BAY COMMERCIAL BANK
500 Ygnacio Valley Road, Suite 200
Walnut Creek, California 94596

September 15, 2015

Dear Fellow Shareholders:

You are cordially invited to attend the 2015 Annual Meeting of Shareholders (the "Annual Meeting") of Bay Commercial Bank (the "Bank"), to be held on September 15, 2015, at 5:30 p.m. local time, in the board room of the Bank at 500 Ygnacio Valley Road, Suite 200, Walnut Creek, California, 94596. Enclosed are the Notice of 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, 2014 (the "2014 Annual Report") accompanies the Proxy Statement.

As described in the Notice of Annual Meeting and the accompanying Proxy Statement, at the Annual Meeting, shareholders will be asked to vote on three matters:

(i) the election of eight persons nominated by the Board of Directors of the Bank, to serve as directors of the Bank; and
(ii) the ratification of the Board of Directors' selection of Moss Adams LLP, independent public accountants, to serve as the independent accounting firm for the Bank for the fiscal year ending December 31, 2015; and
(iii) the approval of the 2015 Repurchase Program pursuant to which the Bank proposes to repurchase shares of its Common Stock outstanding.

Your vote is important. We hope that you will be able to attend the Annual Meeting. In addition to voting on the three matters to be voted on at the Annual Meeting, we will also discuss the operations of the Bank and answer any questions you may have. 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 to ensure that we will have a quorum to conduct business. If your shares are held through a bank or broker, check your proxy card to see if you can vote by telephone or via the internet.

Sincerely yours,

Lloyd Kendall, Jr.	George J. Guarini
Chairman of the Board	Chief Executive Officer

BAY COMMERCIAL BANK
500 Ygnacio Valley Road, Suite 200
Walnut Creek, California 94596

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be held on September 15, 2015

NOTICE IS HEREBY GIVEN that the 2015 Annual Meeting of Shareholders (the “Annual Meeting”) of Bay Commercial Bank (the “Bank”) will be held at 5:30 p.m., local time, on September 15, 2015, in the board room of the Bank at 500 Ygnacio Valley Road, Suite 200, Walnut Creek, California, 94596, to consider and act upon the following proposals:

1. to elect the following eight nominees to serve as directors of the Bank until the 2016 Annual Meeting of Shareholders and until their successors are elected and have been qualified:

Bhupen B. Amin	Lloyd W. Kendall, Jr.
James S. Camp	Robert R. Laverne, M.D.
Harpreet C. Chaudhary	Pramod R. Patel
George J. Guarini	David M. Spatz

2. 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, 2015.
3. to approve the 2015 Repurchase Program pursuant to which the Bank proposes to repurchase shares of its Common Stock outstanding.

Only shareholders of record as of the close of business on July 24, 2015 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 eight director nominees named in the enclosed Proxy Statement, “**FOR”** the ratification of the appointment of Moss Adams LLP, as the independent accounting firm for the Bank for the fiscal year ending December 31, 2015, and “**FOR”** the 2015 Repurchase Program pursuant to which the Bank proposes to repurchase shares of its Common Stock outstanding.

IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AT THE ANNUAL MEETING REGARDLESS OF THE NUMBER OF SHARES YOU MAY HOLD. 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 to ensure that we will have a quorum to conduct business. If your shares are held through a bank or broker, check your proxy card to see if you can vote by telephone or via the internet. Voting by any of these permitted methods will not prevent you from attending the meeting and voting in person.

By Order of the Board of Directors

Keary L. Colwell
Executive Vice President and Secretary

Walnut Creek, California
August 14, 2015

BAY COMMERCIAL BANK
500 Ygnacio Valley Road, Suite 200
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, a California corporation, ("we", "us", "our" and the "Bank") for use at the Annual Meeting of Shareholders (the "Annual Meeting") of the Bank to be held on September 15, 2015, at 5:30 p.m. local time, in the board room of the Bank, 500 Ygnacio Valley Road, Suite 200, Walnut Creek, California, 94596 and at all postponements or adjournments thereof.

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:

> Proposal One: To elect all eight of the persons nominated by the Board of Directors of the Bank to serve as directors of the Bank until the 2016 Annual Meeting of Shareholders and until their successors are elected and have been qualified.
>
> Proposal Two: 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, 2015.
>
> Proposal Three: To approve the 2015 Repurchase Program pursuant to which the Bank proposes to repurchase shares of its Common Stock outstanding.

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 July 24, 2015 (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 5,505,918 shares of its Common Stock.

Each holder of record of Common Stock is entitled to one vote, whether voted 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 for directors 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 eight 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, seventh and eighth 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: RATIFICATION OF SELECTION OF INDEPENDENT ACCOUNTING FIRM FOR 2015. Approval of this proposal requires an affirmative vote of the holders of a majority of the shares of the Common Stock represented and voting.

PROPOSAL THREE: APPROVAL OF THE 2015 STOCK REPURCHASE PROGRAM. Approval of this proposal requires the affirmative vote of two-thirds (2/3) of the shares outstanding of the Bank's Common Stock.

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 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, and because the approval of the 2015 Stock Repurchase Program requires the affirmative vote of two-thirds (2/3) of the shares outstanding, 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.

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 ratification of the selection of the independent accounting firm, "**FOR**" the approval of the 2015 Stock Repurchase Program, 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 contact, the costs of which the Bank will bear.

Annual Report

A copy of the Bank's 2014 Annual Audited Financial Report for the fiscal year ended December 31, 2014 (the "2014 Annual Report") is attached. Additional copies of the 2014 Annual Report are available without cost upon request by writing to Keary L. Colwell, Chief Financial Officer, Bay Commercial Bank, 500 Ygnacio Valley Road, Suite 200, Walnut Creek, California 94596.

Market Makers

The Bank's Common Stock is traded on the OTCQB Venture Marketplace Bulletin Board under the symbol BCML. 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. The Bank cautions that these statements are qualified by important factors that could cause actual results to differ materially from those reflected by any forward-looking statements contained herein. Such factors include risks and uncertainties arising from, among other things, changes in interest rates, inflation, government regulation, general economic and market conditions, conditions in the real estate markets in which we operate and other factors beyond our control. Do not unduly rely on forward-looking statements because they only reflect 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 occurrences or unanticipated events or circumstances after the date of such statements except as required by law.

Security Ownership of Certain Beneficial Owners and Management

The Bank is aware of the following beneficial owners holding 5% or more of the Common Stock as of December 31, 2014. The table below includes shares of common stock acquired in 2015 as a result of the exercise of 93,941Warrants:

Name of Beneficial Owner	Number of Shares of Common Stock	Percentage Owned
Starboard Fund for New Bancs	346,334	6.9%
Commerce Street Capital	357,874	7.2%
Ithan Creek Master Investments	354,622	7.1%
Total	1,058,830	21.2%

The following table shows the beneficial ownership of directors, executive officers and directors and executive officers as a group as of December 31, 2014:

Name of Beneficial Owner	Number of Shares of Common Stock	Restricted Stock Grants (2)	Percentage Owned (3)
George J. Guarini, Director, President, and Chief Executive Officer	15,500	35,772	1.0%
Bhupen B. Amin, Director	37,839	5,280	0.9%
James S. Camp, Director	103,177	5,280	2.2%
Harpreet C. Chaudhary, Director	10,000	5,280	0.3%
Lloyd W. Kendall, Jr., Chairman	52,222	8,580	1.2%
Robert G. Laverne, Director	92,437	5,280	2.0%
Pramod R. Patel, Director	37,839	5,280	0.9%
David M. Spatz, Director	55,300	5,280	1.2%
Keary L. Colwell Chief Financial Officer, Secretary, and Executive Vice President	2,000	8,382	0.2%
Janet L. King Chief Operating Officer and Executive Vice President	3,000	8,382	0.2%
Vernon R. Padgett Chief Banking Officer and Executive Vice President	2,992	2,500	0.1%
David Funkhouser (1) Chief Credit Officer and Senior Vice President	-	-	0.0%
Izabella Zhu Chief Risk Officer and Senior Vice President	50	500	0.0%
Directors and Executive Officers as a Group (Thirteen persons)	412,356	95,796	10.0%

(1) Mr. Funkhouser joined the Bank in June 2015.

(2) Represents Restricted Stock granted under the 2014 Omnibus Equity Incentive Plan.

(3) Includes the restricted stock.

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. The Board of Directors has adopted a resolution setting the number of directors at eight. 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.

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 meetings and two (2) special meetings in 2014. During 2014, 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 Kendall, 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, subject to the limitations provided by California law and the bylaws of the Bank. This Executive Committee met once in 2014.

The Bank's Human Resources/Compensation Committee presently includes Directors Kendall, 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 nine (9) times in 2014.

The Bank's Audit Committee presently includes Directors Kendall, Patel, Chaudhary 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 Board of Governors of the Federal Reserve System and the California Department of Business Oversight. This Committee met eleven (11) times in the 2014.

The Bank's Loan Committee presently includes Directors Amin, Chaudhary, Kendall, Spatz and Guarini and includes one alternate member. The Committee examines and approves loans above a specified size and regularly monitors the oversight and reviews of the entire loan portfolio. This Committee is responsible for lending, credit policies and monitors compliance with such policies. This Committee met fifty-two (52) times in 2014.

The Bank's Asset Liability Committee presently includes Directors Amin, Kendall, Laverne, Spatz, and Camp. This Committee is responsible for oversight of the implementation of the Bank’s asset liability management and investment policies. The Committee also monitors liquidity, interest rate risk and investment and securities activities. This Committee met eleven (11) times in 2014.

Board of Directors' Compensation

The Bank pays each director other than Mr. Guarini (referred to collectively below as the “outside directors”) directors fees of $1,500 per month for attendance at Board meetings and Committee meetings.

Attendees of the Loan Committee receive directors fees of $200 per meeting attended. The Chairman receives an additional director fee of $1,000 per month. Annual director fees paid in 2014 to all directors in the aggregate totaled $135,700. Each director was granted 5,280 restricted stock grants under the 2014 Omnibus Equity Incentive Plan, or a total of 42,240 of restricted stock were granted to directors. The restricted stock vests annually over a three year period. The grants were made effective August 19, 2014.

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 their lengths of service as an officer of the Bank.

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

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

DAVID FUNKHOUSER . . . . ……………………………………………..

Mr. Funkhouser joined the Bank in June 2015 to serve as Senior Vice President and Chief Credit Officer of the Bank. Prior to joining the Bank he served as President, Chief Executive Officer and Director at Trans Pacific National Bank from 2010 to 2014. He has also served as a bank consultant and acting chief credit officer for various financial institutions in California. At December 31, 2014, Mr. Funkhouser was 59 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, 2014, Ms. Colwell was 55 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, 2014, Ms. King was 52 years of age.

VERNON R. PADGETT. . . . . ……………………………………………...

Mr. Padgett has served as Executive Vice President and Chief Bank Officer of the Bank since June 1, 2014. Prior to joining the Bank, he served in a similar capacity at both Presidio Bank and Mechanics Bank. At December 31, 2014, Mr. Padgett was 55 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, the Equity Incentive Plan, a severance plan, and other benefits. The Bank has entered into employment agreements with each of Mr. Guarani, Ms. Colwell, Ms. King and Mr. Padgett. Mr. Dean Abercrombie served as the Bank's Chief Credit Officer until May 2015 under an employment agreement. See "Employment Agreements." Mr. Funkhouser joined the Bank in June 2015 as Chief Credit Officer.

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 2014, Mr. Guarini, Ms. Colwell, Ms. King, and Mr. Padgett earned annual salaries of $350,000, $198,000, $198,000, and $195,000, annualized, respectively. For 2015, the base annual salaries payable to Mr. Guarini, Ms. Colwell, Ms. King, Mr. Padgett and Mr. Funkhouser are $370,000, $235,000, $235,000, $195,000, and $185,000 respectively.

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.

For 2014, Mr. Guarini, Ms. Colwell, Ms. King and Mr. Padgett earned annual incentive bonuses of $234,500, $89,300, $89,300 and $87,750, respectively.

Omnibus Equity Incentive Plan. The purpose of the Equity Incentive 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. The restricted stock grants 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 restricted stock grants are approved by the full Board of Directors. See “Other Employee Benefit Plans-Omnibus Equity Incentive Plan” below.

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

Severance Benefits. The purpose of severance benefits is to promote continuity of management. Pursuant to an executive’s employment agreement, certain executives may be eligible for severance benefits if the executive is terminated without cause, including following a change in control of the Bank. See “Employment Agreements” below.

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 April 21, 2013. The agreement provides for, among other things, an annual base salary of at least $315,000, incentive bonuses, a monthly automobile allowance of $800 and group insurance benefits, as well as a group 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. In 2014, Mr. Guarini’s base salary was $350,000. 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 24 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.

Employment Agreements with Ms. Colwell, Ms. King, and Mr. Padgett. The Bank has entered into employment agreements with Ms. Colwell and Ms. King, dated April 21, 2013, respectively. Mr. Padgett's agreement is dated June 1, 2013. Each of the agreements has a term of three years. Each agreement provides for, among other things, a minimum annual base salary ($189,000 in the case of Ms. Colwell, $189,000 in the case of Ms. King, and $185,000 in the case of Mr. Padgett), incentive bonuses, a monthly automobile allowance ($500 in the case of Ms. Colwell, $800 in the case of Ms. King, and $800 in the case of Mr. Padgett) and group insurance benefits, as well as a group 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.

Employment Agreement with Mr. Dean Abercrombie. The Bank entered into an employment agreement with Mr. Abercrombie dated April 21, 2013. In May 2015 Mr. Abercrombie left the employment of the Bank. In accordance with the terms of the agreement, upon such termination, the Bank will pay Mr. Abercrombie one-twelfth of his then-current base annual salary ($182,016) plus one-twelfth of the amount of the incentive payment ($81,861) made to him 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 was employed by the Bank.

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) plans, 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.

Omnibus Equity Incentive Plan. In 2014, The Bank's Board of Directors adopted, and the Bank's shareholders approved, the Bank's Equity Incentive Plan. The Equity Incentive Plan provides for the granting by the Bank's Board of Directors of incentive restricted stock grants to employees and non-employee directors. Factors considered by the Board in granting equity incentives 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, equity grants are restricted stock awards that vest over three to five years. Equity incentive restricted stock grants totaled 95,796 shares in 2014. At December 31, 2014, restricted stocks totaled 95,796, none of which have vested. In 2015, an additional 13,872 restricted stock awards were granted in January 2015 with a vesting period of five years.

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"). No options were granted in 2014. Total options exercised in 2014 were 20,000. The Stock Option Plan terminated in 2014 with 64,488 options remaining outstanding under the Stock Option Plan as of December 31, 2014. These options expire by the end of 2016. Mr. Abercrombie exercised his 10,000 options in the second quarter 2015. No other options are held by executive officers or directors as of December 31, 2014.

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 $7.4 million outstanding and $2.2 million in undisbursed loan commitments as of December 31, 2014, all of which were performing in accordance with their terms as of that date.

PROPOSAL ONE: ELECTION OF DIRECTORS

Eight directors are to be elected at the Annual Meeting, each to hold office until the Bank's 2016 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. Amin, Camp, Chaudhary, Guarini, Laverne, Kendall, Patel and Spatz. Each is presently serving as a director of the Bank. 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.

PROXY STATEMENT
(continued)

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, 2014, Mr. Guarini was 61 years of age and he has served as a director of the Bank since 2004.

BHUPEN B. AMIN . . . . ……………………………………………. .

Mr. Amin has been the General Counsel and Chief Operating Officer of Lotus Hotels for more than five years. At December 31, 2014, Mr. Amin was 44 years of age. He has served as a director of the Bank since the merger with Global Trust Bank in October 2011.

JAMES S. CAMP . . . . …………………..

Mr. Camp has been the President of the S. A. Camp Companies for more than five years. At December 31, 2014, Mr. Camp was 63 years of age. He has served as a director of the Bank since 2004.

HARPREET C. CHAUDHARY . . . . …………………..

Mr. Chaudhary has been a Certified Public Accountant, and a Certified Financial Planner and president of Area Financial Services, Inc., an accounting firm, for more than five years. At December 31, 2014, Mr. Chaudhary was 53 years of age. He has served as a director of the Bank since the merger with Global Trust Bank in October 2011.

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

Mr. Kendall is a practicing attorney, specializing in income tax and real estate law. From 1982 until 2006 he was the President and owner of Lawyers Asset Management, Inc. a Qualified Intermediary in tax free exchanges. In 2006 his company was merged with Commercial Capital Bank. At December 31, 2014, Mr. Kendall was 68 years of age. He has served as a director of the Bank since 2004.

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

Dr. Laverne has been an anesthesiologist at John Muir Medical Center in Walnut Creek, California for more than five years. At December 31, 2014, Dr. Laverne was 66 years of age. He has served as a director of the Bank since 2004.

PRAMOD R. PATEL . . . . ….………………………………………..

Mr. Patel has been President of Raps Hospitality Group for more than five years. At December 31, 2014, Mr. Patel was 47 years of age. He has served as a director of the Bank since the merger with Global Trust Bank in October 2011.

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

Mr. Spatz is a real estate investor, and owns and manages several real estate properties. In addition, he has been the President of Anyi Lu International, Inc., a manufacturer of designer shoes, since 2005. At December 31, 2014, Mr. Spatz was 67 years of age. He has served as a director of the Bank since 2004.

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

PROPOSAL TWO: RATIFICATION OF SELECTION OF INDEPENDENT ACCOUNTING FIRM FOR 2015

The firm of Moss Adams LLP, independent public accountants, was appointed in 2015 to audit the financial statements of the Bank for 2015.

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 2015.

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.

PROPOSAL THREE: APPROVAL OF 2015 REPURCHASE PROGRAM

The Board of Directors has voted, subject to shareholder and regulatory approval, to cause the Bank to enter into an agreement with a broker to effect repurchases of the shares of the Bank’s Common Stock on terms specified by the Board of Directors and as conditions warrant. If and when approved by the shareholders and the Bank’s regulators, such repurchases are expected to commence after this Annual Meeting and will end two years from the date of this annual meeting (“2015 Repurchase Program”) unless the Board of Directors votes to extend the 2015 Repurchase Program, as it deems appropriate.

Pursuant to the 2015 Repurchase Program, the Bank will be authorized to purchase up to 5 percent of the 5,617,300 shares of the Bank’s Common Stock outstanding as of August 14, 2015 (or 280,000 shares of Common Stock) at open market prices.

The Board of Directors has determined that in light of its current and projected capital position and its projected capital needs for operations in accordance with its business plan, the proposed repurchase is a prudent use of the Bank’s capital. Considering its projected capital position, the Board of Directors believes this is an opportune time for the Bank to make a distribution to its shareholders and to continue its strong capital position. The Board of Directors expect the repurchase of its Common Shares to support growth in the price of the Bank’s stock as it reduces the number of shares outstanding, increases earnings per share and its Return on Equity. Currently, the Bank far exceeds the standards to be rated “Well Capitalized” under applicable state and federal law and regulations and the Bank expects to continue to be rated “Well Capitalized” during and upon completion of the 2015 Repurchase Program.

Prior to commencement of the 2015 Repurchase Program, the approvals of the California Department of Business Oversight, Division of Financial Institutions and of the Board of Governors of the Federal Reserve System must be obtained and the Bank will apply to both agencies for such approval.

The 2015 Repurchase Program does not obligate the Company to repurchase any specific number of shares and may be suspended or terminated at any time without prior notice. Share repurchases, if any, will be made in the open market at such times and in such amounts as the Bank deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, market conditions and applicable legal requirements.

Because the Board of Directors believes the 2015 Repurchase Program to be in the best interest of the Bank’s shareholders, the Board would anticipate calling for an adjournment of the Annual Meeting to a later date for the purpose of considering the 2015 Repurchase Program, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Annual Meeting to approve the principal terms of the 2015 Repurchase Program.

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 proxy holder's discretion.

BAY COMMERCIAL BANK

Keary L. Colwell
Chief Financial Officer and Secretary

Walnut Creek, California
August 14, 2015

BAY COMMERCIAL BANK

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

AND

INDEPENDENT AUDITOR'S REPORT

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Bay Commercial Bank

Report on the Financial Statements
We have audited the accompanying financial statements of Bay Commercial Bank, which comprise the statements of financial condition as of December 31, 2014 and 2013, and the related statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bay Commercial Bank as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Stockton, California
March 3, 2015

BAY COMMERCIAL BANK

STATEMENT OF FINANCIAL CONDITION

December 31, 2014 and 2013

ASSETS		2014		2013
Cash and due from banks		$ 9,029,815		$ 4,060,646
Federal funds sold		126,166,605		67,588,719
Cash and cash equivalents		135,196,420		71,649,365
Interest bearing deposits in banks		10,084,760		9,331,430
Investment securities available-for-sale		17,540,010		-
Federal Home Loan Bank stock, at par		1,646,000		1,006,200
Federal Reserve Bank stock, at par		1,212,950		1,244,100
Loans	$ 325,699,290		$ 254,178,483	
Deferred fees, net	(291,735)		(298,066)	
Allowance for loan losses	(2,500,000)		(2,775,000)	
Loans, net		322,907,555		251,105,417
Premises and equipment, net		1,265,064		1,171,942
Other real estate owned		2,102,844		2,040,000
Deposit intangible		811,889		62,045
Cash surrender value of life insurance policies		2,974,602		-
Interest receivable and other assets		8,648,910		4,693,444
Total Assets		$ 504,391,004		$ 342,303,943

LIABILITIES AND SHAREHOLDERS' EQUITY	2014	2013
Non-interest bearing deposits	$ 124,228,498	$ 58,017,136
Interest bearing deposits	313,712,843	228,447,306
Total deposits	437,941,341	286,464,442
Other borrowings	6,000,000	2,000,000
Interest payable and other liabilities	2,275,595	1,517,195
Total liabilities	446,216,936	289,981,637
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; 100,000,000 shares authorized in 2014 and 2013; 4,875,787 and 4,727,457 shares issued and outstanding in 2014 and 2013, respectively	39,580,462	38,974,441
Additional paid in capital	286,738	286,738
Accumulated other comprehensive income	67,312	-
Retained earnings	18,239,556	13,061,127
Total shareholders' equity	58,174,068	52,322,306
Total Liabilities and Shareholders' Equity	$ 504,391,004	$ 342,303,943

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

BAY COMMERCIAL BANK
STATEMENT OF OPERATIONS

For the years ended December 31, 2014 and 2013

		2014		2013
Interest income:				
Loans	$	18,778,447	$	14,475,942
Federal funds sold		11,330		6,096
Investment securities and interest bearing deposits in banks		665,197		303,456
FHLB dividend		97,654		54,590
FRB dividend		84,486		74,646
Total interest income		19,637,114		14,914,730
Interest expense:				
Deposits		2,510,706		2,065,948
Other borrowings		68,903		14,001
Total interest expense		2,579,609		2,079,949
Net interest income		17,057,505		12,834,781
Provision for loan losses		1,073,785		348,268
Net interest income after provision for loan losses		15,983,720		12,486,513
Non-interest income:				
Other income and fees		753,130		628,518
Bargain purchase gain		2,785,000		-
Gain on sale of securities		94,394		-
Gain on sale of Trust business		72,801		-
Total non-interest income		3,705,325		628,518
Non-interest expense:				
Salaries and related benefits		7,564,116		5,099,208
Occupancy and equipment		1,415,864		1,356,302
Data processing		1,167,381		676,837
Other		2,645,955		1,393,866
Total non-interest expense		12,793,316		8,526,213
Income before income taxes		6,895,729		4,588,818
Provision for income taxes		1,717,300		1,898,800
Net income	$	5,178,429	$	2,690,018
Income per share:				
Basic: Net income	$	1.09	$	0.56
Weighted average shares outstanding		4,740,152		4,811,512
Diluted: Net income	$	1.08	$	0.54
Weighted average shares outstanding		4,780,345		4,971,213

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

BAY COMMERCIAL BANK

STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2014 and 2013

	2014	2013
Net income	$ 5,178,429	$ 2,690,018
Other comprehensive income:		
Unrealized gain on available-for-sale of investment securities, net of tax of $39,174	122,532	-
Reclassification adjustment for gains realized in income, net of tax of $39,174	(55,220)	-
Other comprehensive income	67,312	-
Total comprehensive income	$ 5,245,741	$ 2,690,018

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, 2014 and 2013

	Common Stock Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2012	$ 40,013,940	$ 286,738	$ 10,371,109	$ -	$ 50,671,787
Net income			2,690,018	-	2,690,018
Stock repurchase	(1,039,499)				(1,039,499)
Balance, December 31, 2013	38,974,441	286,738	13,061,127	-	52,322,306
Net income			5,178,429		5,178,429
Other comprehensive income, net				67,312	67,312
Stock based compensation	113,215				113,215
Exercise of stock options	200,000				200,000
Exercise of warrants	292,806				292,806
Balance, December 31, 2014	$ 39,580,462	$ 286,738	$ 18,239,556	$ 67,312	$ 58,174,068

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

BAY COMMERCIAL BANK

STATEMENT OF CASH FLOWS

For the years ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Net income	$ 5,178,429	$ 2,690,018
Adjustments to reconcile net income to net cash provided by operating activities:		
Bargain purchase gain	(2,785,000)	-
Gain on sale of securities	(94,394)	-
Change in cash surrender value of the life insurance policies	25,398	-
Provision for loan losses	1,073,785	348,268
Write down and loss on sale of OREO	490,000	20,000
Amortization/accretion of premium/discount on investment securities	225,436	-
Depreciation and amortization	411,464	406,550
Core deposit intangible amortization	270,156	69,732
Stock based compensation	113,215	-
Deferred loan origination fees, net	(6,331)	(49,429)
Decrease (increase) in accrued interest receivable and other assets	1,149,010	(75,460)
Increase (decrease) in accrued interest payable and other liabilities	453,634	(1,189,953)
Net cash provided by operating activities	6,504,802	2,219,725
Cash flows from investing activities:		
Maturity of interest bearing deposits in banks	1,755,670	1,591,437
Proceeds from the sale of investment securities	9,800,877	-
Proceeds from the maturity and repayment of securities	1,601,096	-
Purchase of Federal Home Loan Bank stock	(39,800)	(60,600)
Net increase in loans	(14,459,283)	(28,999,830)
Redemption of Federal Reserve Bank Stock	31,150	-
Purchase of Bank Owned Life Insurance	(3,000,000)	-
Sale of OREO	-	130,000
Purchase of premises and equipment	(237,928)	(837,173)
Net cash received from acquisition	16,527,381	-
Net cash provided (used) in investing activities	11,979,163	(28,176,166)
Cash flows from financing activities:		
Net increase in demand, interest bearing and savings deposits	54,647,575	29,083,259
Decrease in time deposits	(10,327,291)	(3,823,246)
Repurchase of common stock	-	(1,039,499)
Exercise of warrants	292,806	-
Exercise of stock options	200,000	-
Increase in other borrowings	29,000,000	-
Dcrease in other borrowings	(28,750,000)	-
Net cash provided by financing activities	45,063,090	24,220,513
Increase (decrease) in cash and cash equivalents	63,547,055	(1,735,928)
Cash and cash equivalents at the beginning of the year	71,649,365	73,385,293
Cash and cash equivalents at end of the year	$135,196,420	$ 71,649,365

BAY COMMERCIAL BANK

STATEMENT OF CASH FLOWS - CONTINUED

For the years ended December 31, 2014 and 2013

	2014	2013
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest expense	$ 2,312,819	$ 2,084,649
Income tax	765,000	2,200,000
Non-cash investing activities:		
Net change in unrealized gain on investment securities available for sale	67,312	-
Transfers of loans to other real estate owned	552,844	2,040,000
Acquisitions:		
Assets acquired, net of cash received	97,469,000	-
Liabilities assumed	111,211,381	-
Bargain purchase gain	2,785,000	-
Net cash received	$ 16,527,381	-

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

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Bay Commercial Bank (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.

<u>Organization</u>

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 seven branches located in Contra Costa, Alameda, Santa Clara, Napa, and San Joaquin Counties.

<u>Use of Estimates</u>

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 2014 and 2013 financial statements include the allowance for loan losses, the valuation for deferred tax assets, the fair value of stock options, the valuation of financial assets and liabilities, and the determination, recognition and measurement of impaired loans. Actual results could differ from these estimates.

<u>Acquisition</u>

On April 25, 2014, the Bank acquired all of the assets and assumed all of the liabilities of Bank On It. Inc. and its wholly owned subsidiary, Community Bank of San Joaquin (CBSJ) under a Merger and Plan of Reorganization (Merger Agreement). The acquired assets and assumed liabilities, both tangible and intangible, 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 over an estimated average useful life of four 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.

<u>Cash and Cash Equivalents</u>

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

Generally, banks are required to maintain non-interest bearing cash reserves equal to a percentage of certain deposits. For the years ended December 31, 2014 and 2013, $4,591,000 and $1,498,000 reserve balances were required, respectively.

Interest bearing deposits in banks

The Bank invests in interest bearing deposits in banks with terms of up to three years. At December 31, 2014 and 2013, the Bank held interest bearing deposits totaling $10,084,760 and $9,331,430 with a yield of 1.95% and 1.41% and a weighted average term to maturity of two and three years, respectively.

Investment securities available-for-sale

Available-for-sale securities include bonds, notes, mortgage-backed securities, and debentures not classified as held-to-maturity securities. These securities are carried at estimated fair value with unrealized holding gains and losses, net of tax impact, if any, reported as a net amount in a separate component of shareholders' equity, accumulated other comprehensive income (loss), until realized. Gains and losses on the sale of available-for-sale securities are determined using the specific identification method. The amortization of premiums and accretion of discounts are recognized as adjustments to interest income over the period to maturity.

Investments with fair values that are less than amortized costs are considered impaired. Impairment may result from either a decline in the financial condition of the issuing entity or in the case of fixed interest rate investments, from rising interest rates. At each financial statement date management assesses each investment to determine if impaired investments are temporarily impaired of if the impairment is other than temporary. This assessment includes a determination of whether the Bank intends to sell the security, or it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other than temporarily impaired and that the Bank doesn't not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the amount of impairment is separated into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is calculated as the difference between the security's amortized costs basis and the present value of its expected future cash flows. The remaining difference between the security's fair value and the present value of the future expected cash flow is deemed to be due to factors that are not credit related and is recognized in other comprehensive income (loss).

Federal Home Loan Bank Stock

As of December 31, 2014 and 2013, Federal Home Loan Bank of San Francisco (FHLB) stock totaling $1,646,000 and $1,006,200, respectively, is recorded at cost and is redeemable at par value.

Federal Reserve Bank Stock

As of December 31, 2014 and 2013, Federal Reserve Bank (FRB) stock totaling $1,212,950 and $1,244,100, respectively, is recorded at cost and is redeemable at par value.

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 are sold without recourse.

In 2014, 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 as probable credit losses are considered in the estimation of fair value. Purchased loans are accounted for under either ASC 310-30, Loans and Debt Securities with Deteriorated Credit Quality or ASC 310-20, Non-refundable Fees and other Costs. As of the purchase date, none of the loans were on non-accrual. Certain acquired loans exhibited credit quality deterioration since origination and are therefore being accounted for under ASC 310-30. The acquired loans that did not exhibit credit quality deterioration are accounted for under ASC 310-20.

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. Loans are returned 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 $698,553 and $567,724 are deferred as loan origination costs for the years ended December 31, 2014 and 2013, 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, 2014 and 2013, 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, 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 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.

Troubled debt restructuring

In situations where, for economic or legal reasons related to a borrower's financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring. The Bank measures any loss on the troubled debt restructuring in accordance with the guidance concerning impaired loans set forth above. Additionally, loans modified in troubled debt restructurings are generally placed on non-accrual status at the time of restructuring. These loans are returned to accrual status after the borrower demonstrates performance with the modified terms for a sustained period of time (generally six months) and has the capacity to continue to perform in accordance with the modified terms of the restructured debt.

Other Real Estate Owned

Other real estate owned (OREO) acquired through, or in lieu of, foreclosure are held-for-sale and are initially recorded at fair value less selling expenses. Any write-downs to fair value at the time of transfer are charged to the allowance for loan losses, subsequent to foreclosure. Costs to hold OREO are expensed when incurred.

The Bank obtains an appraisal or market valuation analysis on all OREO. If the periodic valuation indicates a decline in the fair value below recorded carrying value, an additional write-down or valuation allowance for OREO losses is established as a charge to earnings. Fair value is based on current market conditions, appraisals, and estimated sales values of similar properties. Operating expenses of such properties, net of related income, are included in other expenses. The Bank may make loans to facilitate the sale of OREO. Gains and losses on the disposition of OREO are included in non-interest income. Gains and losses on financed sales are recorded in accordance with the appropriate accounting method, taking into consideration the buyers initial and continuing investment in the property, potential subordination and transfer of ownership.

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.

Cash Surrender Value of Life Insurance

The Bank accounts for its investment in life insurance policies at the amount that could be realized under the insurance contract.

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, 2014 and 2013, the Bank determined that no events or changes occurred during 2014 and 2013 that would indicate that the carrying value of any long-lived assets may not be recoverable.

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 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.

Transfers of financial assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that contain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The Bank may sell certain portions of government guaranteed loans in the secondary market. These sales are recorded by the Bank when control is surrendered and any warranty period or recourse provision expires. No loans were sold during 2014 or 2013.

Servicing assets and liabilities

Periodically, the Bank sells loans and retains the servicing rights. The gain or loss on sale of loans depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer.

All servicing assets and liabilities are initially measured at fair value. In addition, the Bank amortizes servicing rights in proportion to and over the period of the estimated net servicing income or loss and assesses the rights for impairment. The servicing rights are initially measured at fair value and amortized in proportion to and over the period of the estimated net servicing income assuming prepayments.

Total loans serviced for others were approximately $29.4 million and $15.4 million as of December 31, 2014 and 2013, respectively. Total servicing liabilities, included in other liabilities on the statement of financial condition, were approximately $227,800 and $174,700 December 31, 2014 and 2013, respectively.

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 allowance is based on estimated future taxable income.

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2014 and 2013, the Bank recognized $269 and $2,200 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 and state income tax examinations by tax authorities for years beginning 2011 and 2010, respectively. The Bank had no unrecognized tax benefits at December 31, 2014 or 2013.

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 or warrants were exercised. The treasury stock method is applied to determine the dilutive effect of stock options, restricted stock and warrants in computing diluted EPS. For the period ending December 31, 2014, a total of 7,926 stock options, 1,249 unvested restricted stock grants, and 31,018 warrants were included in the calculation of diluted common shares. For the period ended December 31, 2013, a total of 11,418 stock options and 148,284 warrants were included in the calculation of diluted common shares.
For the periods ended December 31, 2014 and 2013, total weighted average common shares outstanding are as follows:

	2014	2013
Common Stock	4,740,152	4,811,512
Diluted effect of warrants	31,018	148,284
Diluted effect of restricted stock grants	1,249	-
Diluted effect of stock options	7,926	11,418
Total weight average diluted shares	4,780,345	4,971,213

Common Stock and Warrants

In 2014, warrants to purchase 32,534 shares of common stock, with an exercise price of $9.00 per share were exercised. No warrants were exercised in 2013. In 2013, the Bank repurchased 103,000 shares of common stock. No stock was repurchased in 2014. As of December 31, 2014 and 2013, total warrants outstanding were 127,283 and 159,817, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss) 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 as a separate statement of comprehensive income.

Recent Accounting Pronouncements

In January, 2014, the FASB issued Accounting Standards Update (ASU) 2014-04 - Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. This Update clarifies when an in-substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The objective of the amendments in this Update is to reduce diversity in practice. An in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendments in this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company does not anticipate that the adoption of this ASU will have a material impact on the Company's financial position, results of operation, cash flows, or disclosure.

In May, 2014, the FASB has made available Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers: Topic 606. ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, and intangible assets within the scope of Topic 350, Intangibles—Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company does not anticipate that the adoption of this ASU will have a material impact on the Company's financial position, results of operation, cash flows, or disclosure.

In August 2014, the FASB issued ASU No. 2014-14, Receivables -Troubled Debt Restructuring by Creditors. Under certain government-sponsored loan guarantee programs, such as those offered by the Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA), qualifying creditors can extend mortgage loans to borrowers with a guarantee that entitles the creditor to recover all or a portion of the unpaid principal balance from the government if the borrower defaults. The objective of this Update is to reduce diversity in practice by addressing the classification of foreclosed mortgage loans that are fully or partially guaranteed under government programs. Currently, some creditors reclassify those loans to real estate as with other foreclosed loans that do not have guarantees; others reclassify the loans to other receivables. The amendments affect creditors that hold government-guaranteed mortgage loans, including those guaranteed by the FHA and the VA. This ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2014 with early adoption permitted. The Company is currently reviewing the requirements of ASU No. 2014-14.

In November, 2014, FASB issued ASU 2014-17, Business Combinations: Pushdown Accounting. The amendments in this ASU provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. An acquired entity should determine whether to elect to apply pushdown accounting for each individual change-in-control event in which an acquirer obtains control of the acquired entity. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity's most recent change-in-control event. An election to apply pushdown accounting in a reporting period after the reporting period in which the change-in-control event occurred should be considered a change in accounting principle in accordance with Topic 250, Accounting Changes and Error Corrections. If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable. The amendments in this Update are effective on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle.

Subsequent Events

Management has evaluated subsequent events for recognition and disclosure through March 3, 2015, the date the financial statements were issued.

On November 10, 2014, the Bank announced the merger agreement with Valley Community Bank. The merger closed on February 13, 2015. The Bank will issue approximately 677,400 shares of common stock in exchange for the all of the common shares outstanding of Valley Community Bank and repurchased all of the Trust Preferred securities. The total value of the merger transaction is approximately $11.6 million. Each share of Valley Community Bank's common stock outstanding converted into 0.345 shares of the Bank's common stock. As of the merger date Valley Community Bank had total assets of $126.0 million and $107.6 million in deposits. The merger transaction will be accounted for using the acquisition method of accounting for business combinations FASB ASC 805, Business Combinations. The net assets acquired and the liabilities assumed totaled approximately $14.5 million at the date of merger. The fair value of Valley Community Bank's assets acquired and liabilities assumed has not yet been fully determined.

<u>Reclassifications</u>

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

2. ACQUISITION

On April 25, 2014, the Bank merged with Community Bank of San Joaquin with two branch offices located in Stockton, California. The transaction was recorded as a business combination. The Bank acquired total assets of $123.7 million including $59.0 million in loans, and assumed $111.2 million in liabilities including $107.2 million in deposit liabilities. The Bank assumed the lease obligation related to each branch facility.

The Merger Agreement provided that Community Bank of San Joaquin merged with and into Bank On It, Inc. and, immediately thereafter, Community Bank of San Joaquin merged with and into the Bank. The Bank acquired all of the shares of common stock issued and outstanding for $2.57 per share.

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

	Acquisition Date April 25, 2014
Book value of net assets acquired	$ 10,340,537
Fair value adjustments:	
Loans	(2,913,900)
Investment securities	(253,018)
Core deposit intangible	1,020,000
Deferred tax assets	4,400,000
Discount on time deposits	(70,000)
Total purchase accounting adjustments	2,183,082
Fair value of assets acquired	12,523,619
Cash paid	9,738,619
Total price paid	9,738,619
Bargain purchase gain (included in non-interest income)	$ 2,785,000

The bargain purchase gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed.

The following table presents the net assets acquired and the estimated fair value adjustments, which resulted in a bargain purchase gain as the acquisition date:

	Acquisition Date April 25, 2014
Fair value of Assets:	
Cash and due from Banks	$ 3,276,000
Federal funds sold	22,990,000
Total cash and cash equivalents	26,266,000
Interest bearing deposits in banks	2,509,000
Investment securities	29,005,713
FHLB stock	600,000
Loans	58,963,153
Core deposit intangible	1,020,000
Deferred tax asset	4,400,000
Other assets	971,134
Total assets acquired	123,735,000
Liabilities:	
Deposits	
Noninterest bearing	31,472,743
Interest bearing	75,683,872
Total deposits	107,156,615
FHLB borrowing	3,750,000
Other liabilities	304,766
Total liabilities assumed	111,211,381
Consideration paid	9,738,619
Bargain purchase gain (included in non-interest income)	$ 2,785,000

The following is a description of the methods used to determine the fair value of significant assets and liabilities at the acquisition date.

Loans

The fair values for acquired loans were calculated using a discounted cash flow analysis with certain assumptions related to expected cash flows and probability of loss. For purchased non-credit impaired loans (PNCI), the total gross contractual amounts receivable were $55.6 million as of the acquisition date. For purchased credit impaired loans (PCI), the total contractual amounts receivable were $6.3 million as of the date of acquisition. The fair value of the PCI loans is estimated to total $4.5 million as of the data of acquisition.

The PNCI loans with similar characteristics were grouped together and were treated in the aggregate when applying the discount rate on the expected cash flows. Aggregation factors considered include the type of loan and related collateral, risk classification, fixed or variable interest rate, term of loan and whether or not the loan was amortizing. The discount rates used for the similar groups of loans are based on current market rates for new originations of comparable loans, where available, and include adjustments for credit and liquidity factors. In addition, the guarantee of certain retained SBA guaranteed loans is reflected in the fair value.

In estimating the fair value of PCI loans at the acquisition date, the Bank calculated the contractual amount and timing of undiscounted principal and interest payments and estimated the amount and timing of undiscounted expected principal and interest payments. The difference between these two amounts represented the nonaccretable difference. On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the acquired loans is the "accretable yield". The accretable yield is then measured at each financial reporting date and represented the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans. For PCI loans the accretable yield is accreted into interest income over the life of the estimated remaining cash flows. For additional information regarding the accounting for PCI loans, and acquired loans in general, see the discussion under the heading Loans and Allowances for Loan Losses: in note 1 above.

The following table reflects contractual cash flows, nonaccretable difference, accretable yield, fair value, purchase discount, and principal balance for the various loan categories as of the acquisition date. For PCI loans, the purchase discount does not necessary represent cash flows to be collected as a portion of it is a nonaccretable difference:

	April 25, 2014		
	Credit-impaired loans	Other purchased loans	Total
Contractually required payments including interest	$ 6,267,554	$ 55,609,499	$ 61,877,053
Less: nonaccretable difference	(1,691,462)	-	(1,691,462)
Cash flows expected to be collected (undiscounted)	4,576,092	55,609,499	60,185,591
Accretable difference	(79,567)	(1,142,871)	(1,222,438)
Fair value of purchased loans	$ 4,496,525	$ 54,466,628	$ 58,963,153

In estimating the fair value of the PCI loans at the acquisition, the Bank calculated the contractual amount and timing of undiscounted principal and interest payments and estimated the amount of undiscounted expected principal recovery using historic loss rates of estimated collateral values if applicable. The difference between these two amounts represents the nonaccretable difference. The bank used its estimate of the amount of undiscounted expected principal recorded as the fair value of the PCI loans. Interest income and principal reductions are recorded only when received. At each financial reporting date, the carrying value of each PCI loan is compared to an updated estimate of expected principal payment or recovery on each loan. To the extent that the loan carrying amount exceeds the updated expected principal payment or recovery, a provision of loan loss would be recorded as a charge to income and an allowance for loan loss established.

Deposits

The core deposit intangible asset represents the value ascribed to the long-term deposit relationships acquired and is being amortized over an estimated average useful life of four years. The estimated retention rates used to calculate the fair values were 95% for transaction, 95% of savings and 90% for money market deposits. The core deposit intangible is estimated not to have a significant residual value. The fair values for time deposits are estimated using a discounted cash flow calculation that applies interest rates offered by market participants as of the acquisition date on time deposits with similar maturity terms as the discount rates.

Pro Forma Results of Operations

The contribution of the acquired operations from the former Community Bank of San Joaquin to our results of operations for the 2014 is as follows:

	Revenue	Earnings
Actual from April 25, 2014 to December 31, 2014	$ 5,744,513	$ 2,811,543
2014 supplemental proforma from January 1, 2014 to April 24, 2014	1,146,000	(35,000)
2013 supplemental proforma from January 1, 2013 to December 31, 2013	4,610,325	(356,269)

These amounts include the bargain purchase gain, acquisition-related third party expenses, accretion of the discounts on acquired loans and amortization of the fair value mark on the investments, time deposits and core deposit intangible. Community Bank of San Joaquin's results of operations prior to the merger date are not included in the Bank's results for 2014. The contribution shown above excludes allocated overhead and allocated cost of funds.

Acquisition-related expenses are recognized as incurred and continue until all systems are converted and operational functions become fully integrated. We incurred third-party acquisition-related expenses in the following line items in the statement of income for the year ended December 31, 2014 as follows:

	December 31, 2014
Acquisition related expenses	
Professional fees	$ 475,670
Data processing	495,694
Severence expense	439,422
Other	169,214
Total	$ 1,580,000

3. INVESTMENTS

The amortized cost and estimated fair value of investment securities at December 31, 2014 consists of the following:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Municipal securities	$ 6,314,088	$ 79,180	$ (9,925)	$ 6,383,343
Corporate bonds	2,219,707	565	(2,698)	2,217,574
Mortgage-backed securities	2,889,835	12,154	(1,808)	2,900,181
Collateralized mortgage obligations	4,254,874	59	(16,925)	4,238,008
U.S. Government Agencies	739,551	27	-	739,578
U.S. Treasury	1,054,643	6,683	-	1,061,326
Total investment securities	$ 17,472,698	$ 98,668	$ (31,356)	$ 17,540,010

All securities are available-for-sale. The Bank held no investment securities as of December 31, 2013. In 2014, the Bank sold investment securities with a book value of $9,706,483, and recorded a total gain on sale of $94,394. None of the investments were sold at a loss.

The unrealized loans at December 31, 2014 are summarized and classified according to the duration of the loss period as follows:

	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Municipal securities	$ 3,444,158	$ (9,925)	$ -	$ -	$ 3,444,158	$ (9,925)
Corporate bonds	1,889,172	(2,698)	-	-	1,889,172	(2,698)
Mortgage-backed securities	459,615	(1,808)	-	-	459,615	(1,808)
Collateralized mortgage obligations	4,193,102	(16,925)	-	-	4,193,102	(16,925)
Total	$ 9,986,047	$ (31,356)	$ -	$ -	$ 9,986,047	$ (31,356)

Certain investment securities shown in the previous table have fair values less than amortized cost and therefore contain unrealized losses. The bank considers a number of factors including, but not limited to: (a) length of time and the extent to which the fair value has been less than the amortized costs, (b) the financial condition and near-term prospects of the issuer, (c) the intent and ability of the Bank to retain its investment for a period of time sufficient to allow for an anticipated recovery in value, (d) whether the debtor is current on interest and principal payments, and (e) general market conditions and the industry or sector-specific outlook. Management has evaluated all securities at December 31, 2104 and has determined that no securities are other than temporarily impaired.

At December 31, 2014, the Bank held 70 investment securities of which none were in a loss position for more than twelve months. These temporary unrealized losses relate principally to current interest rates for similar types of securities. The Bank anticipates full recovery of amortized cost with respect to these securities at maturity or sooner in the event of a more favorable market interest rate environment.

The amortized cost and estimated fair value of debt securities at December 31, 2014, by call date are shown below. Expected maturities will differ from contractual maturities because a borrower may have the right to call or pre-pay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 3,237,114	$ 3,232,918
Due after one year through five years	4,920,617	4,920,769
Due after five year through ten years	4,424,813	4,490,113
Due after ten years	4,890,154	4,896,210
Total	$ 17,472,698	$ 17,540,010

At December 31, 2014, available for sale securities in the in the amount of approximately $3,028,000 were pledged to secure borrowing arrangements with the Federal Home Loan Bank (see note 9).

4. LOANS

The Bank's loan portfolio at December 31, 2014 and 2013 is summarized below:

	2014	2013
Commercial	$ 72,296,572	$ 73,301,717
Construction and land	12,851,984	14,597,836
Commercial real estate	216,555,980	157,336,059
Residential real estate	23,694,363	8,568,694
Consumer	300,391	374,177
Total loans	$ 325,699,290	$ 254,178,483
Deferred loan fees and costs, net	(291,735)	(298,066)
Allowance for loan losses	(2,500,000)	(2,775,000)
Net loans	$ 322,907,555	$ 251,105,417

For the years ended December 31, 2014 and 2013, the Bank had $855,000 and $818,000, respectively, of impaired loans on nonaccrual. For the period ended December 31, 2014 and 2013, if interest had been accrued such income would have been approximately $83,000 and $109,000, respectively.

As of December 31, 2014 and 2013, the Bank's impaired and non-accrual originated and PNCI loans have a related allowance for loss as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2014					
With no related allowance recorded					
Commercial	$ 346,145	$ 346,145	$ -	$ 595,900	$ 26,780
Construction and land	-	-	-	-	-
Commercial real estate	2,057,621	2,057,621	-	2,074,981	131,621
Residential	240,547	240,547	-	265,900	18,687
Consumer	-	-	-	-	-
With an allowance recorded					
Commercial	$ 268,597	$ 268,597	$ 26,000	328,649	$ 20,195
Construction and land	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Residential	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 2,912,910	$ 2,912,910	$ 26,000	$ 3,265,430	$ 197,283
2013					
With no related allowance recorded					
Commercial	$ -	$ -	$ -	$ -	$ -
Construction and land	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Residential	-	-	-	-	-
Consumer	-	-	-	-	-
With an allowance recorded					
Commercial	$ 43,933	$ 43,933	$ 43,933	$ 51,081	$ 2,694
Construction and land	-	-	-	-	-
Commercial real estate	774,610	774,610	170,000	780,567	28,825
Residential	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 818,543	$ 818,543	$ 213,933	$ 831,648	$ 31,519

As of December 31, 2014 and 2013, the Bank had no loans 90 days delinquent and still accruing interest and troubled debt restructured loans that were not performing under the post–modification terms.

In 2014, one loan totaling $240,547 was restructured to extend the maturity date to allow for the orderly liquidation of the underlying collateral. This loan is on non-accrual. In 2014 and 2013, the Bank did not record a charged-off related to the restructured loans. As of December 31, 2014 and 2013, restructured loans have no related allowance.

As of December 31, 2014 and 2013, the Bank has fixed rate loans totaling $132.8 million and $98.8 million, respectively, and variable rate loans total $192.9 million and $155.4 million, respectively. As of December 31, 2014, variable rate loans with interest rate caps of 12% or lower total $53.2 million none of which have reached their caps, and a total of $169.6 million have interest rate floors all of which are at their floors. More than 88% 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, 2014 and 2013, a total of $16.0 million and $7.8 million, respectively, of variable rate loans are tied to the treasury constant maturity rate (CMT) as published by the Federal Reserve and adjust every five years. At December 31, 2014 and 2013, $3.0 million and none, respectively, of variable rate loans are tied other indexes and adjust every five years.

Loans are made primarily for business, personal, and real estate purposes concentrated in Contra Costa, Alameda, Santa Clara, San Joaquin, and Napa Counties. As of December 31, 2014, the Bank's loans outstanding comprised 71.2% term mortgage-type loans secured primarily by commercial real estate, 1.9% for the purpose of constructing commercial and residential property, 2.1% for the purpose of holding or acquiring unimproved land, 2.6% term mortgage-type loans secured by residential property, and 22.1% for general commercial uses including professional, retail, and small business. Less than 1% of Bank's loans are consumer loans.

As of December 31, 2014, the Bank's unsecured loans outstanding totaled 5.2% 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, 2014 and 2013, the single largest loan totaled $6.5 million and $6.6 million, respectively, and is secured by commercial real estate. As of December 31, 2014 and 2013, undisbursed commitments total $55.3 million and $51.2 million, respectively.

The Bank evaluates and assigns a risk grade to each loan based on certain criteria to assess the credit quality of each loan. The assignment of a risk rating is done for each individual loan. Loans are graded from inception and on a continuing basis until the debt is repaid. Any adverse or beneficial trends will trigger a review of the loan risk rating. Each loan is assigned a risk grade based on its characteristics. Loans with low to average credit risk are assigned a lower risk grade than those with higher credit risk as determined by the individual loan characteristics.

The Bank's pass loans includes loans with acceptable business or individual credit risk where the borrower's operations, cash flow or financial condition provides evidence of low to average levels of risk.

Loans that are assigned higher risk grades are loans that exhibit the following characteristics:

A special mention asset has potential weaknesses that deserve close attention. If left uncorrected, these potential weaknesses may result in a deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Special Mention assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification. Loans in this category would be characterized by any of the following situations.

- ♦ Credit that is currently protected but is potentially a weak asset.
- ♦ Credit that is difficult to manage because of an inadequate loan agreement, the condition of and/or control over collateral, failure to obtain proper documentation, or any other deviation from product lending practices.
- ♦ Adverse financial trends.

Special Mention should be a temporary rating, pending the occurrence of an event that would cause the risk rating to either improve or to be downgraded.

A substandard asset is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Assets are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. The potential loss does not have to be recognizable in an individual credit for that credit to be risk rated substandard. A loan can be fully and adequately secured and still be considered substandard. Some characteristics of substandard loans are:

- ♦ Inability to service debt from ordinary and recurring cash flow.
- ♦ Chronic delinquency
- ♦ Reliance upon alternative sources of repayment.
- ♦ Term loans that are granted on liberal terms because the borrower cannot service normal payments for that type of debt.
- ♦ Repayment dependent upon the liquidation of collateral.
- ♦ Inability to perform as agreed, but adequately protected by collateral.
- ♦ Necessity to renegotiate payments to a non-standard level to ensure performance.
- ♦ The borrower is bankrupt, or for any other reason, future repayment is dependent on court action.

Any asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and value, highly questionable and improbable. Doubtful assets have a high probability of loss, yet certain important and reasonably specific pending factors may work toward the strengthening of the asset. The Bank had no assets classified as doubtful as of December 31, 2014 and 2013.

Assets classified loss are considered uncollectible and of minimal value. Assets classified loss are charged off against the allowance for loan losses.

The following table summarizes the Bank's loan portfolio by credit quality and product and/or collateral type as of December 31, 2014 and 2013:

2014	Pass	Special Mention	Substandard	Total
Commercial	$ 71,269,890	$ -	$ 1,026,682	$ 72,296,572
Construction and land	12,851,984	-	-	12,851,984
Commercial real estate	214,498,359	-	2,057,621	216,555,980
Residential real estate	23,453,816	-	240,547	23,694,363
Consumer	300,391	-	-	300,391
Total	$ 322,374,440	$ -	$ 3,324,850	$ 325,699,290

2013	Pass	Special Mention	Substandard	Total
Commercial	$ 68,188,022	$ -	$ 5,113,695	$ 73,301,717
Construction and land	14,597,836	-	-	14,597,836
Commercial real estate	154,063,026	-	3,273,033	157,336,059
Residential real estate	8,277,440	291,254	-	8,568,694
Consumer	374,177	-	-	374,177
Total	$ 245,500,501	$ 291,254	$ 8,386,728	$ 254,178,483

The following table provides an aging of the Bank's loans receivable as of December 31, 2014 and 2013.

2014	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	PCI Loans	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
Commercial	$ 398,597	$ -	$ 95,937	$ 494,534	$ 71,802,038	$ -	$ 72,296,572	-
Construction and land	-	-	-	-	12,851,984	-	12,851,984	-
Commercial real estate	-	-	-	-	214,444,187	2,111,793	216,555,980	-
Residential	-	-	-	-	23,694,363	-	23,694,363	-
Consumer	-	-	-	-	300,391	-	300,391	-
Total	$ 398,597	$ -	$ 95,937	$ 494,534	$ 323,092,963	$ 2,111,793	$ 325,699,290	$ -
2013								
Commercial	$ -	$ 500,000	$ 43,933	$ 543,933	$ 72,757,784	$ -	$ 73,301,717	-
Construction and land	-	-	-	-	14,597,836	-	14,597,836	-
Commercial real estate	-	-	774,610	774,610	156,561,449	-	157,336,059	-
Residential	-	-	-	-	8,568,694	-	8,568,694	-
Consumer	-	-	-	-	374,177	-	374,177	-
Total	$ -	$ 500,000	$ 818,543	$ 1,318,543	$ 252,859,940	$ -	$ 254,178,483	$ -

The following table reflects contractual cash flows, nonaccretable difference, accretable yield, fair value, purchase discount, and principal balance as of December 31, 2014.

	Credit-impaired loans
Contractually required payments including interest	3,195,518
Less: nonaccretable difference	(1,062,654)
Cash flows expected to be collected (undiscounted)	2,132,864
Accretable yield	(21,071)
Fair value of purchased loans	$ 2,111,793

The following table is a summary of the change in accretable yield for PCI loans for the period ended December 31, 2104.

	December 31, 2014
Balance at beginning of period	$ -
Additions	79,567
Removals	(31,511)
Accretion	(26,985)
Balance at end of period	$ 21,071

There were not PCI loans with accretable yield in 2013.

5. ALLOWANCE FOR LOAN LOSSES

The following table summarizes the Bank's allowance for loan losses for the year ended December 31, 2014 and 2013 by loan product and collateral type:

2014	Commercial	Construction and Land	Commercial Real Estate	Residential	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 1,320,000	$ 105,000	$ 1,184,000	$ 25,000	$ 1,000	$ 140,000	$ 2,775,000
Charge-offs	(1,111,976)		(355,550)				(1,467,526)
Recoveries	118,741						118,741
Provision	1,001,235	177,000	(308,450)	252,000	2,000	(50,000)	1,073,785
Ending balance	$ 1,328,000	$ 282,000	$ 520,000	$ 277,000	$ 3,000	$ 90,000	$ 2,500,000
Allowance for loan loss related to loans individually evaluted for impairment	$ 26,000	$ -	$ -	$ -	$ -	$ -	$ 26,000
Balance of loans individually evaluated for impairment	614,742	-	2,057,621	240,547	-	-	2,912,910
Allowance for loan loss related to loans collectively evaluted for impairment	1,302,000	282,000	520,000	277,000	3,000	90,000	2,474,000
Balance of loans collectively evaluated for impairment	71,681,830	12,851,984	214,498,359	23,453,816	300,391	-	322,786,380
Ending balance	$ 72,296,572	$ 12,851,984	$ 216,555,980	$ 23,694,363	$ 300,391	-	$ 325,699,290

2013	Commercial	Construction and Land	Commercial Real Estate	Residential	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 1,440,000	$ 110,000	$ 1,044,000	$ 20,000	$ 1,000	$ 85,000	$ 2,700,000
Charge-offs	(676,004)	-	(125,902)	-	-	-	(801,906)
Recoveries	508,538	-	4,782	15,318	-	-	528,638
Provision	47,466	(5,000)	261,120	(10,318)	-	55,000	348,268
Ending balance	$ 1,320,000	$ 105,000	$ 1,184,000	$ 25,000	$ 1,000	$ 140,000	$ 2,775,000
							-
Allowance for loan loss related to loans individually evaluted for impairment	$ 43,933	$ -	$ 170,000	$ -	$ -	$ -	$ 213,933
Balance of loans individually evaluated for impairment	43,933	-	774,610	-	-	-	818,543
Allowance for loan loss related to loans collectively evaluted for impairment	1,276,067	105,000	1,014,000	25,000	1,000	140,000	2,561,067
Balance of loans collectively evaluated for impairment	73,257,784	14,597,836	156,561,449	8,568,694	374,117	-	253,359,880
Ending balance	$ 73,301,717	$ 14,597,836	$ 157,336,059	$ 8,568,694	$ 374,117	-	$ 254,178,423

6. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31, 2014 and 2013:

	2014	2013
Furniture, fixtures and equipment	$ 1,768,845	$ 1,470,427
Leasehold improvements	919,144	722,452
Less accumulated depreciation and amortization	(1,422,926)	(1,020,937)
Total premises and equipment, net	$ 1,265,064	$ 1,171,942

Depreciation and amortization included in occupancy and equipment expense total $411,464 for the year ended December 31, 2014 and $406,550 for the year ended December 31, 2013.

The Bank leases its branches and administration office under noncancelable operating leases. These leases expire on various dates through 2023. All leases have options to renew for five years. Future minimum lease payments are as follows:

Year Ending December 31,	
2015	805,608
2016	751,345
2017	649,318
2018	555,558
2019	429,898
Thereafter	1,439,928
	$ 4,631,655

Rental expense included in occupancy and equipment expense totals $861,975and $846,481for the years ended December 31, 2014 and 2013, respectively.

7. OTHER REAL ESTATE OWNED

Other real estate owned as of December 31, 2014 and 2013 consisted of the following:

	2014	2013
Commercial real estate	$ 2,592,844	$2,040,000
Allowance for loss	(490,000)	-
Total	$ 2,102,844	$2,040,000

8. DEPOSITS

Deposits consisted of the following at December 31, 2014 and 2013:

	2014	2013
Demand deposits	$ 124,228,498	$ 58,017,136
NOW accounts and Savings	42,760,922	15,620,898
Money market	143,028,203	101,038,390
Time – less than $250,000	70,694,530	62,354,107
Time – $250,000 or more	57,229,188	49,433,911
Total deposits	$ 437,941,341	$ 286,464,442

At December 31, 2014 and 2013, the weighted average stated rate is 0.54% and 0.74%, respectively. At December 31, 2014, approximately $69.6 million, or 15.9%, of the Bank's deposits are derived from eight (8) depositors. At December 31, 2013, approximately $42.2 million, or 14.7%, of the Bank's deposits are derived from seven (7) 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 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 $10.7 million and $7.7 million at December 31, 2014 and 2013, respectively. Average deposit balances for this activity totaled $9.8 million and $8.5 million during 2014 and 2013, respectively.

At December 31, 2014, aggregate annual maturities of time deposits are as follows:

Year Ending December 31,	
2015	$ 86,411,316
2016	19,990,323
2017	16,262,274
2018	3,588,288
2019	1,376,002
Thereafter	295,515
	$ 127,923,718

Interest expense, net of early withdrawal penalty, recognized on interest-bearing deposits for the years ended December 31, 2014 and 2013 consists of the following:

	2014	2013
NOW accounts and savings	55,603	58,338
Money market	912,105	678,212
Time-less than $250,000	749,011	776,261
Time $250,000 or more	793,987	553,137
Total	$ 2,510,706	$ 2,065,948

9. OTHER BORROWINGS

Other borrowings for the period ending and as of December 31, 2014 and 2013 are as follows:

	2014	2013
Outstanding balance	$ 6,000,000	$ 2,000,000
Interest rate	0.41%	0.70%
Average balance	$ 4,614,836	$ 2,000,000
Average interest rate	1.49%	0.70%
Maximum balance	$ 30,750,000	$ 2,000,000

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. There was $6.0 million and $2.0 million outstanding under this facility at December 31, 2014 and 2013, respectively.

The Bank has two Federal Funds lines with available balances totaling $9.0 million with two correspondent banks. There are no amounts outstanding under these facilities at December 31, 2014 and 2013.

10. INCOME TAXES

Income taxes expense for the years ended December 31, 2014 and 2013 are as follows:

	2014		2013	
	Federal	State	Federal	State
Current income taxes	$ 1,512,988	$ 504,692	$ 1,019,000	$ 422,800
Deferred income taxes, net	(248,188)	(52,192)	377,600	79,400
Total provision for income taxes	$ 1,264,800	$ 452,500	$ 1,396,600	$ 502,200

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, 2014 and 2013 consist of the following:

	2014		2013	
	Amount	Rate %	Amount	Rate %
Federal statutory tax rate	$ 2,344,548	34.00%	$ 1,566,588	34.00%
State statutory tax rate, net of Federal effective tax rate	493,045	7.15%	329,444	7.15%
Tax Exempt Interest	(36,851)	-0.54%	-	0.00%
Stock Based Compensation	38,493	0.56%		
Bargain purchase gain	(946,900)	-13.73%	-	0.00%
Acquisition expenses	48,857	0.71%	-	0.00%
Other	(223,892)	-3.25%	2,768	0.04%
Total income tax expense	$ 1,717,300	24.90%	$ 1,898,800	41.19%

Deferred tax assets at December 31, 2014 and 2013, included as a component of other assets in the Statement of Financial Condition, consisted of the following:

Deferred tax assets, net of liabilities:	2014	2013
Net operating loss carryforward	$ 3,738,335	$ 1,223,497
Mark to market adjustments	1,246,780	340,594
Amortization of start up costs	265,966	295,418
Write down of OREO	88,317	-
Allowance for loan losses	1,347,129	682,663
Deferred loan fees net of costs	(35,462)	122,654
Stock based compensation	2,006	42,968
Stock dividend	(68,401)	(12,717)
Unrealized Loss on AFS Securities	299,446	-
Other	224,818	12,923
Total deferred tax assets	$ 7,108,934	$ 2,708,000

The utilization of the net operating losses is subject to an annual limit and begins expiring in 2029. As of December 31, 2014 and 2013, 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.

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 2011 for its federal filings and 2010 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, 2014 and 2013, undisbursed commitments total $55,293,000 and $51,157,000, respectively. In addition, at December 31, 2014 and 2013, the Bank issued letters of credit totaling $1,591,000 and $2,001,000, respectively, which represent guarantees of obligations of Bank 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, 2014 and 2013, the reserve associated with these commitments is $260,000 and $75,000, respectively.

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, 2014 and 2013, the FHLB issued a letter of credit on behalf of the Bank totaling $9,000,000 and $7,500,000, respectively, as collateral for local agency deposits.

Litigation and Legal Claims

In the normal course of business, the Bank maybe subject to claims and lawsuits. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits, if any, will not have a material adverse effect on the financial position of the Bank.

12. EMPLOYEE BENEFIT PLANS

401(k) Plan

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, 2014 and 2013 the Bank made contributions to the plan of $67,000 and $67,000, respectively.

Salary Continuation Plan

In 2014, the Bank implemented a salary continuation plan for one executive officer. Under this agreement, the Bank is obligated to provide the executive, or his designated beneficiaries, with annual benefits for fifteen years after retirement or death. These benefits are substantially equivalent to those available under insurance policies purchased by the Bank on the live of the executive. The estimated present value of these future benefits are accrued over the period from the effective date of the agreement until the executives expected retirement date.

The expense recognized under these agreements totaled $165,000 for the year ended December 31, 2014, and is included in salaries and employee benefits expense in the income statement. No expenses were recognized in 2013.

In connection with this agreement, the Bank invested in single premium life insurance policies with a cash surrender value totaling $2,974,602 at December 31, 2014. Income from these policies, net of expenses, resulted in a net expense totaling $25,398 for the year ended December 31, 2014, and is included in other non-interest income in the income statement.

13. EQUITY INCENTIVE PLANS

2014 Omnibus Equity Incentive Plan

In 2014, the shareholders approved the Omnibus Equity Incentive Plan (Plan) at the 2014 Annual Meeting. The Plan provides for the awarding by the Bank's Board of Directors of equity incentive awards to employees and non-employee directors. An equity incentive award may be an option, stock appreciation rights, restricted stock units, stock award, other stock-based award or performance award granted under the Plan. Factors considered by the Board in awarding equity incentives 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, awards are restricted and have a vesting period of not longer than ten years. Subject to adjustment as provided in the Plan, the maximum number of shares of Common Stock that may be delivered pursuant to Awards granted under the Plan is 300,000.

As of December 31, 2014, pursuant to the Plan, 95,796 shares of restricted common stock were granted to officers and directors. The shares vest over between three and five years. None are vested as of December 31, 2014. The following table provides the restricted stock grant activity for 2014.

	2014	
	Number of Shares	Weighted Average Market value at gratnt
Balance at beginning of the year	-	$ -
Granted	95,796	10.96
Exercised	-	-
Terminated	-	-
Expired	-	-
Balance at end of the year	95,796	$ 10.96

As of December 31, 2014, 53,556 vest over five years and 42,240 vest over three years. As of December 31, 2014, expenses totaling $113,215 were recorded, and unrecognized compensation cost related to non-vested stock was $936,700. The total tax benefit related to restrict stock grants was $47,000 during 2014.

<u>2004 Stock Option Plan</u>
The 2004 Stock Option Plan (Stock Option Plan) expired in 2014. The Stock Option Plan required 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. No additional stock options will be granted under the Stock Option Plan.

As of December 31, 2014, a total of 64,488 options remain outstanding pursuant to the Stock Option Plan under incentive and nonstatutory agreements. To date options to acquire 29,794 shares of common stock have been exercised. No options were granted in 2014 or 2013.

The following table provides the stock option activity for the year ending December 31, 2014:

	2014	
	Number of Shares	Weighted Average Exercise Price
Balance at beginning of the year	401,688	$ 10.10
Granted	-	-
Exercised	(20,000)	10.00
Terminated	(148,000)	10.27
Expired	(169,200)	10.11
Balance at end of the year	64,488	$ 9.40

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, 2014 and 2013:

	2014	2013
Weighted-average fair value of options granted during the year	$ -	$ -
Intrinsic value of options exercised	$ 35,000	-
Options exercisable at year end:	64,488	401,688
Weighted-average exercise price	$ 9.40	$ 10.10
Intrinsic value	$ 161,527	$ 37,250
Weighted-average remaining contractual life	1.6 years	1.8 years
Options outstanding at year end:	64,488	401,688
Weighted-average exercise price	$ 9.40	$ 10.10
Intrinsic value	$ 161,527	$ 37,250
Weighted-average remaining contractual life	1.6 years	1.8 years

As of December 31, 2014, 16,500 incentive stock options and 47,988 non-qualified stock options are outstanding. As of December 31, 2014, there is no unrecognized compensation cost related stock options. In 2014, options to acquire 20,000 shares of common stock were exercised. None were exercised in 2013. No tax benefits related to non-qualified stock options were recorded during 2014 and 2013.

14. REGULATORY MATTERS

Dividends

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, 2014, $12.7 million 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, 2014 and 2013, 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.

	2014		2013	
Leverage Ratio	Dollars	Ratio	Dollars	Ratio
Bay Commercial Bank	$ 54,175	10.7%	$ 52,260	15.7%
Minimum requirement for "Well-Capitalized"	25,389	5.0%	16,687	5.0%
Minimum regulatory requirement	20,311	4.0%	13,350	4.0%
Tier 1 Risk-Based Capital Ratio				
Bay Commercial Bank	$ 54,175	15.8%	$ 52,260	19.5%
Minimum requirement for "Well-Capitalized"	20,604	6.0%	16,084	6.0%
Minimum regulatory requirement	13,736	4.0%	10,723	4.0%
Total Risk-Based Capital Ratio				
Bay Commercial Bank	$ 56,675	16.5%	$ 55,035	20.5%
Minimum requirement for "Well-Capitalized"	34,341	10.0%	26,807	10.0%
Minimum regulatory requirement	27,472	8.0%	21,446	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, 2014 and 2013:

	2014	2013
Balance, beginning	$ 6,447,712	$1,664,145
Disbursements	2,943,980	5,833,867
Amounts repaid	(1,976,552)	(1,050,300)
Balance, ending	$ 7,415,140	$6,447,712
Undisbursed commitments to related parties	$ 2,200,000	$6,097,117
Letters of credit issued for related parties	$ -	$ -

At December 31, 2014 and 2013, the Bank's deposits included deposits from related parties which total approximately $11.4 million and $8.7 million, respectively.

14. OTHER EXPENSES

For the years ended December 31, 2014 and 2013, respectively, other expenses consist of the following:

	2014	2013
Professional fees	$ 464,981	$ 301,960
Insurance including FDIC Premiums	419,725	246,212
Marketing and promotions	285,440	151,670
Stationery and supplies	223,471	168,946
Other	222,178	108,436
Communication and postage	152,168	95,032
Director fees	138,000	84,000
Loan default related expenses	108,675	125,438
Bank service charges	90,661	73,385
Courier Expense	50,656	38,787
Write-down on OREO	490,000	-
Total other expenses	$ 2,645,955	$ 1,393,866

The Bank expenses marketing and promotions costs as they are incurred. Advertising expense, included in marketing and promotions, total $121,900 and $30,800 for the years ended December 31, 2014 and 2013, respectively.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables present information about the Bank’s assets and liabilities measured at fair value as of December 31, 2014 and 2013, and the fair value techniques used to determine such fair value. The fair value hierarchy 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 include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 - Inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the hierarchy. In such cases, the lowest level of inputs that is significant to the measurement is used for to determine the hierarch for the entire asset or liability.

As of December 31, 2014, the following assets are measured at fair value on a recurring basis.

	As of December 31, 2014			
	Total	Level 1	Level 2	Level 3
Fair Value Hierarchy:				
Municipal securities	$ 6,383,343	$ -	$ 6,383,343	$ -
Corporate bonds	2,217,574	-	2,217,574	-
Mortgage-backed securities	2,900,181	-	2,900,181	-
Collateralized mortgage obligations	4,238,008	-	4,238,008	-
U.S. Government Agencies	739,578	-	739,578	-
U.S. Treasury	1,061,326	-	1,061,326	-
Total at fair value	$ 17,540,010	$ -	$ 17,540,010	$ -

As of December 31, 2013, the Bank held no assets that are measured at fair value on a recurring basis. As of December 31, 2014 and 2013, the Bank held no liabilities that are measured at fair value on a recurring basis.

The following table presents the recorded amount of assets measured at fair value on a non-recurring basis as of December 31, 2014 and 2013:

	Fair	Fair Value Measure		
2014	Value	Level 1	Level 2	Level 3
Other real estate owned	$ 2,102,844	$ -	$ -	$ 2,102,844
Total impaired assets measured at fair value	$ 2,102,844	$ -	$ -	$ 2,102,844

	Fair	Fair Value Measure		
2013	Value	Level 1	Level 2	Level 3
Impaired loans	$ 818,543	$ -	$ -	$ 818,543
Other real estate owned	2,040,000	-	-	2,040,000
Total impaired assets measured at fair value	$ 2,858,543	$ -	$ -	$ 2,858,543

The following table presents quantitative information about level 3 fair value measurements for the financial instruments measured at fair value on a nonrecurring basis at December 31, 2014:

	Fair Value	Valuation Technique	Unobservable Inputs	Range Weighted Average
Other real estate owned:				
Commericial real estate	2,017,820	Sales comparison appoach	Adjustment for difference between comparable sales	-30% - 46%, 8%
Residential	85,024	Sales comparison appoach	Adjustment for difference between comparable sales	-52% - 0%, 26%

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. 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 OREO at fair value on a non-recurring basis based on the collateral value of the property. 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 OREO 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 following methods and assumptions were used to estimate the fair value disclosure for financial instruments:

Cash and cash equivalents - Cash and cash equivalents include cash and due from banks, 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.

Interest bearing deposits in banks – Interest bearing deposits in banks are valued based on quoted interest rates for comparable instruments with similar remaining maturities.

Investment Securities – The fair value of available of sale securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are estimated using quoted market prices for similar securities and indications of value provides by brokers.

Other equity securities – The carrying value of the FHLB and FRB 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.

Cash surrender value of life insurance policies: The fair value of the cash surrender value of life insurance policies is based on the current cash surrender value provided aby the issuers.

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.
Other borrowings – The fair value is estimated by discounting the future cash flows using current rates offered for similar borrowings. The discount rate is equal to the market rate of currently offered similar products.

Undisbursed loan commitments and standby letters of credit - The fair value of the off-balance sheet items are based on discounted cash flows of expected fundings.

The carrying amounts and fair values of the Bank's financial instruments at December 31, 2014 and 2013 are presented below.

2014	Carrying Amount	Fair value	Fair value measurements Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	$ 135,196,420	$ 135,196,420	$ 135,196,420	-	-
Interest bearing deposits in banks	10,084,760	10,084,760	10,084,760	-	-
Investment securities	17,540,010	17,540,010	-	$ 17,540,010	-
Other equity securities	2,858,950	2,858,950	-	2,858,950	-
Loans, net	322,907,555	322,534,099	-	322,534,099	-
Cash surrender value of life insurance policies	2,974,602	2,974,602		2,974,602	
Accrued interest receivable	1,219,606	1,219,606	-	1,219,606	-
Financial Liabilities:					
Accrued interest payable	66,176	66,176	-	66,176	-
Deposits	437,941,341	438,632,779	310,017,623	128,615,156	-
Federal Home Loan Bank advances	6,000,000	6,004,500	-	6,004,500	-
Off-balance sheet liabilities:					
Undisbursed loan commitments	-	260,000	-	-	260,000

2013	Carrying Amount	Fair value	Fair value measurements Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	$ 71,649,365	$ 71,649,365	$ 71,649,365	-	-
Interest bearing deposits in banks	9,331,430	9,331,430	9,331,430	-	-
Other equity securities	2,250,300	2,250,300	-	$ 2,250,300	-
Loans, net	251,105,417	251,844,000	-	251,025,457	$ 818,543
Accrued interest receivable	789,294	789,294	-	789,294	-
Financial Liabilities:					
Accrued interest payable	69,542	69,542	-	69,542	-
Deposits	286,464,442	288,108,565	178,004,821	110,103,744	-
Federal Home Loan Bank advances	2,000,000	2,004,500	-	2,004,500	-
Off-balance sheet liabilities:					
Undisbursed loan commitments	-	75,000	-	-	75,000