materially from those reflected by the forward-looking statements contained herein. Do not unduly rely on forward-looking statements; they give our expectations about the future and are not guarantees. Forward-looking statements speak only as of the date they are made and we do not undertake, and specifically disclaim any obligation, to update any forward-looking statements to reflect occurrenes or unanticipated events or circumstances after the date of such statements except as required by law. In this document we make forward-looking statements about our ability to raise capital, the amount of capital we intend to raise and our intended use of that capital. Specific risks that could cause results to differ from the forward-looking statements include, without limitation, any failure to obtain the shareholder approvals sought in this document, unfavorable pricing of the offering and deterioration in the economy or our loan portfolio that could alter our intended use of the capital.

PROXY STATEMENT
(continued)

Security Ownership of Certain Beneficial Owners and Management

The Bank is aware of one beneficial owner, Black River BancVenture, Inc., holding five percent (5%) or more of the Common Stock as of December 31, 2009.

The following table shows the beneficial ownership of directors, executive officers and directors and executive officers as a group as of December 31, 2009:

Name of Beneficial Owner	Number of Shares of Common Stock	Percentage Owned	Stock Options Granted
James L. Apple, Chairman	20,000	1.3%	14,692
George J. Guarini, Director, President, and Chief Executive Officer	21,545	1.4%	107,092
James S. Camp, Director	76,750	5.0%	14,692
Lloyd W. Kendall, Jr., Director	30,000	1.9%	24,692 (1)
Robert G. Laverne, Director	65,000	4.2%	14,692
Donald S. Morrow, Director	11,300	0.7%	10,000
David M. Spatz, Director	24,700	1.6%	14,692
A. Dean Abercrombie Chief Credit Officer and Executive Vice President	-	0.0%	10,000
Keary L. Colwell Chief Financial Officer, Secretary, and Executive Vice President	2,000	0.1%	25,400
Janet L. King Chief Operating Officer and Executive Vice President	500	0.0%	25,400
Directors and Executive Officers as a Group (ten persons)	251,795	16.2%	261,352

(1) In addition to the options to acquire 14,692 shares granted to Mr. Kendall for his services as a directior, he was granted an option to acquire 10,000 shares of common stock for legal and consulting services related to the Bank's Bankers Exchange Services Division.

Board of Directors

The bylaws of the Bank provide that the number of directors of the Bank, within a specified range, is subject to adjustment by resolution of the Board of Directors, and the Board of Directors has adopted a resolution setting the number of directors at seven (7). Each director holds office until the Bank's next annual meeting of shareholders and until his respective successor is duly elected and qualified, or until his death, resignation or removal.

No director, nominee for director or executive officer of the Bank or the Bank has any family relationship with any other director or executive officer of the Bank or director or executive officer of the Bank.

The Board of Directors has nominated each of the current directors of the Bank for re-election at the Annual Meeting. See “Proposal One: Election of Directors.” Accordingly, no vacancy on the Board of Directors will exist after the election of directors pursuant to Proposal One.

Committees of the Board of Directors

The Bank's Board of Directors held eleven (11) regularly scheduled and four (4) special meetings in 2009. During 2009, each of the directors attended at least 75% of (i) all board meetings and (ii) all meetings of committees of the Board on which the director served during the period in which he served.

The Executive Committee of the Board of Directors presently includes Directors Apple, Guarini, Spatz, and Camp. The Executive Committee is responsible for considering the qualifications of individuals to serve as directors and recommending a slate of directors for election at the annual meeting. The Executive Committee also generally has the power to act for the full Board of Directors between Board meetings. This Committee met once (1) in 2009.

The Bank's Human Resources/Compensation Committee presently includes Directors ' Spatz and Camp. This Committee has responsibility for all personnel and compensation policy matters pertaining to Bank employees, officers and directors. It also monitors the Bank's compliance with laws and regulations applicable uniquely to the protection of employees and officers. This Committee met three (3) times in 2009.

The Bank's Audit Committee presently includes Directors Kendall, Apple, and Laverne. This Committee provides assistance to the Board of Directors in fulfilling its responsibilities with respect to the oversight of the integrity of the Bank’s financial statements and systems of internal controls, the independent auditors’ qualifications, independence and performance and the performance of the Bank’s internal audit function. This Committee also is responsible for monitoring compliance with regulations, and monitoring the Bank's relationship with its primary regulators, the FDIC and Department of Financial Institutions. This Committee met eleven (11) times in the 2009.

The Bank's Loan Committee presently includes Directors Apple, Spatz, Morrow, and Guarini. The Committee examines and approves loans above a specified size and monitors regular reviews of the entire loan portfolio. This Committee is responsible for lending, credit policies and monitors compliance with such policies. This Committee met forty-four (44) times in 2009.

The Bank's Asset Liability Committee presently includes Directors Messrs' Apple, Kendall Laverne, and Camp. This Committee is responsible for asset liability management and investment policies. The Committee also monitors liquidity, interest rate risk and securities activities. This Committee met eleven (11) times in the 2009.

Board of Directors' Compensation

Beginning in 2009, the Bank paid each director other than Mr. Guarini (referred to below as “outside directors”) a retainer of $500 per month for attendance a Board meetings and Committee meetings. Director fees paid in 2009 totaled $36,000, or $6,000 for each outside director. Prior to September 2009, outside directors were allowed to participate in our employee group health insurance plan. Director Kendall was the only outside director who participated in our health insurance plan prior to September 2009, at a total cost to us during 2009 of $3,400. Directors Kendall and Apple are the only outside directors who currently participate in our health insurance plan, and they do so at entirely their own cost. We no longer allow other outside directors to join our health insurance plan. Directors also may be granted stock options under our 2004 Stock Option Plan.

Executive Officers

Each executive officer is selected annually by the Board of Directors pursuant to provisions of the bylaws of the Bank. The following are all of the current executive officers of the Bank , their occupations for the previous five years, ages and the lengths of service as an officer.

GEORGE J. GUARINI . . . . …………………………………………….

(See description of Mr. Guarini's position with the Bank, and his background under the heading "Board of Directors").

A. DEAN ABERCROMBIE. ………………………………………………..

Mr. Abercrombie has served as Executive Vice President and Chief Credit Officer of the Bank since October 2008. Prior to joining the Bank he served as Chief Credit Officer for Community Bank of the Bay from 2002 to 2005, and from 2005 to October 2008 he held senior lending positions at Bank of Petaluma and Wells Fargo Bank. At December 31, 2009, Mr. Abercrombie was 58 years of age.

KEARY L. COLWELL . . . . ……………………………………………....

Ms. Colwell has served as Executive Vice President, Chief Financial Officer and Secretary of the Bank since its inception in March 2004. Prior to joining the Bank she served as Executive Vice President, Chief Financial Officer and Secretary of Bank of San Francisco. At December 31, 2009, Ms. Colwell was 50 years of age.

JANET L. KING. . . . . ………………………………………………...

Ms. King has served as Executive Vice President and Chief Operating Officer of the Bank since its inception in March 2004. Prior to joining the Bank, she served as Chief Branch Administrative Officer of Circle Bank. At December 31, 2009, Ms. King was 47 years of age.

Executive Compensation

The Bank’s compensation philosophy is to pay for performance as an important way to encourage the actions necessary to achieve the Bank's strategic objectives of increasing profitability and maximizing shareholder value.

The Bank’s compensation philosophy is implemented through its compensation program, which is structured to:

- promote the Bank's annual operating objectives,
- promote the Bank's long-term strategic plans,
- ensure continuity of management,
- recognize the level of management expertise,
- be competitive within the industry and community, and
- provide internal equity.

The Bank’s compensation program includes base salary, annual bonus, a stock option plan, a severance plan, and other benefits. The Bank has entered into employment agreements with each of Mr. Guarani, Mr. Abercrombie, Ms. Colwell and Ms. King. See “-Employment Agreements.”

Base Salary. Generally, the Bank targets base salary at median to high competitive levels. The competitive levels are based on comparable positions in other banks. In addition, the Bank takes other factors into consideration including an individual’s specialized expertise, level of experience, broad range of expertise allowing the executive to assume multiple responsibilities, historical performance and salary requirements, leadership in the Bank and the community and contract terms.

For 2009, Mr. Guarini, Mr. Abercrombie, Ms. Colwell and Ms. King earned salaries of $202,503, $133,808, $118,376 and $133,808, respectively. For 2010, the base annual salaries payable to Mr. Guarini, Mr. Abercrombie, Ms. Colwell and Ms. King are $206,553, $136,484, $160,991 and $136,484, respectively. Ms. Colwell worked on a part-time basis during 2009 and is working on a full-time basis in 2010.

Annual Bonus. The purpose of the annual bonus is to provide incentive for achieving defined target performance levels based on the Bank’s annual business and profit plan. The annual goals typically include objectives regarding earnings, loan and deposit growth, asset quality, operating efficiency and regulatory examinations. Annual bonus awards are determined based on the Bank’s performance and the performance of the individual executive.

For 2009, Mr. Guarini, Mr. Abercrombie, Ms. Colwell and Ms. King earned annual incentive bonuses of $81,001, $32,114, $28,410 and $32,114, respectively.

Stock Option Plan. The purpose of the stock option plan is to serve as a long-term incentive program by directly tying rewards to the long-term success of the Bank and increases in shareholder value. Many of the options granted to the executive officers were granted as an inducement to attract and retain executives with the required talent and experience to manage the Bank. All stock option grants are approved by the full board of directors. See “Other Employee Benefit Plans-Stock Option Plan.”

On February 2, 2009, Mr. Abercrombie was granted an option to purchase 10,000 shares of the Bank’s Common Stock at an exercise price per share (equal to the fair market value per share on the date of grant) of $7.08 with a seven year term. This option vests one-third per year and is scheduled to vest in full on February 2, 2012.

Information regarding the number of other stock options held by our executive officers is provided under “Other Employee Benefit Plans-Stock Option Plan.”

Severance Benefits. The purpose of the severance benefits is to promote continuity of management. Pursuant to his or her employment agreement, each executive is eligible for severance if terminated without cause, including following a change in control. See “Employment Agreements.”

Other Benefits. The executive officers are entitled to participate in all employee benefit plans including the Bank’s vacation, 401(k), and welfare and other benefit plans. Each executive officer is entitled by contract to four weeks of annual vacation. The welfare and benefits plans include workers’ compensation benefits, medical and dental, life insurance, and long-term disability insurance. Pursuant to his or her employment agreement, each executive is entitled to a term life insurance benefit, payable to his or her designated beneficiary, in an amount equal to the executive’s then-current base annual salary.

Decisions on the compensation of the Bank's executive officers are generally made by the Bank's Human Resources/Compensation Committee, the members of which are outside directors of the Bank. All decisions by this Committee relating to the compensation of the Bank's executive officers are reviewed by the Bank's full Board of Directors.

Employment Agreements

Employment Agreement with Mr. Guarini. The Bank has entered into a three-year employment agreement with Mr. Guarini dated July 20, 2007. The agreement provides for, among other things, an annual base salary of at least $185,000, incentive bonuses, a monthly automobile allowance of $800 and group insurance benefits, as well as a term life insurance benefit payable to Mr. Guarini's designated beneficiary in an amount equal to Mr. Guarini's then-current annual base salary and participation in any retirement, profit-sharing, salary deferral, medical expense reimbursement and other similar plans the Bank may establish for its employees. The agreement generally provides for indemnification of Mr. Guarini to the maximum extent permitted by law and applicable regulations for any expenses incurred by him, and for any judgments, awards, fines or penalties imposed against him, in any proceeding relating to his actions (or the Bank's actions) while an agent of the Bank. The agreement also provides for the advancement of expenses to Mr. Guarini and coverage under a director and officer liability insurance policy.

The agreement provides that if the Bank terminates the agreement without cause, the Bank must, for the remainder of the contract term (but in no event for less than 12 months), continue to pay Mr. Guarini one-twelfth of his then-current base annual salary plus one-twelfth of the amount of the incentive payment made to him during the preceding year. The Bank must also, for the remainder of the contract term (but not more than 24 months), continue to provide him with health insurance benefits on the same terms as when he was employed by the Bank. In addition, if, within one year of a change in control, Mr. Guarini's employment is terminated without cause or if Mr. Guarini terminates his employment for "good reason," then he will be entitled to a severance payment equal to two times his then-current base annual salary plus two times any incentive payment made to him in the preceding year. The term "good reason" means any of the following: (1) a material permanent reduction in Mr. Guarini's total compensation or benefits; (2) material permanent reduction in Mr. Guarini's title or responsibilities; or (3) a relocation of Mr. Guarini's principal office so that his commute distance is increased by more than 40 miles from Walnut Creek, California.

The Bank is currently planning to raise additional capital in a private offering. See "Proposal Two: Approval of the Amendment to the Articles of Incorporation to Increase the Number of Authorized Shares of Common Stock." It is expected that if this offering is completed, we will enter into a new three-year employment agreement with Mr. Guarini on substantially the same terms as those described above, except that his minimum annual base salary will increase.

Employment Agreements with Mr. Abercrombie, Ms. Colwell and Ms. King. The Bank has entered into employment agreements with Mr. Abercrombie, Ms. Colwell and Ms. King, dated July 21, 2009, July 20, 2007 and July 20, 2007, respectively. Mr. Abercrombie's agreement is for a one-year term and the agreements with Ms. Colwell and Ms. King are for three-year terms. Each agreement provides for, among other things, a minimum annual base salary ($133,800 in the case of Mr. Abercrombie, $141,667 in the case of Ms. Colwell and $120,000 in the case of Ms. King), incentive bonuses, a monthly automobile allowance ($375 in the case of Mr. Abercrombie and Ms. King and $500 in the case of Ms. Colwell) and group insurance benefits, as well as a term life insurance benefit payable to the executive's designated beneficiary in an amount equal to the executive's then-current annual base salary and participation in any retirement, profit-sharing, salary deferral, medical expense reimbursement and other similar plans the Bank may establish for its employees. Each agreement generally provides for indemnification of the executive to the maximum extent permitted by law and applicable regulations for any expenses incurred by him or her, and for any judgments, awards, fines or penalties imposed against him or her, in any proceeding relating to his or her actions (or the Bank's actions) while an agent of the Bank. The agreement also provides for the advancement of expenses to the executive and coverage under a director and officer liability insurance policy.

Each agreement provides that if the Bank terminates the agreement without cause, the Bank must, for 12 months thereafter, continue to pay the executive one-twelfth of his or her then-current base annual salary plus one-twelfth of the amount of the incentive payment made to him or her during the preceding year. The Bank must also, for the remainder of the contract term (but not more than 12 months), continue to provide the executive with health insurance benefits on the same terms as when he or she was employed by the Bank. In addition, if, within one year of a change in control, the executive's employment is terminated without cause or if the executive terminates his or her employment for "good reason," then he or she will be entitled to a severance payment equal to one times his or her then-current base annual salary plus one times any incentive payment made to him or her in the preceding year. The term "good reason" means any of the following: (1) a material permanent reduction in the executive's total compensation or benefits; (2) material permanent reduction in the executive's title or responsibilities; or (3) a relocation of the executive's principal office so that his or her commute distance is increased by more than 40 miles from Walnut Creek, California.

It is expected that if the private offering referred to above is completed, the Bank will enter into new three-year employment agreements with each of Mr. Abercrombie, Ms. Colwell and Ms. King on substantially the same terms as those described above, except that their minimum annual base salaries will increase.

Other Employee Benefit Plans

401(k) Profit Sharing Plan. In 2005, the Bank established a 401(k) Profit Sharing Plan (the "401(k) Plan") which permits each participating employee with a minimum service requirement to contribute to the Plan through payroll deductions (the "salary deferral contributions") of up to the maximum amount allowable by law, thereby deferring taxes on all or a portion of these amounts. Under the 401(k) Plan, the Bank presently does not match a participant's tax deferred contributions.

The Bank may make matching and employer contributions to the 401(k) Plan in such amounts as may be determined by the Bank's Board of Directors. Any such contribution vests 100% after a participant has completed three years of service, provided that any such contribution which has not yet vested will vest upon the participant's attainment of age 65 or upon the participant's death or permanent disability. The Bank may also make additional, special contributions to the 401(k) plan, which vest immediately. Participants are entitled to receive their salary deferral contributions and vested benefits under the 401(k) Plan upon termination of employment, retirement, death or disability. Participants have the right to self-direct all of their salary deferral contributions among all funds sold by Charles Schwab and Company.

2004 Stock Option Plan. In 2004, the Bank's Board of Directors adopted, and the Bank's shareholders approved, the Bank's 2004 Stock Option Plan (the "Stock Option Plan"). The Stock Option Plan provides for the granting by the Bank's Board of Directors of incentive stock options (within the meaning of Internal Revenue Code Section 422) to employees and nonqualified stock options to employees, non-employee directors and, in connection with the Bank's formation, organizing consultants or other incorporators. Factors considered by the Board in granting options to officers and employees include the performance of the Bank, the employee's or officer's job performance, the importance of his or her position, and his or her contribution to the organization's goals for the award period. Generally, stock options must be granted at an exercise price of not less than 100% of the fair market value of the shares on the date of grant and have an exercise period of not longer than ten years. Options to purchase an aggregate of 15,000 shares were granted under the Stock Option Plan in 2009. At December 31, 2009, total options outstanding under the Stock Option Plan were 346,852.

The following table sets forth the unexercised stock options held by the executive officers as of December 31, 2009. No options were exercised during 2009 by the executive officers.

Name	Number of Securities Underlying Options	Value of Unexercised Options (2)
President/CEO George J. Guarini(1)	107,092	$ -
EVP/CCO A. Dean Abercrombie	10,000	6,700
EVP/CFO Keary L. Colwell	25,400	-
EVP/COO Janet L. King	25,400	-

(1) Mr. Guarini was granted non-qualifying stock options to acquire 14,692 shares of Common Stock for his role as an organizer and director.
(2) Fair market value is calculated based on a bid price of $7.75 per share as of December 31, 2009 less the underlying exercise price per share of in-the-money options. Only the 10,000 options held by Mr. Abercrombie were in-the-money as of December 31, 2009.

Certain Relationships and Related Transactions

The Bank has had and expects to continue to have banking transactions with many of its directors and executive officers (and their associates). Loans by the Bank to any director or executive officer of the Bank or any of its subsidiaries (or any associate of such persons) have been made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and were judged not to involve more than the normal risk of collection or present other unfavorable features. Loans by the Bank to any director, executive officer or principal shareholder of the Bank or any of its subsidiaries (as such persons are defined by regulation) are subject to limitations under California and federal law. Among other things, a loan by the Bank to a director, executive officer or principal shareholder of the Bank or any of its subsidiaries must be on non-preferential terms and, if all loans to a given person exceed $25,000, such loans must be approved in advance by the Bank's Board of Directors. The Bank had six such loans totaling $3.2 million outstanding, $2.4 million in undisbursed loan commitments, and $14,500 in letters of credit as of December 31, 2009, all of which were performing in accordance with their terms as of that date.

In 2006, the Bank opened its Bankers Exchange Services Division. Through this division, the Bank acts as a qualified intermediary in transactions qualifying under the Internal Revenue Code Section 1031, Tax Deferred Exchanges. In connection with the establishment of this division, Mr. Kendall agreed to assist the Bank with setting it up and to provide it with referral and legal services support. In return, the Bank agreed to pay him a nominal commission-based fee for referrals, granted him a stock option and pay half of the costs of his health insurance coverage. As a result of a substantial decline in transaction volume, the Bank discontinued paying Mr. Kendall referral fees during 2008 and discontinued paying for any of the costs of his health insurance coverage in September 2009. For additional information regarding the compensation provided to Mr. Kendall, see “Board of Directors’ Compensation.”

Since 2007, the Bank has maintained a separate referral arrangement with a company controlled by Mr. Kendall that specializes in assisting clients with tax deferred exchanges. Under this arrangement, the

Bank has agreed to refer to Mr. Kendall's company certain types of exchange transactions that the Bank is unable to transact itself, for which Mr. Kendall's company pays the Bank a fee. No transactions were referred by the Bank, and no fees were paid to the Bank, during 2009. The Board of Directors of the Bank (excluding Mr. Kendall) believes that this arrangement is on terms that are fair and reasonable to the Bank and that are at least as favorable to the Bank as comparable transactions with unrelated parties.

PROPOSAL ONE: ELECTION OF DIRECTORS

Seven (7) directors are to be elected at the Annual Meeting, each to hold office until the Bank's 2011 annual meeting of shareholders and until his respective successor is duly elected and qualified, or until his death, resignation or removal. The Board of Directors' nominees for election are Messrs. Apple, Camp, Guarini, Laverne, Kendall, Morrow, and Spatz. Each is presently serving as a director. In the event that any of the nominees for election as director become unavailable, which the Bank does not expect, it is intended that, pursuant to the accompanying proxy, votes will be cast for such substitute nominee or nominees as may be designated by the Board of Directors, unless the Board of Directors reduces the number of directors.

The following sets forth, as to each nominee for election as a director of the Bank, such person's age, principal occupation during at least the last five years, and the period during which each person has served as a director of the Bank.

GEORGE J. GUARINI . . . . ………………………………………...

Mr. Guarini has been President and Chief Executive Officer of Bay Commercial Bank since its inception in March 2004. Prior to joining the Bank, Mr. Guarini held several senior lending positions at financial institutions in California. At December 31, 2009, Mr. Guarini was 56 years of age and he has served as a director since 2004.

JAMES L. APPLE . . . . ……………………………………………. .

Mr. Apple has been the Managing General Partner of Aspen Plaza Ltd., Napa Town Center, Ltd., and Valley Center Towers, Ltd., all of which are real estate partnerships engaging in retail and office development, for more than five years. At December 31, 2009, Mr. Apple was 63 years of age. He has served as a director since 2004.

JAMES S. CAMP . . . . ………………….......................................

Mr. Camp has been the President of the S. A. Camp Companies for more than five years. At December 31, 2009, Mr. Camp was 58 years of age. He has served as a director since 2004.

LLOYD W. KENDALL, JR. . . . . ……………………………………….. .

Mr. Kendall is a practicing attorney, specializing in income tax and real estate law. Since 1982, he has been the President and Chief Executive Officer of Exchange Support Services, Inc., which assists clients in completing tax-free exchanges. Until 2007, Mr. Kendall also served as the President and Chief Executive Officer of Lawyers Asset Management, Inc., which also assisted clients in completing tax-free exchanges. At December 31, 2009, Mr. Kendall was 63 years of age. He has served as a director since 2004.

ROBERT R. LAVERNE . . . . ……………………………………...

Dr. Laverne has been an anesthesiologist at John Muir Medial Center in Walnut Creek, California for more than five years. At December 31, 2009, Dr. Laverne was 61 years of age. He has served as a director since 2004.

DONALD S. MORROW . . . . ………………………………………..

Mr. Morrow is the Chief Executive Officer and owner of Wind River Enterprises, Inc., DBA North Bay Auto Auction, an auto auction house in Fairfield, California. Mr. Morrow was appointed to fill a vacant director seat in December 2007. At December 31, 2009, Mr. Morrow was 59 years of age.

DAVID M. SPATZ . . . . ………………………………………..

Mr. Spatz retired as a senior executive from Chevron Corporation in 2000. Presently, he is a real estate investor, and owns and manages several real estate properties. He has been the President of Anyi Lu International, Inc., a manufacturer of designer shoes, since 2005. At December 31, 2009, Mr. Spatz was 62 years of age. He has served as a director since 2004.

The Board of Directors recommends a vote FOR the election of each of the nominees named above.

PROPOSAL TWO: APPROVAL OF THE AMENDMENT TO THE ARTICLES OF INCORPORATION TO INCREASE IN THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK

Introduction

On March 16, 2010, the Bank's Board of Directors unanimously adopted a resolution recommending that the Bank's Articles of Incorporation be amended to increase the number of authorized shares of the Bank's Common Stock from 10,000,000 shares to 100,000,000 shares (the "Common Stock Amendment"). The Board of Directors further directed that the Common Stock Amendment be submitted for consideration by shareholders at the Annual Meeting. If the Common Stock Amendment is approved by shareholders, the Bank will thereafter execute and submit to the California Secretary of State for filing a Certificate of Amendment of the Articles of Incorporation providing for the Common Stock Amendment. The Common Stock Amendment will become effective at the close of business on the date the Certificate of Amendment is accepted for filing by the California Secretary of State.

As of the voting record date for the annual meeting, there were 1,549,794 shares of Common Stock issued and outstanding and another 450,206 shares of Common Stock were reserved for issuance upon exercise of options under the Bank's Stock Option Plan.

The Bank recently commenced a private offering (the "Offering') to certain qualified institutional buyers and accredited investors of 7,000,000 shares of Common Stock at a purchase price of $10.00 per share. To the extent the Offering is over-subscribed, the Bank will sell an additional 1,000,000 shares of Common Stock and then up to 2,000,000 shares of mandatory convertible cumulative non-voting preferred stock, Series A ("Series A Preferred Stock"), all also at a purchase price of $10.00 per share. The purpose of the Offering is to increase the Bank's capital for general corporate purposes, which may include, without limitation, expanding operations through FDIC-assisted transactions, privately negotiated acquisitions, branch acquisitions, organic growth, and other business opportunities.

Each share of Series A Preferred Stock issued will automatically convert into one share of common stock (for an effective conversion price of $10.00 per share, subject to customary anti-dilution adjustments) on the third business day following receipt of shareholder approval of the Common Stock Amendment. If the Common Stock Amendment is not approved at the Annual Meeting but shares of Series A Preferred Stock are issued in the Offering, then the Bank intends to re-submit the Common Stock Amendment to shareholders for their approval at a special meeting of shareholders to be held prior to September 30, 2010. Investors in the Offering must agree, as a condition to their purchase, that if the Offering is completed but the Common Stock Amendment is not approved at the Annual Meeting, they will vote their shares of Common Stock in favor of this same proposal at any subsequent meeting of shareholders held prior to September 30, 2010. Based on the 1,549,749 shares of the Bank's Common Stock currently outstanding, investors in the Offering will own over 80% of the outstanding shares of Common Stock following the Offering by the time such special shareholders meeting is called, and the vote requirement to approve the Common Stock Amendment is a simple majority of the outstanding shares.

Notwithstanding the above, if shareholder approval of the Common Stock Amendment is not obtained by October 1, 2010, then commencing on that date and continuing until such approval is received, the Bank will be required to pay dividends on the Series A Preferred Stock, on a cumulative basis, at an annual rate of 12% and, if the Bank declares any dividends on the Common Stock or makes any other distribution to its common shareholders, the holders of the Series A Preferred Stock will be entitled to participate in such distribution on an as-converted basis. If dividends payable on all outstanding shares of the Series A Preferred Stock have not been declared and paid the Bank will not be permitted to declare or pay dividends with respect to, or redeem, purchase, or acquire any of its junior securities, including its Common Stock, subject to limited exceptions. The Series A Preferred Stock will have a senior liquidation preference over the Bank's Common Stock in connection with any liquidation of the Bank equal to $10.00 per share plus any declared and unpaid dividends. Accordingly, no payments will be made to holders of the Bank's Common Stock upon any liquidation of the Bank unless the full liquidation preference on the Series A Preferred Stock is paid.

Approval of the Common Stock Amendment will result in the elimination of the dividend rights and liquidation preference existing in favor of the Series A Preferred Stock the Bank may issue, as the Series A Preferred Stock would automatically convert into Common Stock. The rights and privileges associated with the shares of Common Stock issued upon conversion of the Series A Preferred Stock will be identical to the rights and privileges associated with the shares of Common Stock held by the Bank's existing common shareholders.

Reasons for the Proposal

The Bank's Board of Directors believes that it is in the Bank's best interest to increase the number of authorized but unissued shares of Common Stock in order to meet the Bank's possible business and financing needs as they arise in the future. If completed, the proposed Offering will substantially deplete the remaining number of shares of Common Stock the Bank is currently authorized to issue, and without the Common Stock Amendment the Bank will not have sufficient authorized common shares to permit the conversion of any Series A Preferred Stock that may be issued in the Offering. While the Bank currently has no specific plans, agreements or understandings for the issuance of additional shares of Common Stock other than in connection with the proposed Offering, the Board of Directors believes that the availability of these additional shares will provide the Bank with the capability and flexibility to issue Common Stock for a variety of purposes that the Board of Directors may deem advisable in the future whether or not the Offering is completed. These purposes could include, among other things: raising additional capital; issuing stock for possible acquisition transactions; or for other corporate and business purposes. If the Board should determine that increasing capital by means of selling additional shares of Common Stock is advisable, shareholder approval of such a sale would not be required. The additional shares authorized by the Common Stock Amendment would be identical in all respects to the currently authorized shares of Common Stock.

Subject to its fiduciary duties to shareholders, the Board of Directors would have the authority to issue additional shares in transactions that might discourage, delay or prevent an unsolicited acquisition of control of the Bank or make such an unsolicited acquisition of control of the Bank more difficult or expensive; however, the Board of Directors has no plans to utilize the authorized shares in that manner and is not aware of any effort by any third parties to acquire control of the Bank. The issuance of additional shares of Common Stock for any of the corporate purposes listed above could have a dilutive effect on earnings per share and the book or market value of the outstanding Common Stock, depending on the circumstances, and could dilute a shareholder's percentage voting power in the Bank. Holders of the Bank's common stock are not entitled to preemptive rights or other protections against dilution. The Board of Directors intends to take these factors into account before authorizing any new issuance of shares.

In the event shareholders approve the Common Stock Amendment, Article 4 of the Bank's Articles of Incorporation will be amended to increase the number of shares of Common Stock which the Bank is authorized to issue from 10,000,000 to 100,000,000. The par value of the Common Stock will remain at no par value per share. Upon effectiveness of the Common Stock Amendment, the first sentence of Article 4 of the Bank's Articles of Incorporation will read substantially as follows:

ARTICLE 4. Authorized Capital. (a) This corporation is authorized to issue two classes of shares designated "Preferred Stock" and "Common Stock", respectively. The number of shares of Preferred Stock authorized to be issued is 10,000,000 and the number of shares of Common Stock authorized to be issued is 100,000,000.

The remaining text of Article 4 of the Bay Commercial Bank's Articles of Incorporation would remain unchanged.

Approval of the Common Stock Amendment will require the affirmative vote of a majority of the outstanding shares entitled to vote thereon. Proxies received in response to the Board of Director's solicitation will be voted "FOR" approval of the Common Stock Amendment if no specific instructions are included thereon with regard to this proposal.

The Board of Directors recommends a vote FOR this proposal.

PROPOSAL THREE: RATIFICATION OF SELECTION OF INDEPENDENT ACCOUNTING FIRM FOR 2010

The firm of Moss Adams LLP, independent public accountants, was appointed in 2010 to audit the financial statements of the Bank for 2010.

The selection of an independent accounting firm to provide audit services for the Bank has been approved annually by the Bank's Board of Directors. Shareholders are being asked to act upon a proposal to ratify the Board of Directors' selection of Moss Adams LLP for 2010.

Moss Adams LLP has advised the Bank that one or more of its representatives will be present at the Annual Meeting to make a statement if they so desire and to respond to appropriate questions.

The Board of Directors recommends a vote FOR this proposal.

OTHER PROPOSED ACTION

The Board of Directors is not aware of other business which will come before the Annual Meeting, but if any such matters are properly presented, proxies solicited hereby will be voted on such matters in the the proxy holder's discretion.

BAY COMMERCIAL BANK

Keary L. Colwell
Chief Financial Officer and Secretary

Walnut Creek, California
April 26, 2010

BAY COMMERCIAL BANK

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2009

AND

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report

To The Board of Directors and Shareholders
Bay Commercial Bank

We have audited the accompanying statement of financial condition of Bay Commercial Bank (the Bank) as of December 31, 2008 and 2009, and the related statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Bank's internal control over financial reporting. An audit also 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 financial statements referred to above present fairly, in all material respects, the financial position of Bay Commercial Bank at December 31, 2008 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Moss Adams LLP

Stockton, California
February 12, 2010

BAY COMMERCIAL BANK

STATEMENT OF FINANCIAL CONDITION
December 31, 2008 and 2009

ASSETS		2008		2009
Cash and due from banks		$ 1,732,816		$ 2,522,895
Federal funds sold		6,950,000		7,445,000
Cash and cash equivalents		8,682,816		9,967,895
Interest bearing deposits in banks		1,203,719		98,394
Investment securities available-for-sale		670,119		300,751
Federal Home Loan Bank stock, at par		355,500		355,500
Loans	$ 98,093,454		$131,819,766	
Deferred fees, net	(88,425)		(196,851)	
Allowance for loan losses	(1,220,000)		(1,650,000)	
Loans, net		96,785,029		129,972,915
Premises and equipment, net		227,532		482,338
Deposit intangible		-		195,292
Interest receivable and other assets		959,704		2,035,234
Total Assets		$ 108,884,419		$ 143,408,319
LIABILITIES AND SHAREHOLDERS' EQUITY				
Non-interest bearing deposits		$ 10,971,747		$ 19,426,203
Interest bearing deposits		76,840,725		107,123,987
Total deposits		87,812,472		126,550,190
FHLB borrowing		5,000,000		-
Interest payable and other liabilities		442,839		823,273
Total liabilities		93,255,311		127,373,463
Commitments and contingencies (Note 11)				
Shareholders' equity:				
Perferred stock - no par value; 10,000,000 shares authorized; no shares issued and outstanding		-		-
Common stock - no par value; 10,000,000 shares authorized; 1,549,794 shares issued and outstanding		15,497,940		15,497,940
Additional paid in capital		207,056		249,339
Accumulated (deficit) earnings		(77,063)		282,286
Accumulated other comprehensive gain		1,175		5,291
Total shareholders' equity		15,629,108		16,034,856
Total Liabilities and Shareholders’ Equity		$ 108,884,419		$ 143,408,319

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

BAY COMMERCIAL BANK

STATEMENT OF OPERATIONS

For the years ended December 31, 2008 and 2009

	2008	2009
Interest income:		
Loans	$ 5,546,285	$ 7,157,340
Federal funds sold	136,427	38,815
Investment securities and interest bearing deposits in banks	68,265	28,649
FHLB stock dividend	13,100	-
Total interest income	5,764,077	7,224,804
Interest expense:		
Deposits	1,870,482	2,328,916
Other borrowings	203,142	179,993
Total interest expense	2,073,624	2,508,909
Net interest income	3,690,453	4,715,895
Provision for loan losses	273,182	430,000
Net interest income after provision for loan losses	3,417,271	4,285,895
Non-interest income:		
Operating lease income	533,967	-
Other income and fees	248,303	299,363
Gain on sale of operating lease equipment	38,731	-
Total non-interest income	821,001	299,363
Non-interest expense:		
Salaries and related benefits	2,163,431	2,409,044
Depreciation from operating lease equipment	498,326	-
Occupancy and equipment	322,564	498,256
Data processing	221,510	306,273
Other	430,845	741,343
Total non-interest expense	3,636,676	3,954,916
Income before income taxes	601,596	630,342
Net expense for income taxes	281,712	270,993
Net income	$ 319,884	$ 359,349
Income per share:		
Basic: Net income	$ 0.21	$ 0.23
Weighted average shares outstanding	1,549,794	1,549,794
Diluted: Net income	$ 0.21	$ 0.23
Weighted average shares outstanding	1,549,794	1,562,057

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

BAY COMMERCIAL BANK

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2008 and 2009

	Common Stock Amount	Additional Paid in Capital	Compre-hensive Income	Accum-ulated (Deficit) Earnings	Accum-ulated Other Compre-hensive (Loss)Gain	Total Shareholders' Equity
Balance, December 31, 2007	$ 15,497,940	$ 142,932		$ (396,947)	$ (5,612)	$ 15,238,313
Comprehensive income:						
Net income			$ 319,884	319,884		319,884
Other comprehensive income:						
Unrealized gain on available-for-sale of investment securities, net of tax			6,787		6,787	6,787
Total comprehensive income			$ 326,671			
Stock based compensation expense		64,124				64,124
Balance, December 31, 2008	15,497,940	207,056		(77,063)	1,175	15,629,108
Net income			$ 359,349	359,349		359,349
Other comprehensive income:						
Unrealized gain on available-for-sale of investment securities, net of tax			4,116		4,116	4,116
Total comprehensive income			$ 363,465			
Stock based compensation expense		42,283				42,283
Balance, December 31, 2009	$ 15,497,940	$ 249,339		$ 282,286	$ 5,291	$ 16,034,856

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

BAY COMMERCIAL BANK

STATEMENT OF CASH FLOWS

For the years ended December 31, 2008 and 2009

	2008	2009
Cash flows from operating activities:		
Net income	$ 319,884	$ 359,349
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	273,182	430,000
Gain on sale of operating lease equipment	(38,731)	-
Depreciation and amortization	618,264	127,557
Core deposit intangible amortization	-	47,138
Stock based compensation	64,124	42,283
Deferred loan origination fees, net	86,667	108,426
Increase in accrued interest receivable and other assets	(37,263)	(1,022,621)
(Decrease) increase in accrued interest payable and other liabilities	(235,866)	322,393
Net cash provided by operating activities	1,050,261	414,525
Cash flows from investing activities:		
(Purchase) maturity of interest bearing deposits in banks	(101,174)	1,105,325
Purchase of Federal Home Loan Bank stock	(120,500)	-
Principal repayment of mortgage-backed securities	178,281	373,484
Net increase in loans	(18,371,042)	(17,284,209)
Purchase operating lease equipment	(1,154,126)	-
Proceeds from the sale of operating lease equipment	1,112,695	-
Purchase of furniture, fixtures and equipment	(111,395)	(353,271)
Net cash received from acquisition	-	36,012,827
Net cash (provided by) used in investing activities	(18,567,261)	19,854,156
Cash flows from financing activities:		
Net decrease in demand, interest bearing and savings deposits	(3,018,639)	527,164
Net increase (decrease) in time deposits	21,038,450	(14,510,766)
Repayment of FHLB borrowing	-	(5,000,000)
Net cash provided by financing activities	18,019,811	(18,983,602)
Increase in cash and cash equivalents	502,811	1,285,079
Cash and cash equivalents at the beginning of the year	8,180,005	8,682,816
Cash and cash equivalents at end of the year	$ 8,682,816	$ 9,967,895
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest expense	$ 2,065,009	$ 2,479,753
Income tax	619,529	137,377
Acquisition:		
Assets purchased	-	$ 16,766,534
Liabilities assumed	-	52,779,361
Net cash received	-	$ (36,012,827)
Non-cash investing activities:		
Net change in unrealized gain on investment securities available-for-sale	6,787	4,116

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Bay Commercial Bank (the "Bank") are in accordance with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. A summary of the significant accounting policies applied in preparation of the accompanying financial statements follows.

Organization

The state chartered Bank was incorporated under the laws of the State of California on March 24, 2004 and opened for business on July 20, 2004. The Bank offers traditional commercial banking products and services to businesses and individuals through two branches located in Contra Costa and Alameda Counties.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant accounting estimates reflected in the Bank's 2009 financial statements include the allowance for loan losses, the valuation allowance for deferred tax assets, the fair value of stock options, the valuation of financial assets and the determination, recognition and measurement of impaired loans. Actual results could differ from these estimates.

Acquisition

The Bank acquired assets and assumed liabilities of a branch office from Community Banks of Northern California on May 15, 2009. The acquired assets and assumed liabilities were measured at estimated fair values, as required by the acquisition method of accounting for business combinations Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 805, Business Combinations. Management made significant estimates and exercised significant judgment in accounting for the acquisition. The Bank recorded an identifiable intangible asset representing the value of the core deposit customer base. The deposit intangible asset represents the value ascribed to the long-term deposit relationships acquired and is being amortized on a straight-line basis over an estimated average useful life of three years.

The Bank is required to expense acquisition related costs separately from the acquisition. It also requires that any restructuring costs be expensed separately from the business combination. The Bank applies these revised provisions when accounting for the branch acquisition.

Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments both readily convertible into known amounts of cash and so near maturity that there is insignificant risk of change in value because of changes in interest rates. Generally, only investments with maturities of three months or less at the time of purchase qualify as cash equivalents. Cash and cash equivalents include cash and due from banks, and Federal funds sold. The Bank maintains the minimum required amount of funds on deposit with other federally insured financial institutions under correspondent banking agreements. At times throughout the year, balances can exceed FDIC insurance limits.

As of December 31, 2008 and 2009, the Bank has cash deposits at other financial institutions in excess of FDIC insured limits. However, as the Bank places these deposits with major financial institutions and monitors the financial condition of these institutions, management believes the risk of loss to be minimal.

Generally, banks are required to maintain non-interest bearing cash reserves equal to a percentage of certain deposits. For the years ended December 31, 2008 and 2009, none and $374,000 reserve balance was required.

Interest bearing deposits in banks

The Bank invests in interest bearing deposits in banks with terms of up to three years. At December 31, 2008 and 2009, the Bank held bearing deposits totaling $1,203,719 and $98,394 with a yield of 2.24% and 0.50%, and a weighted average term to maturity of less than three months and five months, respectively. Deposits totaling $46,875 are security for performance letters of credit totaling $46,875 issued by correspondent banks on the Bank's behalf and are restricted. The letters of credit have an original term of one year and expire in 2010.

Investment Securities

All of the investment securities held by the Bank are classified as available-for-sale securities. Investment securities include debt securities. Investment securities are carried at estimated fair value with unrealized gains and losses reported as a separate component of shareholders' equity, accumulated other comprehensive gain or loss, until realized. The estimated fair value is based on quoted market prices or third party dealer quotes. See additional discussion under Fair Value Measurement.

Any discounts or premiums are accreted or amortized to interest income over the expected term of the investment considering actual prepayments, if applicable. The premiums and discounts are adjusted periodically to reflect actual prepayment experience. The gains or loss on all investment securities sold is based on specific identification.

Federal Home Loan Bank Stock

As of December 31, 2008 and 2009, Federal Home Loan Bank of San Francisco (FHLB) stock totaling $355,500 is recorded at cost and is redeemable at par value. The FHLB has ceased to redeem excess stock for the foreseeable future.

Loans

Loans are stated at the principal amount outstanding, net of the allowance for loan losses, net deferred fees, and unearned discounts, if any. The Bank holds loans receivable primarily for investment purposes. The Bank purchases and sells interests in certain loans referred to as participations. The participations sold are sold without recourse.

In 2009, the Bank acquired loans in a business combination that are recorded at estimated fair value on their purchase date. The purchaser cannot carryover the related allowance for loan losses. Purchased loans are accounted for under FASB ASC 310-30, Loans and Debt Securities with Deteriorated Credit Quality. As of the purchase date, none of the loans were on non-accrual or exhibited credit quality deterioration since origination. A significant portion of the Bank's loan portfolio is comprised of adjustable rate loans. Interest on loans is calculated and accrued daily using the simple interest method based on the daily amount of principal outstanding. The accrual of interest is discontinued and any accrued and unpaid interest is charged against current income when the payment of principal or interest is 90 days past due, unless the loan is well secured and in the process of collection.

When the ability to fully collect non-accrual loan principal is in doubt, cash payments received are applied first to principal until such time as full collection of the remaining recorded balance is expected. Generally, loans with temporarily impaired values and loans to borrowers experiencing financial difficulties are placed on non-accrual even though the borrowers continue to repay the loans as scheduled. Interest received on such loans is restored to accrual basis when principal and interest payments are being paid currently and full payment of principal and interest is probable.

Loan Fees and Costs

Loan origination fees, commitment fees, direct loan origination costs and purchase premiums and discounts on loans are deferred and recognized as an adjustment of yield, to be amortized to interest income over the contractual term of the loan. Other loan fees and charges which represent income from delinquent payment charges, and miscellaneous loan or letter of credit services, are recognized as non-interest income when collected.

Salaries, employee benefits and other expenses totaling $254,000 and $258,200 are deferred as loan origination costs for the years ended December 31, 2008 and 2009, respectively.

Allowance for Loan Losses

The allowance for loan losses is evaluated on a regular basis by management. Periodically, the Bank charges current earnings with provisions for estimated probable losses of loans receivable.

The Bank records an adjustment to the allowance for loan loss if the total estimated allowance for loan losses exceeds the amount of estimated losses. The provision or adjustment takes into consideration the adequacy of the total allowance for loan losses giving due consideration to specifically identified problem loans, the financial condition of the borrowers, fair value of the underlying collateral, recourse provisions, prevailing economic conditions, and other factors. Additional consideration is given to the Bank's historical loan loss experience relative to the Bank's loan portfolio concentrations related to industry, collateral and geography. This evaluation is inherently subjective and requires estimates that are susceptible to significant change as additional or new information becomes available. In addition, regulatory examiners may require additional allowances based on their judgments of the information regarding problem loans and credit risk available to them at the time of their examinations. At December 31, 2008 and 2009, management believes the allowance for loan losses adequately reflects the credit risk in the loan portfolio.

Generally, the allowance for loan loss consists of various components including a component for specifically identified weaknesses as a result of individual loans being impaired or classified, a component for general non-specific weakness related to historical experience, economic conditions and other factors that indicate probable loss in the loan portfolio, and an unallocated component that relates to the inherent imprecision in the use of estimates. Loans determined to be impaired or classified are individually evaluated by management for specific risk of loss.

Losses are recognized as charges to the allowance when the loan or portion of the loan is considered uncollectible or at the time of foreclosure. Recoveries on loans receivable previously charged off are credited to the allowance for loan losses.

Premises and Equipment

Bank premises and equipment are stated at historical cost less accumulated depreciation or amortization. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of furniture, fixtures and equipment are estimated to be three to five years. Leasehold improvements are amortized over the life of the asset or the term of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in current income. The cost of maintenance and repairs is charged to expense as incurred.

Impairment of Assets

All assets are reviewed for impairment whenever events or changes indicate that the carrying value of the asset may not be recoverable. As of December 31, 2008 and 2009, the Bank determined that no events or changes occurred during 2008 and 2009 that would indicate that the carrying value of any long-lived assets may not be recoverable.

Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

A loan may be considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis 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. See additional discussion under Fair Value Measurement.

Income Taxes

The Bank uses the asset and liability method to account for income taxes. Under such method, deferred tax assets and liabilities are recognized for the future tax consequences of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis (temporary differences). Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in the period of enactment.

A valuation allowance is established to the extent that it is more than likely than not that the benefits associated with the deferred tax assets will not be realized. The determination, recognition, and measurement of deferred tax assets and the requirement for a related valuation allowances is based on estimated future taxable income.

The Bank had no unrecognized tax benefits at December 31, 2008 and 2009.

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2008 and 2009, the Bank recognized $3,500 and $4,500, in interest and penalties, respectively.

The Bank files income tax returns in the U.S. federal jurisdiction and with the State of California. The Bank is subject to U.S. federal or state income tax examinations by tax authorities for years beginning 2005.

Non-interest Income

Fees for other client services are recorded as income when the services are performed.

Stock Based Compensation

The Bank recognizes in the income statement the grant-date fair value of stock options and other equity-based forms of compensation issued to employees over the employees' requisite service period (generally the vesting period).

The fair value of each option is estimated on the date of grant using the Black-Scholes options pricing model. The fair value method includes an estimate of expected volatility based on the historical volatility of the price of similar bank stocks and an estimate of the expected option term, which is based on consideration of the vesting period and contractual term of the option. The Bank estimates the number of options expected to be forfeited based on historical forfeiture rates. The risk-free interest rates are equal to the U.S. Treasury yield at the time of grant and commensurate with the contractual term of the grant.

Income Per Share

Basic income per share (EPS) is computed by dividing the net income by the weighted-average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if stock options were exercised. The treasury stock method is applied to determine the dilutive effect of stock options in computing diluted EPS. For the period ended December 31, 2008, all of the stock options were excluded from the diluted commons shares because they were antidilutive. For the period ended December 31, 2009, 12,263 stock options were included in common shares because they were dilutive.

For the periods ended December 31, 2008 and 2009, total weighted average diluted common shares outstanding are as follows:

	2008	2009
Common Stock	1,549,794	1,549,794
Diluted effect of stock options	-	12,263
Total weight average diluted shares	1,549,794	1,562,057

Comprehensive (Loss) Income

Comprehensive (loss) income includes disclosure of other comprehensive income or loss that historically has not been recognized in the calculation of net income or loss. Unrealized gains and losses on the Bank's available-for-sale investment securities are included in other comprehensive income or loss. Total comprehensive income or loss and the components of accumulated other comprehensive income are presented in the statement of changes in shareholders' equity.

Recent Accounting Pronouncements

FASB ASC 105-10-05 The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) became effective on July 1, 2009. At that date, the ASC became FASB's officially recognized source of authoritative U.S. generally accepted accounting principles (GAAP) applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Task Force (EITF) and related literature. All other accounting literature is considered to be non-authoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section, and Paragraph structure.

FASB ASC 805, *Business Combinations*, requires an acquirer in a business combination to recognize the assets acquired (including loan receivables), the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, at their fair values as of that date, with limited exceptions. The acquirer is not permitted to recognize a separate valuation allowance as of the acquisition date for loans and other assets acquired in a business combination. The revised statement requires acquisition-related costs to be expensed separately from the acquisition. It also requires restructuring costs that the acquirer expected but was not obligated to incur, to be expensed separately from the business combination. The Bank applied these revised provisions in accounting for the acquisition of the branch office located in Castro Valley, California.

FASB ASC 815-10, *Derivatives and Hedging*, changes the disclosure requirements for derivative instruments and hedging activities. It requires enhanced disclosures about how and why an entity uses derivatives, how derivatives and related hedged items are accounted for, and how derivatives and hedged items affect an entity's financial position, performance and cash flows. The Bank had no derivative instruments designated as hedges as of December 31, 2009.

FASB ASC 820-10-55-23B, *Fair Value Measurements and Disclosures- Overall — Implementation Guidance*, relates to the requirements that pertain to nonfinancial assets and nonfinancial liabilities covered by accounting guidance for Fair Value Measurements. The adoption of this guidance did not have any effect on the Bank's financial statements at the date of adoption.

FASB ASC 320-10-65-1, *Investments — Debt and Equity Securities Guidance related to Recognition and Presentation of Other-Than-Temporary Impairments* states that an other-than-temporary impairment (OTTI) write-down of debt securities, where fair value is below amortized cost, is triggered in circumstances where (1) an entity has the intent to sell a security, (2) it is more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis, or (3) the entity does not expect to recover the entire amortized cost basis of the security. If an entity intends to sell a security or if it is more likely than not the entity will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security's amortized cost basis and its fair value. If an entity does not intend to sell the security or it is more likely than not that it will not be required to sell the security before recovery, the OTTI write-down is separated into an amount representing the credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income. The adoption of these provisions did not have any effect on the Bank's financial statements at the date of adoption.

FASB ASC 820-10-65-4, *Fair Value Measurements and Disclosures- Overall — Transition Guidance related to Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, addresses measuring fair value in situations where markets are inactive and transactions are not orderly. In these circumstances quoted prices may not be determinative of fair value. Even if there has been a significant decrease in the volume and level of activity for an asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement has not changed. Under these provisions price quotes for assets or liabilities in inactive markets may require adjustment due to uncertainty as to whether the underlying transactions are orderly. The adoption of these provisions did not have any effect on the Bank's financial statements at the date of adoption.

FASB ASC 855, *Subsequent Events*, establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The accounting guidance defines: (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. Management has reviewed events occurring through February 12, 2010, the date the financial statements were issued.

Reclassifications

Certain prior year amounts may have been reclassified to conform with the current year presentation.

2. ACQUISITIONS

On May 15, 2009, the Bank acquired certain loans and deposits related to a branch office located in Castro Valley, California. The transaction was recorded as a business combination. The Bank acquired $16.4 million in loans and assumed $52.7 million in deposit liabilities. The Bank assumed the lease obligation related to the branch facility. The Bank paid a premium on transaction deposit accounts totaling $242,431. In 2009, the Bank recognized a total of $65,000 in transaction related expenses.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the acquisition date:

	May 15, 2009
Fair value of assets acquired:	
Cash	$ 36,012,827
Loans	16,442,103
Premises and equipment	29,091
Core deposit intangible	242,431
Other assets	52,909
Total fair value of assets acquired	52,779,361
Fair value of liabilities assumed:	
Deposits	
Demand	4,898,899
Interest-bearing demand and savings	8,566,656
Time certificates	39,255,765
Total deposits	52,721,320
Accrued interest	58,041
Total fair value of liabilities assumed	52,779,361
Goodwill	$ -

The deposit intangible asset represents the value ascribed to the long-term deposit relationships acquired and is being amortized on a straight-line basis over an estimated average useful life of three years. The core deposit intangible is estimated not to have a significant residual value. The carrying amount of the loans acquired and liabilities assumed were equal to fair value. No goodwill was recorded in the transaction. No impairment loss was recognized in connection with the core deposit intangible during 2009.

3. INVESTMENT SECURITIES

The amortized cost and estimated market value of available-for-sale investment securities by contractual maturity at December 31, 2008 and 2009 consisted of the following:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Market Value
2008:				
Fixed rate mortgage-backed securities:				
After one year through five years	$ 668,984	$ 2,331	$ (1,196)	$ 670,119
Total investment securities	$ 668,984	$ 2,331	$ (1,196)	$ 670,119
2009:				
Fixed rate mortgage-backed securities:				
After one year through five years	$ 291,806	$ 8,945	$ -	$ 300,751
Total investment securities	$ 291,806	$ 8,945	$ -	$ 300,751

Expected maturities will differ from contractual maturities because the underlying mortgages can be repaid with or without prepayment penalties. Factors such as prepayments and interest rates may affect the yield and carrying value of mortgage-backed securities. The weighted average yield on the investment securities is 4.19% and 4.13% for the years ended December 31, 2008 and 2009, respectively. As of December 31, 2008 and 2009, the investment securities had a weighted average maturity of less than two years, respectively.

Management periodically evaluates each investment security in an unrealized loss position to determine if the impairment is temporary or other-than-temporary. For the period ended December 31, 2008, one security was in a loss position and one was not in a loss position. For the period ended December 31, 2009, the investment securities were not in a loss position. As of December 31, 2008 and 2009, management has determined that no investment security is other than temporarily impaired. The change in market value is due solely to interest rate changes and the Bank does not intend to sell and it is more likely than not, the Bank will not be required to sell all investment securities with identified impairments resulting from interest rate changes to the earlier of the forecasted recovery or the maturity of the underlying investment security.

Net unrealized gain on available-for-sale investment securities totaling $6,787 is recorded as other comprehensive income within shareholders' equity at December 31, 2008 and a net unrealized gain $4,116 is recorded as other comprehensive income within shareholders’ equity at December 31, 2009. The Bank recorded no gains or losses on the sale of investment securities during 2008 and 2009.

4. LOANS

The Bank's loan portfolio at December 31, 2008 and 2009 is summarized below:

	2008	2009
Commercial	$44,532,995	$ 48,157,566
Real estate	53,306,577	83,654,900
Consumer and other	253,882	7,300
Total loans	98,093,454	131,819,766
Deferred loan fees and costs, net	(88,425)	(196,851)
Allowance for loan losses	(1,220,000)	(1,650,000)
Net loans	$96,785,029	$ 129,972,915

For the year ended December 31, 2008, the Bank had no impaired loans, or nonaccrual loans. The average balance of non-accrual loans and impaired loans was $1,600 and $1,126,200, respectively, for the periods ended December 31, 2008 and 2009. For the year ended December 31, 2009, the Bank had one impaired loan totaling $2,175,000 which was on non-accrual. For the period ended December 31, 2009, if interest had been accrued such income would have been approximately $96,683.

As of December 31, 2008 and 2009, the Bank had no restructured loans and no loans 90 days delinquent and still accruing.

As of December 31, 2008 and 2009, one loan totaling $329,000 and two loans totaling $340,300, respectively that are more than 30 days but less than 89 days past due are still accruing interest.

As of December 31, 2008 and 2009, fixed rate loans total $16.2 million and $16.2 million, respectively, and variable rate loans total $81.9 million and $115.6 million, respectively. As of December 31, 2009, variable rate loans with interest rate caps total $27.6 million none of which have reached their caps, and a total of $90.2 million have interest rate floors all of which are at their floors. More than 98% of the variable interest rate loans are tied to the Prime rate as reported by the Wall Street Journal and can adjust monthly based on changes in the Prime rate. At December 31, 2008 and 2009, a total of $2.2 million and $2.0 million, respectively, of variable rate loans are tied to the treasury constant maturity rate (CMT) as published by the Federal Reserve and adjust every two or five years.

Loans are made primarily for business, personal, and real estate purposes concentrated in Contra Costa and Alameda Counties. As of December 31, 2009, the Bank's loans outstanding comprised 48% term mortgage-type loans secured primarily by commercial real estate, 3% for the purpose of constructing commercial and residential property, 6% for the purpose of holding or acquiring unimproved land, 6% term mortgage-type loans secured by residential property, and 28% for general commercial uses including professional, retail, and small business. Less than 1% of Bank's loans are consumer loans.

As of December 31, 2009, the Bank's unsecured loans outstanding total 9% of total loans. Real estate loans are secured by real property. Secured commercial and other loans are secured by deposits, or business or personal assets. The Bank's policy for requiring collateral is based on analysis of the borrower, the borrower's industry and the economic environment in which the loan is granted. The loans are expected to be repaid from cash flows or proceeds from the sale of selected assets of the borrower.

As of December 31, 2008 and 2009, the single largest loan total $3.4 million and $4.1 million, respectively, and is secured by commercial real estate. As of December 31, 2008 and 2009, undisbursed commitments total $16.4 million and $22.4 million, respectively. As of December 31, 2008 and 2009, the Bank sold participations in loans totaling $2.8 million and $4.0 million, respectively. No gain or loss was recorded related to participations sold.

5. ALLOWANCE FOR LOAN LOSSES

Changes in the Bank's allowance for loan losses for the years ended December 31, 2008 and 2009 is summarized below:

	2008	2009
Balance at the beginning of the year	$ 990,000	$ 1,220,000
Provision	273,182	430,000
Loans charged off	(43,182)	-
Recoveries	-	-
Balance at the end of the year	$ 1,220,000	$ 1,650,000

Impaired loans are loans for which it is probable that the Bank will not be able to collect all amounts due in accordance with the loan terms. Impaired loans totaled zero and $2,175,000 at December 31, 2008 and 2009, respectively, and had related valuation allowances of zero.

6. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31, 2008 and 2009:

	2008	2009
Furniture, fixtures and equipment	$ 546,380	$ 765,268
Leasehold improvements	116,859	279,082
Less accumulated depreciation and amortization	(435,707)	(562,012)
Total premises and equipment, net	$ 227,532	$ 482,338

Depreciation and amortization included in occupancy and equipment expense total $119,900 for the year ended December 31, 2008 and $127,600 for the year ended December 31, 2009.

The Bank leases its branches and administration office under noncancelable operating leases. These leases expire on various dates through 2014. All leases have options to renew for five years. Future minimum lease payments are as follows:

Year Ending December 31,	
2010	352,208
2011	368,938
2012	386,585
2013	405,218
2014	80,740
Thereafter	-
	$ 1,593,689

Rental expense included in occupancy and equipment expense total $190,000 and $337,900 for the years ended December 31, 2008 and 2009, respectively. As of December 31, 2009, a performance letter of credit totaling $46,875 is outstanding for the benefit of one of the Bank's landlords. The letter of credit is secured by a time deposit totaling $46,875.

7. OPERATING LEASE EQUIPMENT

Rental revenue, received from test equipment leased under various terms from 12 months to 24 months, in 2008 totals $533,967. The test equipment was sold in 2008 resulting in a gain on sale of $38,731.

8. DEPOSITS

Deposits consisted of the following at December 31, 2008 and 2009:

	2008	2009
Demand deposits	$ 10,971,747	$ 19,426,203
NOW accounts and Savings	928,406	6,943,518
Money market	30,641,412	30,164,563
Time – less than $100,000	26,249,780	44,692,844
Time – $100,000 or more	19,021,127	25,323,062
Total deposits	$ 87,812,472	$ 126,550,190

At December 31, 2008 and 2009, the weighted average stated rate is 2.13% and 1.50%, respectively. At December 31, 2008, approximately $17.1 million, or 19.5%, of the Bank's deposits are derived from eight depositors. At December 31, 2009, approximately $22.5 million, or 17.8%, of the Bank's deposits are derived from ten depositors.

The Bank accepts deposits related to real estate transactions qualifying under the Internal Revenue Code Section 1031, Tax Deferred Exchanges. These deposits fluctuate as the sellers of the real estate have up to six months to invest in replacement real estate to defer the income tax on the property sold. Deposits related to this activity total $8.4 million and $2.6 million at December 31, 2008 and 2009, respectively. Average deposit balances for this activity totaled $12.7 million and $3.0 million during 2008 and 2009, respectively.

At December 31, 2009, aggregate annual maturities of time deposits are as follows:

Year Ending, December 31,	
2010	$ 61,720,286
2011 and after	8,295,620
Total time deposits	$ 70,015,906

Interest expense, net of early withdrawal penalty, recognized on interest-bearing deposits for the years ended December 31, 2008 and 2009 consists of the following:

	2008	2009
NOW accounts and Savings	$ 5,065	$ 12,231
Money market	800,288	486,031
Time - less than $100,000	855,850	931,615
Time - $100,000 or more	209,279	899,039
Total interest expense	$ 1,870,482	$ 2,328,916

9. OTHER BORROWINGS

Other borrowings for the period ending and as of December 31, 2008 and 2009 are as follows:

	2008	2009
Outstanding balance	$ 5,000,000	$ -
Interest rate	3.97%	0.00%
Average balance	$ 5,136,216	$ 4,520,548
Average interest rate	3.96%	3.96%
Maximum balance	$ 7,500,000	$ 5,000,000

The FHLB borrowing has a fixed interest rate and matured in November 2009.

The Bank has an approved secured borrowing facility with the FHLB for up to 25% of total assets for a term not to exceed five years under a blanket lien of certain types of loans. As of December 31, 2009, the total principal balance of such loans totals $26.4 million and the total principal balance of investment securities pledged is $291,806.

The Bank has one Federal Funds line totaling $3.0 million with one correspondent bank. There are no amounts outstanding under these facilities at December 31, 2008 and 2009.

10. INCOME TAXES

Income taxes expense for the years ended December 31, 2008 and 2009 are as follows:

	2008	2009
Current income taxes	$ 322,426	$ 387,407
Deferred income taxes, net	(40,714)	(116,414)
Total provision for income taxes	$ 281,712	$ 270,993

The provision for income tax differs from the amounts computed by applying the statutory Federal and State income tax rates. The significant items comprising these differences for the years ended December 31, 2008 and 2009 consist of the following:

	2008		2009	
	Amount	Rate %	Amount	Rate %
Federal statutory tax rate	$ 204,543	34.00%	$ 214,316	34.00%
State statutory tax rate, net of Federal effective tax rate	43,014	7.15%	45,097	7.15%
Stock based compensation	25,148	4.19%	4,990	0.79%
Other	9,007	1.50%	6,590	1.05%
Total income tax expense	$ 281,712	46.83%	$ 270,993	42.99%

Deferred tax assets at December 31, 2008 and 2009, included as a component of other assets in the Statement of Financial Condition, consisted of the following:

Deferred tax assets, net of liabilities:	2008	2009
Allowance for loan losses	$ 439,181	$ 585,389
Deferred loan fees net of costs	36,391	81,013
Start up costs	31,799	-
Stock based compensation	18,454	31,191
FHLB Stock dividend	(12,717)	(12,717)
Other	15,127	(40,227)
Total deferred tax assets	$ 528,235	$ 644,649

As of December 31, 2008 and 2009, there is no valuation allowance based on management's estimate that the Bank will more likely than not be able to utilize all of the deferred tax assets. As of December 31, 2008 and 2009, the Bank has no federal or state net operating loss carryforwards.

The Bank files income tax returns in the U.S. federal jurisdiction and in California. The Bank is no longer subject to income tax examinations by taxing authorities for years before 2006 for its federal filings and 2005 for its California filings. The Bank's policy is to recognize penalties and interest as income tax expense.

11. COMMITMENTS AND CONTINGENCIES

Lending and Letter of Credit Commitments

In the normal course of business, the Bank enters into various commitments to extend credit which are not reflected in the financial statements. These commitments consist of the undisbursed balance on personal and commercial lines of credit and of undisbursed funds on construction and development loans. At December 31, 2008 and 2009, undisbursed commitments total $16,385,000 and $22,434,000, respectively. In addition, at December 31, 2008 and 2009, the Bank issued letters of credit totaling $2,349,000 and $560,000, respectively, which represent guarantees of obligations of Bank clients. As of December 31, 2008 and 2009, the Bank pledged a time deposit totaling $900,000 and none, respectively, to a correspondent bank as security for the issuance of a performance letter of credit issued on behalf of one of the Bank's clients.

The actual liquidity needs or the credit risk that the Bank will experience will be lower than the contractual amount of commitments to extend credit because a significant portion of these commitments are expected to expire without being drawn upon. The Bank's outstanding loan commitments are made using the same underwriting standards as comparable outstanding loans. As of December 31, 2008 and 2009, the reserve associated with these commitments is zero.

Local Agency Deposits

In the normal course of business, the Bank accepts deposits from local agencies. The Bank is required to provide collateral for certain local agency deposits. As of December 31, 2009, the FHLB issued a letter of credit on behalf of the Bank totaling $3,650,000 as collateral for local agency deposits. No collateral was required as of December 31, 2008.

12. EMPLOYEE BENEFIT PLANS

Effective January 1, 2005, the Bank adopted a qualified 401(k) profit sharing plan (401(k) Plan) that covers substantially all full-time employees. The 401(k) Plan permits voluntary contributions by participants and provides for voluntary matching contributions by the Bank. For the years ended December 31, 2008 and 2009 the Bank made contributions to the plan of $24,700 and $32,000, respectively.

See Note 13. Stock Option Plan for discussion of the Bank's stock option plan.

13. STOCK OPTION PLAN

In 2004, the Board of Directors adopted the 2004 Stock Option Plan (Plan) subject to shareholder approval. The shareholders approved the Plan at the 2005 Annual Meeting. The Plan requires that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the stock must be paid for in full at the time the option is exercised. All options expire on a date determined by the Board of Directors, but not later than ten years from the date of grant. Upon grant, options vest ratably over a three or four year period.

Pursuant to the Plan, 462,000 shares of common stock are reserved for issuance to employees, organizers and Directors under incentive and nonstatutory agreements. To date options to acquire 9,794 shares of common stock have been exercised.

The following are the weighted average assumptions used to estimate the fair value of stock options granted during 2008 and 2009:

	2008	2009
Expected dividend yield	0.0%	0.0%
Risk-free interest rate	3.04%	1.74%
Expected volatility factor	18.9%	26.1%
Expected term	4.5 years	4.5 years
Weighted average exercise price	$ 9.05	$ 7.38
Weighted average fair value	1.99	1.79
Number of options granted	13,500	15,000
Fair value of options granted	$ 26,900	$ 26,850

The following table provides the stock option activity for the year ending December 31, 2009:

	2009	
	Number of Shares	Weighted Average Exercise Price
Balance at beginning of the year	338,852	$ 10.49
Granted	15,000	7.38
Exercised	-	-
Expired	(7,000)	12.20
Balance at end of the year	346,852	$ 10.32

The following table provides the weighted-average fair and intrinsic values, and the weighted average remaining contractual life for stock option activity as of and for the years ending December 31, 2008 and 2009:

	2008	2009
Weighted-average fair value of options granted during the year	$ 1.99	$ 1.79
Intrinsic value of options exercised	-	-
Options exercisable at year end:	292,851	316,685
Weighted-average exercise price	$ 10.33	$ 11.70
Intrinsic value	-	-
Weighted-average remaining contractual life	5.5 years	4.5 years
Options outstanding at year end:	338,852	346,852
Weighted-average exercise price	$ 10.49	$ 10.32
Intrinsic value	-	5,500
Weighted-average remaining contractual life	5.6 years	4.6 years

As of December 31, 2009, 216,200 incentive stock options and 130,652 non-qualified stock options are outstanding. As of December 31, 2009, there is $31,200 of total unrecognized compensation cost related to non-vested stock options which is expected to be recognized over a weighted-average period of two years. No stock options were exercised in 2008 and 2009. No stock option related tax benefits were recorded during 2008 and 2009.

14. REGULATORY MATTERS

<u>Dividends</u>

The California Financial Code restricts the total dividend payment of any state banking association in any calendar year to the lesser of the Bank's retained earnings or the Bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. At December 31, 2008, no amounts are free of such restrictions. At December 31, 2009, $282,286 is free from such restrictions.

Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. As of December 31, 2008 and 2009, management believes that the Bank meets all its capital adequacy requirements. The Bank received notification from the FDIC categorizing the Bank as Well Capitalized under the framework of prompt corrective action regulations.

To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth below.

	2008		2009	
Leverage Ratio	Dollars	Ratio	Dollars	Ratio
Bay Commercial Bank	$ 15,630	14.6%	$ 15,835	10.4%
Minimum requirement for "Well-Capitalized"	5,348	5.0%	7,635	5.0%
Minimum regulatory requirement	4,278	4.0%	6,108	4.0%
Tier 1 Risk-Based Capital Ratio				
Bay Commercial Bank	$ 15,630	15.2%	$ 15,835	11.4%
Minimum requirement for "Well-Capitalized"	6,170	6.0%	8,351	6.0%
Minimum regulatory requirement	4,113	4.0%	5,568	4.0%
Total Risk-Based Capital Ratio				
Bay Commercial Bank	$ 16,850	16.4%	$ 17,485	12.6%
Minimum requirement for "Well-Capitalized"	10,283	10.0%	13,919	10.0%
Minimum regulatory requirement	8,226	8.0%	11,135	8.0%

15. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank may enter into transactions with related parties, including Directors, shareholders, officers and their associates. These transactions include borrowings from the Bank with substantially the same terms, including rates and collateral, as loans to unrelated parties and do not involve more than normal risk of collection.

The following is a summary of the aggregate loan activity involving related party borrowers for the years ending December 31, 2008 and 2009:

	2008	2009
Balance, beginning	$ 5,440,565	$ 4,846,832
Disbursements	533,569	11,262
Amounts repaid	(1,127,301)	(1,608,598)
Balance, ending	$ 4,846,832	$ 3,249,496
Undisbused commitments to related parties	$ 1,417,960	$ 2,403,402
Letters of credit issued for related parties	$ 653,027	$ 14,482

At December 31, 2008 and 2009, the Bank's deposits included deposits from related parties which total approximately $9.1 million and $5.3 million, respectively.

16. OTHER EXPENSES

For the years ended December 31, 2008 and 2009, respectively, other expenses consist of the following:

	2008	2009
Insurance including FDIC Premiums	$ 70,997	$ 272,384
Professional fees	108,583	133,913
Stationery and supplies	78,352	100,201
Marketing and promotions	61,886	55,740
Communication and postage	33,110	45,749
Bank service charges	18,302	38,009
Director fees	-	36,000
Courier Expense	22,693	24,202
Other	36,922	35,145
Total other expenses	$ 430,845	$ 741,343

The Bank expenses marketing and promotions costs as they are incurred. Advertising expense, included in marketing and promotions, total $14,836 and $11,831 for the years ended December 31, 2008 and 2009, respectively.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurement

Accounting guidance clarifies the definition of fair value, describes methods used to appropriately measure fair value in accordance with generally accepted accounting principles and expands fair value disclosure requirements. This guidance applies whenever other accounting pronouncements require or permit fair value measurements.

The fair value hierarchy under ASC 820-10-05 prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, Level 2, and Level 3).

Level 1 - Inputs are unadjusted quoted prices in active markets (as defined) for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs are unobservable inputs for the asset or liability, and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

Investment securities available-for-sale – Securities classified as available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. The recorded amount of securities measured at fair value on a recurring basis as of December 31, 2009 is as follows:

	Total	Level 1	Level 2	Level 3
Securities available for sale	$ 300,751	$ -	$ 300,751	$ -
Total assets measured at fair value	$ 300,751	$ -	$ 300,751	$ -

Impaired Loans - The Bank does not record loans at fair value on a recurring basis. However, from time to time, a loan may be considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with "*Accounting by Creditors for Impairment of a Loan*" (ASC 310-10). The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. When the fair value of the collateral is based on an observable market price or a current appraised value which uses substantially observable data, the Bank records the impaired loan as non-recurring 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, or the appraised value contains a significant assumption, and there is no observable market price, the Bank records the impaired loan as non-recurring Level 3.

The Bank records collateral dependent impaired loans at fair value on a non-recurring basis. The recorded amount of impaired loans measured at fair value on a non-recurring basis as of December 31, 2009 is as follows:

	Total	Level 1	Level 2	Level 3
Loans measured for impairment	$ 2,175,000	$ -	$ -	$ 2,175,000
Specific reserve on impaired loans	-	-	-	-
Total assets measured at fair value	$ 2,175,000	$ -	$ -	$ 2,175,000

The carrying amounts and fair values of the Bank's financial instruments at December 31, 2008 and 2009 are presented below.

	2008		2009	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Financial assets:				
Cash and cash equivalents	$ 9,886,535	$ 9,886,535	$ 10,066,289	$ 10,066,289
Investments	1,025,619	1,025,619	656,251	656,251
Loans, net	96,785,029	96,676,029	129,972,915	129,983,000
Accrued interest receivable	274,488	274,488	497,948	497,948
Financial liabilities:				
Deposits	87,812,472	87,833,472	126,550,190	126,777,000
Federal Home Loan Bank borrowings	5,000,000	5,112,500	-	-
Accrued interest payable	91,632	91,632	120,788	120,788

The following methods and assumptions were used to estimate the fair value of each class of financial instruments (FAS 107 (ASC 825-10-50)):

Cash and Cash Equivalents - Cash and cash equivalents include interest bearing deposits in banks and Fed funds sold, and are valued at their carrying amounts because of the short-term nature of these instruments.

Investments - Investment securities are valued at the quoted market prices. See Note 1 for further analysis. The carrying value of the FHLB stock approximates the fair value because the stock is redeemable at par.

Loans - Loans with variable interest rates are valued at the current carrying value, because these loans are regularly adjusted to market rates. The fair value of fixed rate with remaining maturities in excess of one year is estimated by discounting the future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings for the same remaining maturities.

Accrued Interest Receivable and Payable - The accrued interest receivable and payable balance approximates its fair value.

Deposits - The fair value of non-interest bearing deposits, interest bearing transaction accounts and savings accounts is the amount payable on demand at the reporting date. The fair value of time deposits is estimated by discounting the future cash flows using current rates offered for deposits of similar remaining maturities.

Federal Home Loan Bank Borrowings – The fair value is estimated by discounting the future cash flows using current rates offered for similar borrowings.

Commitments - The fair value of commitments represents the carrying amount of the related unamortized loan fees and is not material.