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

April 21, 2009

Dear Fellow Shareholders:

You are cordially invited to attend the 2009 Annual Meeting of Shareholders (the "Annual Meeting") of Bay Commercial Bank (the "Bank"), to be held on April 21, 2009, at 4:00 p.m. local time, in the Board room of the Bank at 1280 Civic Drive, Suite 100, Walnut Creek, California, 94596. Enclosed are the Notice of the Annual Meeting, a Proxy Statement describing the business to be transacted at the Annual Meeting, and proxy cards for use in voting at the Annual Meeting. A copy of the Bank's Annual Report for the period ending December 31, 2008 (the "2008 Annual Report") accompanies the Proxy Statement.

At the Annual Meeting, shareholders will be asked:

(i) to elect seven (7) of the seven (7) authorized directors of the Bank to serve for one-year terms; and

(ii) to approve the Branch Purchase and Assumption Agreement, dated as of February 6, 2009, for the purchase of assets and assumption of liabilities at the Castro Valley Branch of Community Banks of Northern California; and

(iii) to ratify the Board of Directors' selection of Moss Adams LLP, independent public accountants, as the independent accounting firm for the Bank during the fiscal years ending December 31, 2008.

We hope that you will be able to attend the Annual Meeting. In any event, please complete, date, sign, and promptly return the appropriate enclosed proxy for the Common Stock.

Sincerely yours,

James L. Apple	George J. Guarini
Chairman of the Board	Chief Executive Officer

You are urged to complete, date, sign, and promptly return your proxy card(s) in the enclosed envelope whether or not you plan to attend the Annual Meeting.

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

PROXY STATEMENT
FOR THE ANNUAL MEETING OF SHAREHOLDERS

This Proxy Statement is furnished in connection with the solicitation of the enclosed proxy by, and on behalf of, the Board of Directors of Bay Commercial Bank (the “Bank"), a California corporation. The enclosed proxy is for use at the Annual Meeting of Shareholders of the Bank to be held on April 21, 2009, at 4:00 p.m. local time, in the Board room of the Bank, 1280 Civic Drive, Suite 100, Walnut Creek, California, 94596 and at all postponements or adjournments thereof (the "Annual Meeting").

Purpose of the Annual Meeting

At the Annual Meeting, holders of the Bank's Common Stock will be asked to act on the following proposals:

1. To elect seven (7) of the seven (7) authorized directors of the Bank to serve for one-year terms; and

2. To approve the Branch Purchase and Assumption Agreement, dated as of February 6, 2009, for the purchase of assets and assumption of liabilities at the Castro Valley Branch of Community Banks of Northern California (the “Branch Purchase Agreement”); and

3. To ratify the Board of Directors' selection of Moss Adams, LLP independent public accountants, as the independent accounting firm for the Bank for the fiscal year ending December 31, 2008.

Voting Securities

Only shareholders of record on March 11, 2009 (the "Record Date") are entitled to notice of and to vote at the Annual Meeting. At the close of business on that Record Date, the Bank had outstanding one million five hundred forty-nine thousand, seven hundred and ninety-four (1,549,794) shares of its Common Stock.

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

Cumulative voting allows a shareholder to cast a number of votes equal to the number of directors to be elected multiplied by the number of shares held in his or her name on the Record Date. No shareholder can cumulate votes unless, prior to such Annual Meeting, the shareholder has given notice of the intent to cumulate. If any shareholder has given notice to cumulate, all shareholders may cumulate their votes for candidate in nomination. The total number of cumulative votes can be cast for one nominee or may be distributed among as many candidates as the shareholder desires. The seven (7) candidates receiving the highest number of votes shall be elected. The Board of Directors does not, at this time, intend to give such notice or to cumulate the votes it may hold pursuant to the proxies solicited herein unless the required notice by a shareholder is given. Therefore, discretionary authority to cumulate votes in such event is solicited in this Proxy Statement.

Votes against or withheld with respect to the election of Directors shall have no legal effect. Abstentions are counted for purposes of determining a quorum.

PROXY STATEMENT
(continued)

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 of the Bank, at the principal executive offices of the Bank. In addition, a shareholder giving a proxy in any of the forms accompanying this Proxy Statement may revoke it by attending the Annual Meeting and electing to vote in person, before any vote is taken.

Votes Required

Holders of the Common Stock are entitled to vote on each of the proposals to be presented at the Annual Meeting. The following paragraphs explain, for each proposal, the vote required for adoption. In each case, a quorum must be present for the vote to be valid.

PROPOSAL ONE: ELECTION OF DIRECTORS, as to the directors, the validly-nominated nominees for election as directors, who rank first, second, third, fourth, fifth, sixth, and seventh in number of votes received from holders of the Common Stock represented and voting together as a single class, will be elected as directors, in each case even if some or all of such nominees receive less than a majority of the total votes.

PROPOSAL TWO: APPROVAL OF THE BRANCH PURCHASE AGREEMENT requires the affirmative vote of a majority of the outstanding shares of Common Stock of the Bank. Based on 1,549,794 outstanding shares of Bank Common Stock as of the Record Date, approval of Proposal Two requires the affirmative vote of at least 774,898 shares of Bank Common Stock represented and voting at the Annual Meeting.

PROPOSAL THREE: RATIFICATION OF SELECTION OF INDEPENDENT ACCOUNTING FIRM FOR 2008 requires an affirmative vote of the holders of a majority of the shares of the Common Stock represented.

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 such shares will be counted as represented at the Annual Meeting, and because the success of the proposals (other than the election of directors) is measured based on the number of affirmative votes out of the number of shares represented at the Annual Meeting, abstentions will have the effect of a negative vote.

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 but will have the same effect as a vote against the other proposal.

Unless otherwise instructed, each valid proxy returned which is not revoked will be voted FOR the election as directors of the persons specified on such proxy card, FOR the other proposal, 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).

Solicitation of Proxies

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

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.

Annual Report

A copy of the Bank's 2008 Annual Audited Financial Report for December 31, 2008 (the "2008 Annual Report") is attached. Additional copies of the 2008 Annual Report are available without cost upon request by writing to Keary L. Colwell, Chief Financial Officer, Bay Commercial Bank, 1280 Civic Drive, Suite 100, Walnut Creek, California 94596.

Market Makers

The Bank's Common Stock is not traded on an exchange. 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.*

PROXY STATEMENT
(continued)

Security Ownership of Certain Beneficial Owners and Management

The Bank is aware of one beneficial owner, Black River BancVenture, Inc., holding five percent (5%) or more of the Common Stock as of December 31, 2008.

The following table shows the beneficial ownership of directors, Named Executive Officers, and directors and Named Executive Officers as a group as of December 31, 2008:

Name of Beneficial Owner	Number of Shares of Common Stock	Percentage Owned	Stock Options Granted
James L. Apple, Chairman	20,000	1.3%	14,692
George J. Guarini, Director, President, and Chief Executive Officer	20,550	1.3%	107,092
James S. Camp, Director	54,600	3.5%	14,692
Lloyd W. Kendall, Jr., Director	30,000	1.9%	24,692 (1)
Robert G. Laverne, Director	20,000	1.3%	14,692
Donald S. Morrow, Director	10,000	0.6%	-
David M. Spatz, Director	24,700	1.6%	14,692
A. Dean Abercrombie Chief Credit Officer and Executive Vice President	-	0.0%	10,000
Keary L. Colwell Chief Financial Officer, Secretary, and Executive Vice President	2,000	0.1%	25,400
Janet L. King Chief Operating Officer and Executive Vice President	500	0.0%	25,400
Directors and Named Executive Officers as a Group (ten persons)	182,350	11.8%	251,352

(1) Mr. Kendall was granted an option to acquire 10,000 shares of common stock for legal and consulting services related to the Bank's Bankers Exchange Services Division.

Board of Directors

The bylaws of the Bank presently provides that the number of directors of the Bank, within a specified range, is subject to adjustment by resolution of the Board of Directors, and the Board of Directors has adopted a resolution setting the number of directors at seven (7). Each director serves for a term ending on the date of the next annual meeting of the shareholders. All directors are presently serving until the Annual Meeting. Notwithstanding the above, each director serves pursuant to the bylaws until his successor is duly elected and qualified or until his death, resignation or removal.

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

No vacancy on the Board of Directors will exist after the election of directors pursuant to **PROPOSAL ONE.**

Directors.

Seven (7) Directors each hold 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.

Committees of the Board of Directors

The Bank's Board of Directors held eleven (11) regularly scheduled and two (2) special meetings in 2008. Mr. Morrow attended 69% of all board meetings in 2008. All other members of the Board attended at least 75% of all board meetings in 2008.

The Executive Committee of the Board of Directors presently includes directors Messrs’ Apple, Guarini, Spatz, and Camp. The Executive Committee is responsible for considering the qualifications of individuals to serve as directors and recommending a slate of directors for election at the annual meeting. This Committee met once (1) in 2008. All members of the Committee attended 100% of all Committee meetings in 2008.

The Bank's Human Resources/Compensation Committee presently includes directors Messrs' Apple, Spatz and Camp. This Committee has responsibility for all personnel and compensation policy matters pertaining to Bank employees, officers and directors. It also monitors the Bank's compliance with laws and regulations applicable uniquely to the protection of employees and officers. This Committee met three (3) times in 2008. All members of the Committee attended 100% of all Committee meetings in 2008.

The Bank's Audit Committee presently includes outside directors Messrs' Kendall, Apple, and Laverne. This Committee is responsible for monitoring compliance with regulations, and monitoring the Bank's relationship with its primary regulators, the FDIC and Department of Financial Institutions. This Committee met seven (7) times in the 2008. All other members of the Committee attended at least 75% of all Committee meetings in 2008.

The Bank's Loan Committee presently includes directors Messrs' Apple, Spatz, Morrow, and Guarini. The Committee examines and approves loans above a specified size and monitors regular reviews of the entire loan portfolio. This Committee is responsible for lending, credit policies and monitors compliance with such policies. This Committee met forty-five (45) times in 2008. Mr. Apple attended 73% of all loan committee meetings. All other members of the Committee attended at least 75% of all Committee meetings in 2008.

The Bank's Asset Liability Committee presently includes outside directors Messrs' Apple, Laverne, and Camp. This Committee is responsible for asset liability management and investment policies. The Committee monitors liquidity, interest rate risk and securities activities. This Committee met ten (10) times in the 2008. Mr. Kendall was appointed to the Asset Liability Committee in September 2008. He attended two of the three meetings or 67% in 2008. All other members of the Committee attended at least 75% of all Committee meetings in 2008.

Board of Directors' Compensation

Until 2009, the Bank did not pay director fees to any non-employee Director for attendance at Board meetings and Committee meetings which are held monthly. Beginning in 2009, each outside director is paid a retainer of $500 per month.

Executive Officers and Other Significant Officers (the "Named Executives")

Each executive officer is selected annually by the Board of Directors pursuant to provisions of the bylaws of the Bank. In addition, the Bank periodically enters into employment agreements with certain executive officers. See "Employment Agreements" below. The following are all of the executive officers of the Bank (the "Named Executives"), their occupations for the previous five years, ages and the lengths of service as an officer.

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

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

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

Mr. Abercrombie has served as Executive Vice President and Chief Credit Officer of the Bank since October 2008. Prior to joining the Bank he served as Chief Credit Officer for Community Bank of the Bay from 2002 to 2005, and from 2005 to October 2008 he held senior lending positions at Bank of Petaluma and Wells Fargo Bank. At December 31, 2008, Mr. Abercrombie was 57 years of age.

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

Ms. Colwell has served as Executive Vice President, Chief Financial Officer and Secretary of the Bank since 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, 2008, Ms. Colwell was 49 years of age.

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

Ms. King has served as Executive Vice President and Chief Operating Officer of the Bank since incorporation in March 2004. Prior to joining the Bank, she served as Chief Branch Administrative Officer of Circle Bank. At December 31, 2008, Ms. King was 46 years of age.

Executive Compensation

Decisions on the compensation of the Bank's and the Bank's executives are generally made by the Bank's Human Resources/Compensation Committee. The voting members with regard to named executive compensation are outside directors of the Board of Directors of the Bank. All decisions by these Committees relating to the compensation of the Bank's executive officers are reviewed by the Bank's full Board of Directors. Set forth below is a report of the Personnel/Compensation Committee addressing the Bank's compensation policies for 2008 as they affected the Named Executives of the Bank serving at the end of 2008, whose compensation in 2008 is shown in the "Executive Compensation Tables" below.

Compensation Committee Interlocks and Insider Participation

The voting members of the Bank's Personnel/Compensation Committee, which during 2008 consisted of Messrs' Spatz, Camp and Apple, make decisions with respect to the compensation of the Named Executives. There are no director interlocks. During 2008, the Bank's Human Resource/Compensation Committee held three (3) meetings.

Personnel and Compensation Committee's Report on Executive Compensation

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

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

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

The Bank's compensation program includes base salary, annual bonus, a stock option plan, a severance plan, and other benefits. The Bank has entered into contracts with the Named Executives on the terms described below.

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.

Annual Bonus
The purpose of the annual bonus is to provide incentive for achieving defined target performance levels based on the Bank's annual business and profit plan. The annual goals typically include objectives regarding earnings, loan and deposit growth, asset quality, operating efficiency, and regulatory examinations. Annual bonus awards are determined based on the Bank's performance and the performance of the individual executive. The Committee awarded an annual bonus for 2008 which was paid in 2009.

Stock Option Plan
The purpose of the stock option plan is to serve as a long-term incentive program by directly tying rewards to the long-term success of the Bank and increases in shareholder value. Many of the options granted to the executive officers were granted as an inducement to attract and retain executives with the required talent and experience to manage the Bank through its prior financial difficulties. All stock option grants are approved by the full Board of Directors.

Severance Plan
The purpose of the severance plan is to promote continuity of management. Each executive is eligible for severance if terminated without cause including a change in control. The minimum severance payment equals one year annual base salary plus one times the amount of the incentive payment received for the prior year. In addition, in the event of a change in control, the CEO is eligible for total severance equal to two years of annual base salary plus two times the amount of the incentive payment received for the prior year.

Other Benefits
The executive officers are entitled to participate in all employee benefit plans including the Bank's vacation, 401K, and welfare and benefit plans. Each executive is entitled to four weeks of annual

vacation. The welfare and benefits plans include workers' compensation benefits, medical and dental, life insurance, and long-term disability. The life insurance plans for the CEO and President provide for coverage of one (1) times the executive's salary.

The Personnel/Compensation Committee believes that the base compensation of the Named Executives is competitive with companies of similar size and with comparable operating history in the commercial banking industry.

CEO's Compensation
The base salary of the Bank's CEO was determined primarily on the terms of his employment agreement as more fully discussed below. The agreement set Mr. Guarini's base salary at $185,000 and an automobile allowance of $800 per month. Based on the foregoing, in 2008 Mr. Guarini received a base salary and auto allowance totaling $208,450. He was awarded an incentive payment for 2008 totaling $71,725. The incentive was paid in 2009.

Dated: March 17, 2009 Outside Director Committee Members
James L. Apple, Chairman
David M. Spatz
James Camp

Employment Agreements

Employment Agreement of Mr. Guarini. The Bank entered into an employment agreement with Mr. Guarini dated July 20, 2007. The agreement provides, among other things, for Mr. Guarini to receive an annual salary of at least $185,000 per year and automobile allowance of $800 per month, payable in accordance with the Bank's usual payment practices. Effective January 1, 2009, Mr. Guarini’s salary was increased to $202,500.

The term of the employment contract is three (3) years. The contract has a severance provision that provides for a payment equal to one year's annual base salary plus one times the incentive received for the prior year upon termination. In the event of a change in control, the contract provides for a severance payment equal to two year’s annual base salary plus two times the incentive received for the prior year upon termination.

Employment Agreement of Ms. Colwell and Ms. King. The Bank entered into an employment agreement with Ms. Colwell and Ms. King dated July 20, 2007. The term of each employment contract is three years. The contracts have severance provisions that provide for a payment equal to twelve (12) months base salary plus one times the incentive payment received for the prior year upon termination. The employment agreements provide, among other things, for Ms. King to receive an annual salary of at least $120,000 per year and an automobile allowance of $375 per month, payable in accordance with the Bank's usual payment practices. Effective January 1, 2009, Ms. King’s annual salary is $133,800. The employment agreement of Ms. Colwell provides, among other things, for Ms. Colwell to receive an annualized salary of at least $141,000 per year and an automobile allowance of $500 per month, payable in accordance with the Bank's usual payment practices. In 2008, Ms. Colwell worked part-time receiving a prorated salary of $108,000.

Other Employee Benefit Plans

401(k) Profit Sharing Plan. In 2005, the Bank established a 401(k) Profit Sharing Plan (the "Plan") which is intended to qualify under Sections 401(a) and 401(k) of the Internal Revenue Code. The Plan 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 of the participant's eligible compensation from the Bank and its subsidiaries, thereby deferring taxes on all or a portion of these amounts. Under the Plan, the Bank presently does not match a participant's tax deferred contributions.

The Bank may make contributions to the Plan in such amounts as may be determined by the Bank's Board of Directors. Any such additional contributions are allocated among Plan participants based upon their compensation levels. The Bank's contribution vests 100% after a participant has completed five years of participation in the Plan, with vesting of 20% per year for each of years one through five. In addition, the Bank's contribution vests upon a participant's retirement at age 65 or upon a participant's death or permanent disability. Participants are entitled to receive their salary deferral contributions and vested benefits under the Plan upon termination of employment, retirement, death or disability. Participants have the right to self direct all of their salary deferral contributions among all funds sold by Charles Schwab and company.

2004 Stock Option Plan. Awards under the 2004 Stock Option Plan are made to directors, organizers, officers, and employees. The awards for officers and employees are discretionary and based on 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. Grants totaling 13,500 were made in 2008. At December 31, 2008, total options outstanding were 338,852.

The following table sets forth the unexercised Incentive Stock options held as of December 31, 2008. No options were exercised during 2008 by the Named Executives:

Name	Securities Underlying Options	Value of Unexercised Options (2)
President/CEO George J. Guarini(1)	92,400	$ -
EVP/CCO A. Dean Abercrombie	-	-
EVP/CFO Keary L. Colwell	25,400	-
EVP/COO Janet L. King	25,400	-

(1) Includes incentive stock options. Mr. Guarini was granted non-qualifying stock options to acquire 14,692 shares of Common Stock for his role as an organizer and director.
(2) Fair market value is calculated based on a bid price of $7.05 per share as of December 31, 2008 less the underlying exercise price per share of in-the-money options. None of the options were in-the-money as of December 31, 2008.

Pension Plan and Long-term Incentive Plan. The Bank does not have pension or long-term incentive plans.

Certain Relationships and Related Transactions

The Bank has had and expects to continue to have banking transactions with many of the directors and executive officers of the Bank and the Bank (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 such loans totaling $4.8 million outstanding, $1.4 million in undisbursed loan commitments, and $653,000 letters of credit as of December 31, 2008.

In 2006, the Bank opened its Bankers Exchange Services Division. The Bank acts as a qualified intermediary in transactions qualifying under the Internal Revenue Code Section 1031, Tax Deferred Exchanges. Mr. Kendall, Director and Chair of the Asset Liability Committee, agreed to provide certain services related to these types of transactions. Beginning in 2007, the Bank agreed to provide annual compensation valued at an estimated $30,000. His compensation is in the form of stock options, a small percentage of the fees collected, and a portion of his medical and dental benefits costs. Total compensation paid to Mr. Kendall in 2008 was $3,962.

In 2008, the Bank and Lawyers 1031 Exchange, Inc., a corporation controlled by Mr. Kendall, entered into a fee sharing agreement whereby the Bank refers certain types of exchange transactions that the Bank is unable to transact itself to Lawyers 1031 Exchange, Inc. in exchange for a portion of the fees collected by Lawyers 1031 Exchange, Inc. This agreement replaces a similar agreement, entered into in 2007, between the Bank and Exchange Support Services, Inc., a corporation controlled by Mr. Kendall.

The Board of Directors of the Bank (excluding Mr. Kendall), after due investigation, has determined that the estimated compensation to be paid to Mr. Kendall and the fee sharing arrangement with Lawyers 1031 Exchange, Inc. are on terms that are fair and reasonable to the Bank and that are at least as favorable to the Bank as comparable transactions with unrelated parties. The Board of Directors excluding Mr. Kendall also gave due consideration to Mr. Kendall’s independence and determined that his independence as Chair of the Asset Liability committee is not impaired.

PROPOSAL ONE: ELECTION OF DIRECTORS

Nominees

The bylaws of the Bank provide a procedure for nomination for election of members of the Board of Directors, which procedure is printed in full in the Notice of Annual Meeting of Shareholders accompanying this Proxy Statement. If nomination is not made in accordance with the procedures set forth in the Notice of Annual Meeting of Shareholders, the Chairman of the Annual Meeting may, if the facts warrant, determine and declare at the Annual Meeting that a nomination was not made in accordance with the procedures set forth in the bylaws and direct that the defective nomination be disregarded.

Directors. Seven (7) directors are to be elected at the Annual Meeting, each to hold office until the Bank's 2009 annual meeting of shareholders and until his respective successor is duly elected and qualified, or until his death, resignation or removal. The nominees for election are Messrs. Apple, Camp, Guarini, Laverne, Kendall, Morrow, and Spatz. Each is presently serving as a director. 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 incorporation in March 2004. Prior to joining the Bank, Mr. Guarini held several Senior Lending positions at financial institutions in California. At December 31, 2008, Mr. Guarini was 55 years of age and he has served as a director since 2004.

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

Mr. Apple has been the Managing General Partner of Aspen Plaza Ltd., Napa Town Center, Ltd., and Valley Center Towers, Ltd., for more than five years. At December 31, 2008, Mr. Apple was 62 years of age. He has served as a director since 2004.

JAMES S. CAMP . . . . ………………..

Mr. Camp has been the President of the S. A. Camp Companies for more than five years. At December 31, 2008, Mr. Camp was 57 years of age. He has served as a director since 2004.

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

Mr. Kendall has been the President and Chief Executive Officer of Exchange Support Services, In. for more than five years. He had been the President and Chief Executive Officer of Lawyers Asset Management, Inc. until 2007. At December 31, 2008, Mr. Kendall was 62 years of age. He has served as a director since 2004.

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

Dr. Laverne has been an Anesthesiologist at John Muir Medial Center in Walnut Creek, California for more than five years. At December 31, 2008, Dr. Laverne was 60 years of age. He has served as a director since 2004.

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

Mr. Morrow is the President and owner of Wind River Enterprises, Inc., an auto auction house in Fairfield, California. Mr. Morrow was appointed to fill a vacant director seat in December 2007. At December 31, 2008, Mr. Morrow was 58 years of age.

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

Mr. Spatz retired from Chevron Corporation in 2000. Presently, he is a real estate investor, and owns and manages several real estate properties. He has been the President of Anyi Lu International, Inc. since 2005. At December 31, 2008, Mr. Spatz was 61 years of age. He has served as a director since 2004.

PROPOSAL TWO: APPROVAL OF THE BRANCH PURCHASE AGREEMENT

Overview

Management and the Board of Directors determined that it would be in the best interests of the Bank to look for opportunities to expand operations and the scope of the Bank's service area by acquiring an established branch location and by increasing the Bank's asset base and deposits. During the process of searching for such opportunities, the Bank learned of the opportunity to acquire the Castro Valley Branch (the "Branch") of Community Banks of Northern California ("CBNC"). On February 6, 2009, after conducting due diligence on the Branch and negotiating the terms of a proposed acquisition with CBNC, the Bank entered into the Branch Purchase Agreement pursuant to a duly adopted resolution of the Board of Directors authorizing the purchase of the Branch.

If the purchase of the Branch is approved and consummated, as recommended by the Board of Directors, the Bank estimates that it will increase its earning loan assets by approximately $17 million, increase its deposit base by approximately $52 million and gain approximately 1500 new loan and deposit customers. In addition, the Bank will acquire an established branch in Castro Valley, California, a community which the Bank believes will complement the existing branches of the Bank, and from which the Bank may expand its loan and deposit operations into new markets. The Bank further believes that the proposed acquisition of an established branch has certain advantages over branching into a new market by establishing a *de novo* branch with no prior operating history.

Approvals Required

The Bank is acquiring the Branch by purchasing certain assets and assuming certain liabilities located at or attributable to the Branch. The acquisition of the Branch is subject to the Bank obtaining certain approvals. The California Financial Code ("Financial Code") requires that in connection with the purchase of a branch, where a bank assumes deposits equal to or greater than 10 percent of the acquiring bank's existing deposits, the purchase and assumption agreement must be approved by the acquiring bank's outstanding shares. This means that before the Bank can complete the purchase of the Branch, the number of shares voted in favor of the proposed agreement must equal or exceed a number of shares equal to one-half of all shares of Common Stock outstanding as of the Record Date, plus one. The purpose of Proposal Two is to obtain such approval of the outstanding shares.

In addition to the approval of the outstanding shares, the Financial Code requires the acquiring bank to obtain the approval of the California Department of Financial Institutions (the "DFI") pursuant to an application process described in the Financial Code. Similarly, the Federal Deposit Insurance Act requires a bank seeking to purchase assets and assume liabilities of another bank, including federally-insured deposits, to obtain the prior approval of the Federal Deposit Insurance Corporation (the "FDIC") pursuant to an Interagency Bank Merger Act Application. The Bank's regulatory authorities consider a number of factors in evaluating whether to approve such applications, including the following, among others: permissibility of the activities proposed to be conducted under state and federal law; projected impact of the proposed transaction on the financial condition of the acquiring bank, including the affect of the transaction on a bank's capital adequacy and earnings; impact of the proposed transaction on meeting the existing and anticipated needs and convenience of the communities served; and impact on competition. The Bank's regulators must make a favorable finding with respect to the respective applications in order for approval to be granted. The following table provides the Bank's capital ratios as of December 31, 2008, and the proforma capital ratios as if the transaction had occurred on December 31, 2008 compared to the capital required to be considered Well Capitalized:

	BCB	Combined Proforma	Required to be Well Capitalized
Caiptal ratios :	12/31/2008	12/31/2008	12/31/2008
Tier I capital	$ 15,627,933	$ 15,627,933	$ 7,953,400
Leverage ratio	14.61%	9.82%	5.00%
Tier I capital	$ 15,626,758	$ 15,626,758	$ 7,633,140
Tier I ratio	15.20%	12.28%	6.00%
Tier II capital	$ 16,847,933	$ 16,847,933	$ 12,721,900
Risked based assets	102,794,000	127,219,000	127,219,000
Risk Based ratio	16.39%	13.24%	10.00%

Under the terms of the Purchase Agreement, the Bank is required to timely prepare, file and prosecute applications for such required regulatory approvals. The consummation of the proposed purchase of the Branch is also subject to obtaining the approvals of the proposed Branch purchase from both the FDIC and the DFI.

Principal Terms of the Purchase Agreement

The Bank and CBNC signed the Purchase Agreement on February 6, 2009. The principal terms of the Purchase Agreement are summarized below. The following summary and discussion are qualified in their entirety by reference to the Purchase Agreement, a copy of which may be reviewed upon request to the Bank's Chief Financial Officer.

Under the Purchase Agreement, the Bank is purchasing certain assets of the Branch as set forth in a schedule attached to the Purchase Agreement. Among the assets being purchased are (i) certain loans identified in the schedule, including all rights to collection of principal and interest and other rights under the loan documents; (ii) the furniture, fixtures and equipment at the Branch; (iii) the Branch records; (iv) rights to contracts pertaining to the Branch, such as the lease for the Branch premises and contracts pertaining to services and goods at the Branch; and (v) cash.

The Bank is also assuming certain liabilities of or attributable to the Branch, including (i) all deposit accounts at the Branch, as well as deposits pertaining to or securing loans purchased as part of the transaction; and (ii) liabilities of CBNC with pertaining to the Branch, such as contractual obligations with respect to the furniture, fixtures and equipment at the Branch, the obligations under the lease for the Branch premises. Specifically excluded from the liabilities the Bank is assuming are taxes, tort liabilities and claims, lawsuits and other claims, including claims of Branch employees, arising from the acts or omissions of CBNC prior to the closing of the Branch purchase and any other liability not expressly set forth in the schedule of liabilities assumed.

The purchase price for the Branch is to be determined by computing the value of the assets acquired and the liabilities assumed by the Bank, based upon the formula set forth in the Purchase Agreement. If the value of the assets acquired exceeds the liabilities assumed, the Bank will pay the difference in cash to CBNC. Conversely, if the value of the assets acquired is less than the liabilities assumed by the Bank, CBNC will pay the difference to the Bank. In determining the value of the Branch assets being acquired, the loans purchased, furniture, fixtures and equipment, prepaid expenses and cash are valued at net book value, except that demand deposit accounts in the form of non-interest bearing checking accounts, are being valued at a premium of 3.2% over face cash value and interest-bearing deposits are being valued at a 1% premium over face cash value.

For illustrative purposes only, if the purchase of the Branch had closed as of December 31, 2008, the value of the assets purchased was $17 million and the value of the liabilities assumed was $52 million, and CBNC, in addition to assigning and delivering to the Bank all of its right title and interest in and to the assets and liabilities at the Branch, would have paid to the Bank an additional $35 million in cash. The Bank has agreed to pay a premium on transaction deposit accounts which, as of December 31, 2008, would have been $225,000. The actual purchase price to be paid will be mutually determined by the parties at the closing of the purchase of the Branch, after all required approvals have been obtained and based on the valuations of the assets being purchased and liabilities assumed as of the date of the closing. The actual resulting financial statements at closing may differ from the proforma shown below.

PROXY STATEMENT
(continued)

The following table is a proforma financial statement reflecting the transaction as if it had occurred on December 31, 2008:

	BCB Actual 12/31/2008	Branch 12/31/2008	Combined Proforma 12/31/2008
Cash and due from	$ 1,732,816	$ 141,000	$ 1,873,816
Fed funds	6,950,000	34,850,000	41,800,000
Other investments	2,229,338	-	2,229,338
Loans, net	98,005,029	16,781,000	114,786,029
Loss allowance	(1,220,000)	-	(1,220,000)
net loans	96,785,029	16,781,000	113,566,029
FF&E	227,532	30,000	257,532
Premium on deposits	-	225,000	225,000
Other assets	959,704	73,000	1,032,704
Total Assets	108,884,419	52,100,000	160,984,419
DDA	10,971,747	4,200,000	15,171,747
MMA	31,569,818	9,000,000	40,569,818
Time deposits	45,270,907	38,900,000	84,170,907
Total deposits	87,812,472	52,100,000	139,912,472
Othe Borrowings	5,000,000	-	5,000,000
Other Liabilities	442,839	-	442,839
Total Liabilities	93,255,311	52,100,000	145,355,311
		-	
Common Stock	15,497,940	-	15,497,940
Retained earnings	131,168	-	131,168
Total Equity	15,629,108	-	15,629,108
Total Liab/Equity	108,884,419	$ 52,100,000	$ 160,984,419
Commitments	$ 15,549,092	$ 1,072,000	$ 16,621,092
Letters of Credit	2,348,631	-	2,348,631

From and after the signing of the Purchase Agreement and prior to closing, the Bank will be seeking the required regulatory approvals described above, as well as preparing for the transition of the Branch to the Bank's systems and management. CBNC has covenanted that during such pre-closing period, it will conduct the operations of the Branch in the ordinary course consistent with current practice and will grant to the Bank reasonable access to arrange for the smooth transition of the Branch to the Bank at closing. The parties will also cooperate in obtaining such other approvals as may be necessary to consummate the purchase, including the consents of the landlord and the parties to contracts being assumed by the Bank.

After all required approvals have been obtained and pre-closing conditions have been satisfied, the purchase of the Branch will be consummated. At the closing, the parties will take such actions as are detailed in the Purchase Agreement in order to complete the purchase and assumption transaction, including the payment of the purchase price and the delivery of documents necessary to evidence the assignment and transfer of the assets purchased and the assumption of liabilities assumed. At the closing, all of the employees of the Branch will be terminated by CBNC, which will be responsible for all pre-closing liabilities with respect to such employees, and the Bank will hire all of such employees as new employees of the Bank, except that for purposes of certain employee benefit plans of the Bank certain of the Branch employees may receive credit for service at the Branch prior to closing. As of the date of the preparation of this Proxy Statement and subject to the approvals described above, the Bank estimates that the closing of the purchase of the Branch will occur by the end of May, 2009.

After the closing occurs, the Branch will be renamed and operate as the Castro Valley branch of the Bank. The parties have also agreed to indemnify one another from claims of third parties that arise after the closing that related to the indemnifying party's act or omission prior to the closing. The parties have also agreed on certain post-closing transition actions designed to facilitate the smooth transition of the Branch to the Bank.

The Board of Directors recommends a vote FOR
PROPOSAL TWO: APPROVAL OF THE BRANCH PURCHASE AGREEMENT

PROPOSAL THREE: RATIFICATION OF SELECTION OF INDEPENDENT ACCOUNTING FIRM FOR 2008

The firm of Moss Adams LLP, independent public accountants, was appointed in 2008 to audit the books and records of the Bank for 2008.

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 2008.

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
PROPOSAL THREE: RATIFICATION OF SELECTION
OF INDEPENDENT ACCOUNTING FIRM FOR 2008

SHAREHOLDER PROPOSALS

The deadline for shareholders to submit proposals to be considered for inclusion in the Bank's proxy statement and form of proxy for the 2009 Annual Meeting of shareholders is March 12, 2009.

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, at the proxy holder's discretion, upon the direction of management. All shares represented by duly executed proxies will be voted at the Annual Meeting.

BAY COMMERCIAL BANK

Keary L. Colwell
Chief Financial Officer

Walnut Creek, California
March 18, 2009

Exhibit A

BAY COMMERCIAL BANK

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2008

AND

INDEPENDENT AUDITOR'S REPORT

MOSS-ADAMS LLP

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors and Shareholders
Bay Commercial Bank

We have audited the accompanying statements of financial condition of Bay Commercial Bank as of December 31, 2008 and 2007, and the related statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bay Commercial Bank at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, effective January 1, 2008, the Bank adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*.

Moss Adams LLP

Stockton, California
February 20, 2009

BAY COMMERCIAL BANK

STATEMENT OF FINANCIAL CONDITION
December 31, 2007 and 2008

ASSETS		2007		2008
Cash and due from banks		$ 1,855,005		$ 1,732,816
Federal funds sold		6,325,000		6,950,000
Cash and cash equivalents		8,180,005		8,682,816
Interest bearing deposits in banks		1,102,545		1,203,719
Investment securities available-for-sale		841,613		670,119
Federal Home Loan Bank stock, at par		235,000		355,500
Loans	$ 79,765,594		$ 98,093,454	
Deferred fees, net	(1,758)		(88,425)	
Allowance for loan losses	(990,000)		(1,220,000)	
Loans, net		78,773,836		96,785,029
Premises and equipment, net		236,075		227,532
Operating leases, net		418,164		-
Interest receivable and other assets		922,441		959,704
Total Assets		$ 90,709,679		$ 108,884,419
LIABILITIES AND SHAREHOLDERS' EQUITY				
Non-interest bearing deposits		$ 8,920,122		$ 10,971,747
Interest bearing deposits		60,872,539		76,840,725
Total deposits		69,792,661		87,812,472
FHLB borrowing		5,000,000		5,000,000
Interest payable and other liabilities		678,705		442,839
Total liabilities		75,471,366		93,255,311
Commitments and contingencies (Note 10)				
Shareholders' equity:				
Common stock - no par value; 10,000,000 shares authorized; 1,549,794 shares issued and outstanding		15,497,940		15,497,940
Additional paid in capital		142,932		207,056
Accumulated deficit		(396,947)		(77,063)
Accumulated other comprehensive (loss) gain		(5,612)		1,175
Total shareholders' equity		15,238,313		15,629,108
Total Liabilities and Shareholders' Equity		$ 90,709,679		$ 108,884,419

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

BAY COMMERCIAL BANK

STATEMENT OF OPERATIONS

For the years ended December 31, 2007 and 2008

	2007	2008
Interest income:		
Loans	$ 5,722,733	$ 5,546,285
Federal funds sold	518,837	136,427
Investment securities and interest bearing deposits in banks	103,208	68,265
FHLB stock dividend	9,300	13,100
Total interest income	6,354,078	5,764,077
Interest expense:		
Deposits	2,490,127	1,870,482
Other borrowings	17,600	203,142
Total interest expense	2,507,727	2,073,624
Net interest income	3,846,351	3,690,453
Provision for loan losses	232,000	273,182
Net interest income after provision for loan losses	3,614,351	3,417,271
Non-interest income:		
Operating lease income	46,429	533,967
Other income and fees	228,768	248,303
Gain on sale of operating lease equipment	-	38,731
Total non-interest income	275,197	821,001
Non-interest expense:		
Salaries and related benefits	1,933,636	2,163,431
Depreciation from operating lease equipment	43,617	498,326
Occupancy and equipment	286,845	322,564
Data processing	198,692	221,510
Other	393,251	430,845
Total non-interest expense	2,856,041	3,636,676
Income before income taxes	1,033,507	601,596
Net (benefit) expense for income taxes	(173,732)	281,712
Net income	$ 1,207,239	$ 319,884
Income per share:		
Basic: Net income	$ 0.78	$ 0.21
Weighted average shares outstanding	1,548,211	1,549,794
Diluted: Net income	$ 0.77	$ 0.21
Weighted average shares outstanding	1,559,192	1,549,794

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, 2007 and 2008

	Common Stock Amount	Additional Paid in Capital	Comprehensive Income	Accumulated Deficit	Accumulated Other Comprehensive (Loss)Gain	Total Shareholders' Equity
Balance, December 31, 2006	$ 15,400,000	$ 78,091		$ (1,604,186)	$(30,305)	$ 13,843,600
Comprehensive income:						
Net income			$ 1,207,239	1,207,239		1,207,239
Other comprehensive income:						
Unrealized gain on available-for-sale of investment securities			24,693		24,693	24,693
Total comprehensive income			$ 1,231,932			
Stock based compensation expense		54,563				54,563
Stock options exercised including tax benefit	97,940	10,278				108,218
Balance, December 31, 2007	15,497,940	142,932		(396,947)	(5,612)	15,238,313
Net income			$ 319,884	319,884		319,884
Other comprehensive income:						
Unrealized gain on available-for-sale of investment securities			6,787		6,787	6,787
Total comprehensive income			$ 326,671			
Stock based compensation expense		64,124				64,124
Balance, December 31, 2008	$ 15,497,940	$ 207,056		$ (77,063)	$ 1,175	$ 15,629,108

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

BAY COMMERCIAL BANK

STATEMENT OF CASH FLOWS

For the years ended December 31, 2007 and 2008

	2007	2008
Cash flows from operating activities:		
Net income	$ 1,207,239	$ 319,884
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses	232,000	273,182
Gain on sale of operating lease equipment	-	(38,731)
Depreciation and amortization	156,993	618,264
Stock based compensation	54,563	64,124
Excess tax benefit from exercise of stock options	(10,278)	-
Deferred loan origination fees, net	(2,349)	86,667
Increase in accrued interest receivable and other assets	(516,191)	(37,263)
Increase (decrease) in accrued interest payable and other liabilities	280,956	(235,866)
Net cash provided by operating activities	1,402,933	1,050,261
Cash flows from investing activities:		
Purchase of interest bearing deposits in banks	(27,545)	(101,174)
Purchase of Federal Home Loan Bank stock	(117,400)	(120,500)
Principal repayment of mortgage-backed securities	239,287	178,281
Net increase in loans	(21,392,356)	(18,371,042)
Purchase operating lease equipment	(461,781)	(1,154,126)
Proceeds from the sale of operating lease equipment	-	1,112,695
Purchase of furniture, fixtures and equipment	(46,802)	(111,395)
Net cash used in investing activities	(21,806,597)	(18,567,261)
Cash flows from financing activities:		
Net decrease in demand, interest bearing and savings deposits	(3,921,701)	(3,018,639)
Net increase in time deposits	13,287,110	21,038,450
Proceeds for the issuance of common stock	97,940	-
Excess tax benefit from exercise of stock options	10,278	-
Increase in FHLB borrowing	5,000,000	-
Net cash provided by financing activities	14,473,627	18,019,811
Increase (Decrease) in cash and cash equivalents	(5,930,037)	502,811
Cash and cash equivalents at the beginning of the year	14,110,042	8,180,005
Cash and cash equivalents at end of the year	$ 8,180,005	$ 8,682,816
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest expense	$ 2,488,284	$ 2,065,009
Income tax	866	619,529
Non-cash investing activities:		
Net change in unrealized gain (loss) on investment securities available-for-sale	24,693	6,787

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Organization

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

Cash and Cash Equivalents

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

As of December 31, 2008 and 2007, 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, 2007 and 2008, no reserve balance was required.

Interest bearing deposits in banks

The Bank invests in interest bearing deposits in banks with terms of up to three years. At December 31, 2008, the Bank held interest bearing deposits totaling $1,203,719 with a weighted average yield of 2.24% and a weighted average term to maturity of less than three months. Most of these deposits are security for performance letters of credit totaling $958,375 issued by correspondent banks on the Bank's behalf and are restricted. The letters of credit had an original term of one year and expire in 2009.

Investment Securities

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

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

Federal Home Loan Bank Stock

Federal Home Loan Bank of San Francisco (FHLB) stock 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 sold are sold without recourse. A significant portion of the Bank's loan portfolio is comprised of adjustable rate loans. Interest on loans is calculated and accrued daily using the simple interest method based on the daily amount of principal outstanding. The accrual of interest is discontinued and any accrued and unpaid interest is charged against current income when the payment of principal or interest is 90 days past due, unless the loan is well secured and in the process of collection.

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

Loan Fees and Costs

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

Salaries, employee benefits and other expenses totaling $248,200 and $254,000 are deferred as loan origination costs for the years ended December 31, 2007 and 2008, 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, 2007 and 2008, management believes the allowance for loan losses adequately reflects the credit risk in the loan portfolio.

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

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

<u>Premises and Equipment</u>

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.

<u>Operating Leases</u>

As of December 31, 2007, equipment is stated at cost net of accumulated depreciation and had a weighted average useful life of 16 months and is depreciated using the straight-line method. The equipment is leased under lease agreements. Lease payments are recognized as non-interest income and deprecation expense is recognized as non-interest expense. The equipment was sold in 2008 for a gain of $38,731.

<u>Impairment of Assets</u>

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, 2007 and 2008, the Bank determined that no events or changes occurred during 2007 and 2008 that would indicate that the carrying value of any long-lived assets may not be recoverable.

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

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

Income Taxes

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

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

The Bank adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. The Bank had no unrecognized tax benefits which would require an adjustment to the January 1, 2007 beginning balance of retained earnings. The Bank had no unrecognized tax benefits at December 31, 2007 and 2008.

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2008, the Bank recognized $3,500 in interest and penalties. No interest and penalties were recognized in 2007.

The Bank files income tax returns in the U.S. federal jurisdiction and with the State of California. The Bank is subject to U.S. federal or state income tax examinations by tax authorities for years beginning 2004.

Non-interest Income

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

Stock Based Compensation

Effective January 1, 2006, the Bank adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123R, "*Share Based Payment*", a revision to the previously issued SFAS No. 123, "*Accounting for Stock-Based Compensation*". SFAS No. 123R requires companies to recognize 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).

Beginning January 1, 2006, 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. The following are the weighted average assumptions used to estimate the fair value of stock options granted during 2007 and 2008:

	2007	2008
Expected dividend yield	0.0%	0.0%
Risk-free interest rate	4.72%	3.04%
Expected volatility factor	24.1%	18.9%
Expected term	4.5 years	4.5 years
Exercise price	$ 11.77	$ 9.05
Fair value	3.43	1.99
Number of options granted	26,500	13,500
Fair value of options granted	$ 91,000	$ 26,900

Income Per Share

Basic income per share (EPS) is computed by dividing the net income by the weighted-average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if stock options were exercised. The treasury stock method is applied to determine the dilutive effect of stock options in computing diluted EPS. For the period ended December 31, 2007, 88,500 stock options were excluded and for the period ended December 31, 2008, all of the stock options were excluded from the diluted commons shares because they were antidilutive.

For the periods ended December 31, 2007 and 2008, total weighted average diluted common shares outstanding are as follows:

	2007	2008
Common Stock	1,548,211	1,549,794
Diluted effect of stock options	10,981	-
Total weight average diluted shares	1,559,192	1,549,794

Comprehensive (Loss) Income

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

Fair Value Measurement

Effective January 1, 2008, the Bank adopted SFAS 157, "*Fair Value Measurements*". SFAS No. 157 clarifies the definition of fair value, describes methods used to appropriately measure fair value in accordance with generally accepted accounting principles and expands fair value disclosure requirements. This statement applies whenever other accounting pronouncements require or permit fair value measurements.

The fair value hierarchy under SFAS No. 157 prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, Level 2, and Level 3). Level 1 inputs are unadjusted quoted prices in active markets (as defined) for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability, and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

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

The Bank does not record loans at fair value on a recurring basis. However, from time to time, a loan may be considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with SFAS 114, "*Accounting by Creditors for Impairment of a Loan*". 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 nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value, or the appraised value contains a significant assumption, and there is no observable market price, the Bank records the impaired loan as nonrecurring Level 3.

The recorded amount of assets and liabilities measured at fair value on a recurring basis as of December 31, 2008 are as follows:

	Total	Level 1	Level 2	Level 3
Securities available for sale	$ (1,196)	$ -	$ (1,196)	$ -
Total assets measured at fair value	$ (1,196)	$ -	$ (1,196)	$ -

The Bank records collateral dependent impaired loans at fair value on a nonrecurring basis. At December 31, 2008, the Bank had no impaired loans.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant accounting estimates reflected in the Bank's 2008 financial statements include the allowance for loan losses, the valuation allowance for deferred tax assets, the fair value of stock options, and the valuation of financial assets under FAS 107. Actual results could differ from these estimates.

Recent Accounting Pronouncements

On October 10, 2008, the FASB issued FAS 157-3**,** "*Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*." FAS 157-3 is a FASB Staff Position that clarifies the application of FASB Statement No. 157, "*Fair Value Measurements,*" for a non-active market and provides an illustrative example of key considerations in determining the fair value of financial assets under such conditions. FAS 157-3 is not expected to have a material impact on the Bank's financial position, results of operations, or cash flows.

On March 19, 2008, the FASB issued SFAS No. 161, *"Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB No. 133"* (SFAS 161)**.** SFAS 161 requires expanded qualitative, quantitative and credit-risk disclosures about derivatives and hedging activities and their effects on the Companies financial position, financial performance and cash flows. SFAS 161 also clarifies that derivatives are subject to credit risk disclosures as required by SFAS No. 107, *"Disclosures about Fair Value of Financial Instruments."* SFAS 161 is effective for the Companies financial statements for the year beginning on January 1, 2009.

On December 4, 2007, the FASB issued SFAS No. 141 (revised 2007), "*Business Combinations"* (SFAS 141R). SFAS 141R modifies the accounting for business combinations and requires, with limited exceptions, the acquirer in a business combination to recognize 100 percent of the assets acquired, liabilities assumed, and any non-controlling interest in the acquiree at the acquisition-date fair value. In addition, SFAS 141R requires the expensing of acquisition-related transaction and restructuring costs, and certain contingent assets and liabilities acquired, as well as contingent consideration, to be recognized at fair value. SFAS 141R also modifies the accounting for certain acquired income tax assets and liabilities. SFAS 141R is effective for new acquisitions consummated on or after January 1, 2009 and earlier adoption is not permitted.

Reclassifications

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

2. INVESTMENT SECURITIES

The amortized cost and estimated market value of available-for-sale investment securities by contractual maturity at December 31, 2007 and 2008 consisted of the following:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Market Value
2007:				
Fixed rate mortgage-backed securities:				
After one year through five years	$ 335,954	$ -	$ (3,793)	$ 332,161
After five years through ten years	511,271	-	(1,819)	509,452
Total investment securities	$ 847,225	$ -	$ (5,612)	$ 841,613
2008:				
Fixed rate mortgage-backed securities:				
After one year through five years	$ 668,984	$ 2,331	$ (1,196)	$ 670,119
Total investment securities	$ 668,984	$ 2,331	$ (1,196)	$ 670,119

Expected maturities will differ from contractual maturities because the underlying mortgages can be repaid with or without prepayment penalties. Factors such as prepayments and interest rates may affect the yield and carrying value of mortgage-backed securities. The weighted average yield on the investment securities is 4.01% and 4.19% for the years ended December 31, 2007 and 2008, respectively. As of December 31, 2007 and 2008, the investment securities had a weighted average maturity of less than three and two years, respectively.

Management periodically evaluates each investment security in an unrealized loss position to determine if the impairment is temporary or other-than-temporary. For the period ended December 31, 2007, the investment securities were in a loss position for twelve consecutive months or more. For the period ended December 31, 2008, the investment securities were in a loss position for less than twelve consecutive months. As of December 31, 2207 and 2008, management has determined that no investment security is other than temporarily impaired. The change in market value is due solely to interest rate changes and the Bank has the ability and intent to hold all investment securities with identified impairments resulting from interest rate changes to the earlier of the forecasted recovery or the maturity of the underlying investment security.

Net unrealized loss on available-for-sale investment securities totaling $5,612 is recorded as other comprehensive loss within shareholders' equity at December 31, 2007 and a net unrealized gain $6,787 is recorded as other comprehensive income within shareholders’ equity at December 31, 2008. The Bank recorded no gains or losses on the sale of investment securities during 2007 and 2008.

3. LOANS

The Bank's loan portfolio at December 31, 2007 and 2008 is summarized below:

	2007	2008
Commercial	$34,953,743	$ 44,532,995
Real estate	44,419,274	53,306,577
Consumer and other	392,577	253,882
Total loans	79,765,594	98,093,454
Deferred loan fees and costs, net	(1,758)	(88,425)
Allowance for loan losses	(990,000)	(1,220,000)
Net loans	$78,773,836	$ 96,785,029

For the years ended December 31, 2007 and December 31 2008, the Bank had no impaired loans, or nonaccrual loans. As of December 31, 2008, one loan totaling $329,000 is more than 30 days but less than 89 days past due and still accruing.

As of December 31, 2007 and 2008, fixed rate loans total $9.6 million and $16.2 million, respectively, and variable rate loans total $70.2 million and $81.9 million, respectively. As of December 31, 2008, variable rate loans with interest rate caps total $10.1 million none of which have reached their caps, and a total of $46.3 million have interest rate floors all of which are at their floors. More than 97% 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, 2007 and 2008, a total of $2.3 million and $2.2 million, respectively, of variable rate loans are tied to the treasury constant maturity rate (CMT) as published by the Federal Reserve and adjust every two or five years.

Loans are made primarily for business, personal, and real estate purposes concentrated in Contra Costa and Alameda Counties. As of December 31, 2008, the Bank's loans outstanding comprised 30% term mortgage-type loans secured primarily by commercial real estate, 12% for the purpose of constructing commercial and residential property, 8% for the purpose of holding or acquiring unimproved land, 4% term mortgage-type loans secured by residential property, and 45% for general commercial uses including professional, retail, and small business. Less than 1% of Bank's loans are consumer loans.

As of December 31, 2008, the Bank's unsecured loans outstanding total 10.5% 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, 2007 and 2008, the single largest loan total $3.0 million and $3.4 million, respectively, and is secured by commercial real estate. As of December 31, 2007 and 2008, undisbursed commitments total $23.5 million and $16.4 million, respectively. As of December 31, 2007 and 2008, the Bank sold participations in loans totaling $2.5 million and $2.8 million, respectively. No gain or loss was recorded related to participations sold.

4. ALLOWANCE FOR LOAN LOSSES

Changes in the Bank's allowance for loan losses for the years ended December 31, 2007 and 2008 is summarized below:

	2007	2008
Balance at the beginning of the year	$ 758,000	$ 990,000
Provision	232,000	273,182
Loans charged off	-	(43,182)
Recoveries	-	-
Balance at the end of the year	$ 990,000	$ 1,220,000

5. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31, 2007 and 2008:

	2007	2008
Furniture, fixtures and equipment	$ 445,758	$ 546,380
Leasehold improvements	107,977	116,859
Less accumulated depreciation and amortization	(317,660)	(435,707)
Total premises and equipment, net	$ 236,075	$ 227,532

Depreciation and amortization included in occupancy and equipment expense total $113,400 for the year ended December 31, 2007 and $119,900 for the year ended December 31, 2008.

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

Year Ending December 31,	
2009	195,664
2010	201,534
2011	207,581
2012	213,808
2013	96,473
Thereafter	35,608
	$ 950,669

Rental expense included in occupancy and equipment expense total $158,400 and $190,000 for the years ended December 31, 2007 and 2008, respectively. As of December 31, 2008, a performance letter of credit totaling $58,375 is outstanding for the benefit of one of the Bank's landlords. The letter of credit is secured by a time deposit totaling $58,375.

6. OPERATING LEASE EQUIPMENT

The following schedule provides a detail on the Bank's investment in property on operating leases by major classes as of December 31, 2008:

	2007	2008
Test equipment	$ 461,781	$ -
Less accumulated deperciation	(43,617)	-
Total operating lease equipment	$ 418,164	$ -

As of December 31, 2007, the test equipment has an estimated weighted average useful life of 16 months and is leased under rental terms ranging from 12 months to 24 months. Rental revenue received in 2007 and 2008 totals $43,429 and $533,967, respectively. The test equipment was sold in 2008 resulting in a gain on sale of $38,731.

7. DEPOSITS

Deposits consisted of the following at December 31, 2007 and 2008:

	2007	2008
Demand deposits	$ 8,920,122	$ 10,971,747
NOW accounts and Savings	536,730	928,406
Money market	36,103,352	30,641,412
Time – less than $100,000	20,361,411	26,249,780
Time – $100,000 or more	3,871,046	19,021,127
Total deposits	$ 69,792,661	$ 87,812,472

At December 31, 2007 and 2008, the weighted average stated rate is 3.34% and 2.13%, respectively. At December 31, 2007, approximately $16.4 million, or 24%, of the Bank's deposits are derived from seven depositors. At December 31, 2008, approximately $17.1 million, or 19.5%, of the Bank's deposits are derived from eight depositors.

The Bank accepts deposits related to real estate transactions qualifying under the Internal Revenue Code Section 1031, Tax Deferred Exchanges. These deposits fluctuate as the sellers of the real estate have up to six months to invest in replacement real estate to defer the income tax on the property sold. Deposits related to this activity total $5.9 million and $8.4 million at December 31, 2007 and 2008, respectively. Average deposit balances for this activity totaled $14.7 million and $12.7 million during 2007 and 2008, respectively.

At December 31, 2008, aggregate annual maturities of time deposits are as follows:

Year Ending, December 31,

2009	$ 43,521,727
2010	1,749,180
Total time deposits	$ 45,270,907

Interest expense, net of early withdrawal penalty, recognized on interest-bearing deposits for the years ended December 31, 2007 and 2008 consists of the following:

	2007	2008
NOW accounts and Savings	$ 4,971	$ 5,065
Money market	1,937,234	800,288
Time - less than $100,000	431,934	855,850
Time - $100,000 or more	115,988	209,279
Total interest expense	$ 2,490,127	$ 1,870,482

8. OTHER BORROWINGS

Other borrowings for the period ending and as of December 31, 2007 and 2008, are as follows:

	2007	2008
Outstanding balance	$ 5,000,000	$ 5,000,000
Interest rate	3.97%	3.97%
Average balance	$ 465,753	$ 5,136,216
Average interest rare	3.97%	3.96%
Maximum balance	$ 5,000,000	$ 7,500,000

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

The Bank has an approved secured borrowing facility with the FHLB for up to 25% of total assets for a term not to exceed five years under a blanket lien of certain types of loans. As of December 31, 2008, the total principal balance of such loans totals $59.4 million and the total principal balance of investment securities pledged is $664,500.

The Bank has two Federal Funds lines totaling $8.0 million with two correspondent banks. There are no amounts outstanding under these facilities at December 31, 2007 and 2008.

9. INCOME TAXES

Income taxes expense for the years ended December 31, 2007 and 2008 are as follows:

	2007	2008
Current income taxes	$ (173,777)	$ 322,426
Deferred income taxes, net	-	(40,714)
Total (benefit) provision for income taxes	$ (173,777)	$ 281,712

The (benefit) 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, 2007 and 2008 consist of the following:

	2007		2008	
	Amount	Rate %	Amount	Rate %
Federal statutory tax rate	$ 351,392	34.00%	$ 204,543	34.00%
State statutory tax rate, net of Federal effective tax rate	73,896	7.15%	43,014	7.15%
Stock based compensation	22,355	2.16%	25,148	4.19%
Net operating loss utilization	(246,068)	-26.26%	-	0.00%
Valuation allowance	(378,602)	-16.81%	-	0.00%
Other	3,250	0.31%	9,007	1.50%
Total income tax (benefit)expense	$ (173,777)	-16.81%	$ 281,712	46.83%

Deferred tax assets at December 31, 2007 and 2008, included as a component of other assets in the Statement of Financial Condition, consisted of the following:

Deferred tax assets, net of liabilities:	2007	2008
Allowance for loan losses	$ 344,526	$ 439,181
Deferred loan fees net of costs	723	36,391
Start up costs	95,396	31,799
Stock based compensation	27,379	18,454
FHLB Stock dividend	(7,325)	(12,717)
Net operating loss	4,090	-
Other	22,732	15,127
Deferred tax assets before valuation allowance	487,521	528,235
Valuation allowance	-	-
Total deferred tax assets	$ 487,521	$ 528,235

As of December 31, 2007 and 2008, 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.

At December 31, 2007, the Bank had federal and state net operating loss carryforwards totaling $57,000. As of December 31, 2008, the Bank has no federal or state net operating loss carryforwards.

10. 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, 2007 and 2008, undisbursed commitments total $23,523,000 and $16,385,000, respectively. In addition, at December 31, 2007 and 2008, the Bank issued letters of credit totaling $1,542,000 and $2,349,000, respectively, which represent guarantees of obligations of Bank clients. As of December 31, 2007 and 2008, the Bank pledged a time deposit totaling $1.0 million and $900,000, respectively, to a correspondent bank as security for the issuance of a performance letter of credit issued on behalf of one of the Bank's clients.

The actual liquidity needs or the credit risk that the Bank will experience will be lower than the contractual amount of commitments to extend credit because a significant portion of these commitments are expected to expire without being drawn upon. The Bank's outstanding loan commitments are made using the same underwriting standards as comparable outstanding loans. As of December 31, 2007 and 2008, the reserve associated with these commitments is zero.

11. EMPLOYEE BENEFIT PLANS

Effective January 1, 2005, the Bank adopted a qualified 401(k) profit sharing plan (401(k) Plan) that covers substantially all full-time employees. The 401(k) Plan permits voluntary contributions by participants and provides for voluntary matching contributions by the Bank. For the years ended December 31, 2007 and 2008 the Bank made contributions to the plan of zero and $24,700.

See Note 12. Stock Option Plan for discussion of the Bank's stock option plan.

12. STOCK OPTION PLAN

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

Pursuant to the Plan, 462,000 shares of common stock are reserved for issuance to employees, organizers and Directors under incentive and nonstatutory agreements of which 9,794 have been exercised as of December 31, 2008.

The following table provides the stock option activity for the year ending December 31, 2008:

	2008	
	Number of Shares	Weighted Average Exercise Price
Balance at beginning of the year	366,444	$ 10.55
Granted	13,500	9.05
Exercised	-	-
Expired	(41,092)	10.53
Balance at end of the year	338,852	$ 10.49

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, 2007 and 2008:

	December 31, 2007	December 31, 2008
Weighted-average fair value of options granted during the year	$ 3.43	$ 1.99
Intrinsic value of options exercised	24,779	-
Options exercisable at year end:	304,444	292,851
Weighted-average exercise price	$ 10.19	$ 10.33
Intrinsic value	94,378	-
Weighted-average remaining contractual life	6.5 years	5.5 years
Options outstanding at year end:	366,444	338,852
Weighted-average exercise price	$ 10.55	$ 10.49
Intrinsic value	18,322	-
Weighted-average remaining contractual life	6.5 years	5.6 years

As of December 31, 2008, 208,200 incentive stock options and 130,652 non-qualified stock options are outstanding. As of December 31, 2008, there is $95,700 of total unrecognized compensation cost related to non-vested stock options which is expected to be recognized over a weighted-average period of two years. Stock options exercised in 2007 and 2008 were 9,794 and zero, respectively. No stock option related tax benefits were recorded during 2008. In 2007, the tax benefit recognized totaling $10,278 relates to the exercise of non-qualified stock options, and was recorded as an increase in additional paid in capital.

As of December 31, 2008, no options are expected to be exercised. As of December 31, 2008, the exercisable stock options total 292,851 with a weighted average intrinsic value of zero and unexercisable stock options total 46,001 with a weighted average intrinsic value of zero.

13. 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, 2008 and 2007, no amounts are free of 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, 2007 and 2008, management believes that the Bank meets all its capital adequacy requirements.

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.

	2007		2008	
Leverage Ratio	Dollars	Ratio	Dollars	Ratio
Bay Commercial Bank	$ 15,244	17.2%	$ 15,630	14.6%
Minimum requirement for "Well-Capitalized"	4,437	5.0%	5,348	5.0%
Minimum regulatory requirement	3,550	4.0%	4,278	4.0%
Tier 1 Risk-Based Capital Ratio				
Bay Commercial Bank	$ 15,244	17.5%	$ 15,630	15.2%
Minimum requirement for "Well-Capitalized"	5,229	6.0%	6,170	6.0%
Minimum regulatory requirement	3,486	4.0%	4,113	4.0%
Total Risk-Based Capital Ratio				
Bay Commercial Bank	$ 16,234	18.6%	$ 16,850	16.4%
Minimum requirement for "Well-Capitalized"	8,715	10.0%	10,283	10.0%
Minimum regulatory requirement	6,972	8.0%	8,226	8.0%

14. 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, 2007 and 2008:

	2007	2008
Balance, beginning	$ 2,916,159	$ 5,440,565
Disbursements	2,361,021	533,569
Amounts repaid	(163,385)	(1,127,301)
Balance, ending	$ 5,440,565	$ 4,846,832
Undisbused commitments to related parties	$ 1,597,226	$ 1,417,960
Letters of credit issued for related parties	$ -	$ 653,027

At December 31, 2007 and 2008, the Bank's deposits included deposits from related parties which total approximately $11.3 million and $9.1 million, respectively.

15. OTHER EXPENSES

For the years ended December 31, 2007 and 2008, respectively, other expenses consist of the following:

	2007	2008
Professional fees	$ 103,063	$ 108,583
Stationery and supplies	67,363	78,352
Marketing and promotions	51,520	61,886
Courier Expense	31,915	22,693
Bank service charges	16,556	18,302
Insurance	63,140	70,997
Communication and postage	27,302	33,110
Other	32,392	36,922
Total other expenses	$ 393,251	$ 430,845

The Bank expenses marketing and promotions costs as they are incurred. Advertising expense, included in marketing and promotions, total $14,691 and $14,836 for the years ended December 31, 2007 and 2008, respectively.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Bank's financial instruments at December 31, 2007 and 2008 are presented below.

	2007		2008	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Financial assets:				
Cash and cash equivalents	$ 9,282,550	$ 9,282,550	$ 9,886,535	$ 9,886,535
Other investments	1,076,613	1,076,613	1,025,619	1,025,619
Loans, net	78,773,836	78,729,836	96,785,029	96,676,029
Accrued interest receivable	313,927	313,927	274,488	274,488
Financial liabilities:				
Deposits	69,792,661	69,804,661	87,812,472	87,833,472
Federal Home Loan Bank borrowings	5,000,000	5,000,000	5,000,000	5,112,500
Accrued interest payable	83,017	83,017	91,632	91,632

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

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

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

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

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

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

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

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

17. SUBSEQUENT EVENTS

On February 6, 2009, the Bank entered into a purchase and assumption agreement to acquire certain loans and deposits related to a branch office located in Castro Valley, California. The Bank has agreed to acquire approximately $16.7 million in loans and assume approximately $52.0 million in deposit liabilities to be determined at the date of closing. The Bank has agreed to assume the lease obligation related to the branch facility. The Bank has agreed to pay a premium on transaction deposit accounts of approximately $225,000. The Bank expects to consummate the transaction in the second quarter 2009.