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

August 16, 2013

Dear Fellow Shareholders:

You are cordially invited to attend the 2013 Annual Meeting of Shareholders (the "Annual Meeting") of Bay Commercial Bank (the "Bank"), to be held on September 17, 2013, at 5:30 p.m. local time, in the Board room of the Bank at 500 Ygnacio Valley Road, Suite 200, Walnut Creek, California, 94596. Enclosed are the Notice of the Annual Meeting, a Proxy Statement describing the business to be transacted at the Annual Meeting, and a proxy card for use in voting your shares. A copy of the Bank's Annual Report for the year ended December 31, 2012 (the "2012 Annual Report") accompanies the Proxy Statement.

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

(i) the election of eight persons nominated by the Board of Directors of the Bank, to serve as directors of the Bank; and

(ii) the ratification of the Board of Directors' selection of Moss Adams LLP, independent public accountants, to serve as the independent accounting firm for the Bank for the fiscal year ending December 31, 2013, and

(iii) the approval of the 2013 Repurchase Program pursuant to which the Bank proposes to repurchase shares of its Common Stock outstanding.

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

Sincerely yours,

Lloyd Kendall, Jr.
Chairman of the Board

George J. Guarini
Chief Executive Officer

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be held on September 17, 2013

NOTICE IS HEREBY GIVEN that the 2013 Annual Meeting of Shareholders (the "Annual Meeting") of Bay Commercial Bank (the "Bank") will be held at 5:30 p.m., local time, on September 17, 2013, in the Board room of the Bank at 500 Ygnacio Valley Road, Suite 200, Walnut Creek, California, 94596, to consider and act upon the following proposals:

1. to elect the following eight nominees to serve as directors of the Bank until the 2014 Annual meeting of Shareholders and until their successors are elected and have been qualified:

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

2. to ratify the Board of Directors' selection of Moss Adams LLP, independent public accountants, as the independent accounting firm for the Bank for the fiscal year ending December 31, 2013.
3. to approve the 2013 Repurchase Program pursuant to which the Bank proposes to repurchase shares of its Common Stock outstanding.

Only shareholders of record as of the close of business on July 19, 2013 are entitled to notice of, and to vote at, the Annual Meeting or any adjournment or postponement thereof.

The Board of Directors of the Bank unanimously recommends that you vote "**FOR"** the election of the eight director nominees named in the enclosed Proxy Statement, "**FOR"** the ratification of the appointment of Moss Adams LLP, as the independent accounting firm for the Bank for the fiscal year ending December 31, 2013 and "**FOR**" the approval of the 2013 Repurchase Program.

IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AT THE ANNUAL MEETING REGARDLESS OF THE NUMBER OF SHARES YOU MAY HOLD. Whether or not you expect to attend the Annual Meeting in person, we urge you to complete, sign and date the enclosed proxy as promptly as possible and return it in the enclosed envelope to ensure that we will have a quorum to conduct business. If your shares are held through a bank or broker, check your proxy card to see if you can also vote by telephone or via the internet. Voting by any of these permitted methods will not prevent you from attending the meeting and voting in person.

By Order of the Board of Directors

K Colwell

Keary L. Colwell
Executive Officer and Secretary

Walnut Creek, California
August 15, 2013

BAY COMMERCIAL BANK
500 Ygnacio Valley Road, Suite 200
Walnut Creek, California 94596
(925) 476-1800

PROXY STATEMENT
FOR THE ANNUAL MEETING OF SHAREHOLDERS

This Proxy Statement is furnished in connection with the solicitation of proxies by, and on behalf of, the Board of Directors of Bay Commercial Bank, a California corporation, (“we”, “us”, “our” and the “Bank") for use at the Annual Meeting of Shareholders of the Bank to be held on September 17, 2013, at 5:30 p.m. local time, in the Board room of the Bank, 500 Ygnacio Valley Road, Suite 200, Walnut Creek, California, 94596 and at all postponements or adjournments thereof (the "Annual Meeting").

Purpose of the Annual Meeting

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

> Proposal One: To elect all eight of the persons nominated by the Board of Directors of the Bank to serve as directors of the Bank until the 2014 Annual meeting of Shareholders and until their successors are elected and have been qualified.
>
> Proposal Two: To ratify the Board of Directors' selection of Moss Adams, LLP independent public accountants, as the independent accounting firm for the Bank for the fiscal year ending December 31, 2013.
>
> Proposal Three: To approve the 2013 Repurchase Program pursuant to which the Bank proposes to repurchase shares of its Common Stock outstanding.

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

Voting Securities

Only shareholders of record as of the close of business on July 19, 2013 (the "Record Date") are entitled to notice of and to vote at the Annual Meeting. At the close of business on the Record Date, the Bank had outstanding 4,830,457 shares of its Common Stock.

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

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

Revocability of Proxies

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

Votes Required

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

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

PROPOSAL TWO: RATIFICATION OF SELECTION OF INDEPENDENT ACCOUNTING FIRM FOR 2013. Approval of this proposal requires an affirmative vote of the holders of a majority of the shares of the Common Stock represented and voting.

PROPOSAL THREE: APPROVAL OF THE 2013 STOCK REPURCHASE PROGRAM. Approval of this proposal requires the affirmative vote of two-thirds (2/3) of the shares outstanding of the Bank's Common Stock.

Such other matters, if any, as may properly come before the Annual Meeting will generally require the affirmative vote of the holders of a majority of the shares of the Common Stock represented.

With regard to the election of directors, votes may be cast in favor or withheld; votes that are withheld will be excluded from the vote and will have no effect. Abstentions may be specified on all proposals other than the election of directors and will be counted as shares that are present or represented at the Annual Meeting for purposes of determining a quorum on the proposal on which the abstention is specified. However, because ratification of the selection of the independent accounting firm requires the affirmative vote of the holders of a majority of the shares of the Common Stock represented and voting, abstentions will have the effect of a negative vote with respect to each of these proposals.

Under applicable California law, broker non-votes are counted for the purpose of determining the presence or absence of a quorum for the transaction of business but are not otherwise counted. Therefore, broker non-votes will have no effect on the outcome of the election of directors or the ratification of the selection of the independent accounting firm.

Unless otherwise instructed, each valid proxy returned which is not revoked will be voted "**FOR"** the election as directors of the nominees named in this Proxy Statement, "**FOR**" the ratification of the selection of the independent accounting firm, "**FOR**" the approval of the 2013 Stock Repurchase

Program, and at the proxy holders' discretion, on such other matters, if any, that may come before the Annual Meeting (including any proposal to adjourn the Annual Meeting). At this time, the Board of Directors is not aware of any other matters to come before the Annual Meeting.

Solicitation of Proxies

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

Annual Report

A copy of the Bank's 2012 Annual Audited Financial Report for the fiscal year ended December 31, 2012 (the "2012 Annual Report") is attached. Additional copies of the 2012 Annual Report are available without cost upon request by writing to Keary L. Colwell, Chief Financial Officer, Bay Commercial Bank, 500 Ygnacio Valley Road, Suite 200, Walnut Creek, California 94596.

Market Makers

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

Forward Looking Statements

This document includes forward-looking statements within the meaning of the “Safe-Harbor” provisions of the Private Securities Litigation Reform Act of 1995. The Bank cautions that these statements are qualified by important factors that could cause actual results to differ materially from those reflected by any forward-looking statements contained herein. Such factors include risks and uncertainties arising from, among other things, changes in interest rates, inflation, government regulation, general economic and market conditions, conditions in the real estate markets in which we operate and other factors beyond our control. Do not unduly rely on forward-looking statements because they only reflect our expectations about the future and are not guarantees. Forward-looking statements speak only as of the date they are made and we do not undertake, and specifically disclaim any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements except as required by law.

Security Ownership of Certain Beneficial Owners and Management

The Bank is aware of the following beneficial owners holding 5% or more of the Common Stock as of June 30, 2013.

Name of Beneficial Owner	Number of Shares of Common Stock	Percentage Owned	Stock Options Granted	Warrants
Starboard Fund for New Bancs	317,167	6.6%	-	29,167
Commerce Street Capital	325,340	6.7%	-	32,534
Ithan Creek Master Investments	322,382	6.7%	-	32,240
JAM Recovery Fund	325,340	6.7%	-	32,534
Total	1,290,229	26.7%	-	126,475

PROXY STATEMENT
(continued)

The following table shows the beneficial ownership of directors, executive officers and directors and executive officers as a group as of December 31, 2012:

Name of Beneficial Owner	Number of Shares of Common Stock	Stock Options Granted (2)	Warrants	Percentage Owned (3)
George J. Guarini, Director, President, and Chief Executive Officer	28,014	108,400	-	2.8%
Bhupen B. Amin, Director	37,839	16,000		1.1%
James S. Camp, Director	104,077	16,000	-	2.5%
Harpreet C. Chaudhary, Director	10,000	16,000		0.5%
Lloyd W. Kendall, Jr., Chairman	52,222	26,000 (1)	-	1.6%
Robert G. Laverne, Director	65,000	16,000	-	1.7%
Pramod R. Patel, Director	37,839	16,000	-	1.1%
David M. Spatz, Director	40,300	16,000	-	1.2%
A. Dean Abercrombie Chief Credit Officer and Executive Vice President	22,250	10,000	-	0.7%
Keary L. Colwell Chief Financial Officer, Secretary, and Executive Vice President	2,000	25,400	-	0.6%
Janet L. King Chief Operating Officer and Executive Vice President	1,000	25,400	-	0.5%
Vernon R. Padgett Chief Banking Officer and Executive Vice President	-	-	-	0.0%
Directors and Executive Officers as a Group (Twelve persons)	400,541	291,200	-	13.5%

(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.

(2) All stock options are fully vested and exercisable within 60 days.

(3) Percentage owned includes stock options exercisable within 60 days.

Board of Directors

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

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

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

Committees of the Board of Directors

The Bank's Board of Directors held eleven regularly scheduled meetings and one special meeting in 2012. During 2012, each of the directors attended at least 75% of (i) all board meetings and (ii) all meetings of committees of the Board on which the director served during the period in which he served.

The Executive Committee of the Board of Directors presently includes Directors Kendall, Guarini, Spatz and Camp. The Executive Committee is responsible for considering the qualifications of individuals to serve as directors and recommending a slate of directors for election at the annual meeting. The Executive Committee also generally has the power to act for the full Board of Directors between Board meetings, subject to the limitations provided by California law and the bylaws of the Bank. This Executive Committee met once in 2012.

The Bank's Human Resources/Compensation Committee which presently includes Directors Kendall, Spatz and Camp 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 four times in 2012.

The Bank's Audit Committee presently includes Directors Kendall, Patel, Chaudhary and Laverne. This Committee provides assistance to the Board of Directors in fulfilling its responsibilities with respect to the oversight of the integrity of the Bank’s financial statements and systems of internal controls, the independent auditors’ qualifications, independence and performance and the performance of the Bank’s internal audit function. This Committee also is responsible for monitoring compliance with regulations, and monitoring the Bank's relationship with its primary regulators, the Board of Governors of the Federal Reserve System and the California Department of Financial Institutions. This Committee met eleven times in the 2012.

The Bank's Loan Committee presently includes Directors Amin, Chaudhary, Kendall, Spatz and Guarini. The Committee examines and approves loans above a specified size and monitors regularly the oversight and reviews of the entire loan portfolio. This Committee is responsible for lending, credit policies and monitors compliance with such policies. This Committee met fifty-one times in 2012.

The Bank's Asset Liability Committee presently includes Directors Amin, Kendall, Laverne, Spatz, and Camp. This Committee is responsible for oversight of the implementation of the Bank’s asset liability management and investment policies. The Committee also monitors liquidity, interest rate risk and investment and securities activities. This Committee met eleven times in 2012.

Board of Directors' Compensation

Beginning in 2013, the Bank increased the amount paid to each director other than Mr. Guarini (referred to collectively below as the “outside directors”) to a retainer of $1,000 per month for attendance at Board meetings and Committee meetings. Annual director fees for calendar year 2013 will total $12,000 for each outside director. Director fees paid in 2012 to all directors in the aggregate totaled $45,000. Directors also may be granted stock options under our 2004 Stock Option Plan.

Executive Officers

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

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

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

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, 2012, Mr. Abercrombie was 61 years of age.

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

Ms. Colwell has served as Executive Vice President, Chief Financial Officer and Secretary of the Bank since its inception in March 2004. Prior to joining the Bank she served as Executive Vice President, Chief Financial Officer and Secretary of Bank of San Francisco. At December 31, 2012, Ms. Colwell was 53 years of age.

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

Ms. King has served as Executive Vice President and Chief Operating Officer of the Bank since its inception in March 2004. Prior to joining the Bank, she served as Chief Branch Administrative Officer of Circle Bank. At December 31, 2012, Ms. King was 50 years of age.

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

Mr. Padgett has served as Executive Vice President and Chief Bank Officer of the Bank since June 1, 2013. Prior to joining the Bank, he served in a similar capacity at both Presidio Bank and Mechanics Bank. At December 31, 2012, Mr. Padgett was 53 years of age.

Executive Compensation

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

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

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

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

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

For 2012, Mr. Guarini, Mr. Abercrombie, Ms. Colwell, and Ms. King earned annual salaries of $300,000, $165,000, $180,000, and $180,000, respectively. For 2013, the base annual salaries payable to Mr. Guarini, Mr. Abercrombie, Ms. Colwell, and Ms. King are $315,000, $173,250, $189,000, and $189,000, respectively.

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

For 2012, Mr. Guarini, Mr. Abercrombie, Ms. Colwell, and Ms. King earned annual incentive bonuses of $168,000, $49,400, $66,600, and $66,600, respectively.

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

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

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

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

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

Employment Agreements

Employment Agreement with Mr. Guarini. The Bank has entered into a three-year employment agreement with Mr. Guarini dated April 21, 2013. The agreement provides for, among other things, an annual base salary of at least $315,000, incentive bonuses, a monthly automobile allowance of $800 and group insurance benefits, as well as a group life insurance benefit payable to Mr. Guarini's designated beneficiary in an amount equal to Mr. Guarini's then-current annual base salary and participation in any retirement, profit-sharing, salary deferral, medical expense reimbursement and other similar plans the Bank may establish for its employees. The agreement generally provides for indemnification of Mr. Guarini to the maximum extent permitted by law and applicable regulations for any expenses incurred by him, and for any judgments, awards, fines or penalties imposed against him, in any proceeding relating to his actions (or the Bank's actions) while an agent of the Bank. The agreement also provides for the advancement of expenses to Mr. Guarini and coverage under a director and officer liability insurance policy.

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

Employment Agreements with Mr. Abercrombie, Ms. Colwell, Ms. King, and Mr. Padgett. The Bank has entered into employment agreements with Mr. Abercrombie, Ms. Colwell and Ms. King, dated April 21, 2013, respectively. Mr. Padgett's agreement is dated June 1, 2013. Each of the agreements has a term of three years. Each agreement provides for, among other things, a minimum annual base salary ($173,250 in the case of Mr. Abercrombie, $189,000 in the case of Ms. Colwell, $189,000 in the case of Ms. King, and $185,000 in the case of Mr. Padgett), incentive bonuses, a monthly automobile allowance ($375 in the case of Mr. Abercrombie, $500 in the case of Ms. Colwell, $800 in the case of Ms. King, and $800 in the case of Mr. Padgett) and group insurance benefits, as well as a group life insurance benefit payable to the executive's designated beneficiary in an amount equal to the executive's then-current annual base salary and participation in any retirement, profit-sharing, salary deferral, medical expense reimbursement and other similar plans the Bank may establish for its employees. Each agreement generally provides for indemnification of the executive to the maximum extent permitted by law and applicable regulations for any expenses incurred by him or her, and for any judgments, awards, fines or penalties imposed against him or her, in any proceeding relating to his or her actions (or the Bank's actions) while an agent of the Bank. The agreement also provides for the advancement of expenses to the executive and coverage under a director and officer liability insurance policy.

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

Other Employee Benefit Plans

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

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

2004 Stock Option Plan. In 2004, the Bank's Board of Directors adopted, and the Bank's shareholders approved, the Bank's 2004 Stock Option Plan (the "Stock Option Plan"). The Stock Option Plan provides for the granting by the Bank's Board of Directors of incentive stock options (within the meaning of Internal Revenue Code Section 422) to employees and nonqualified stock options to employees, non-employee directors and, in connection with the Bank's formation, organizing consultants or other incorporators. Factors considered by the Board in granting options to officers and employees include the performance of the Bank, the employee's or officer's job performance, the importance of his or her position, and his or her contribution to the organization's goals for the award period. Generally, stock options must be granted at an exercise price of not less than 100% of the fair market value of the shares on the date of grant and have an exercise period of not longer than ten years. No options were granted in 2012. At December 31, 2012, total options outstanding under the Stock Option Plan were 433,380.

The following table sets forth the unexercised stock options held by the executive officers as of December 31, 2012. No options were exercised during 2012 by the executive officers.

Name	Number of Securities Underlying Options	Value of Unexercised Options (1)
President/CEO George J. Guarini	108,400	$ -
EVP/CCO A. Dean Abercrombie	10,000	11,200
EVP/CFO Keary L. Colwell	25,400	-
EVP/COO Janet L. King	25,400	-
EVP/CBO Vernon R. Padgett	-	-

(1) Fair market value is calculated based on a bid price of $8.20 per share as of December 31, 2012 less the underlying exercise price per share of in-the-money options.

Certain Relationships and Related Transactions

The Bank has had and expects to continue to have banking transactions with many of its directors and executive officers (and their associates). Loans by the Bank to any director or executive officer of the Bank or any of its subsidiaries (or any associate of such persons) have been made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and were judged not to involve more than the normal risk of collection or present other unfavorable features. Loans by the Bank to any director, executive officer or principal shareholder of the Bank or any of its subsidiaries (as such persons are defined by regulation) are subject to limitations under California and federal law. Among other things, a loan by the Bank to a director, executive officer or principal shareholder of the Bank or any of its subsidiaries must be on non-preferential terms and, if all loans to a given person exceed $25,000, such loans must be approved in advance by the Bank's Board of Directors. The Bank had three such loans totaling $1.7 million outstanding and $6.3 million in undisbursed loan commitments as of December 31, 2012, all of which were performing in accordance with their terms as of that date.

Since 2007, the Bank has maintained a separate referral arrangement with a company controlled by Mr. Kendall that specializes in assisting clients with tax deferred exchanges. Under this arrangement, the Bank has agreed to refer to Mr. Kendall’s company certain types of exchange transactions that the Bank is unable to transact itself, for which Mr. Kendall’s company pays the Bank a fee. No transactions were referred by the Bank, and no fees were paid to the Bank, during 2012. The Board of Directors of the Bank (excluding Mr. Kendall) believes that this arrangement is on terms that are fair and reasonable to the Bank and that are at least as favorable to the Bank as comparable transactions with unrelated parties.

PROXY STATEMENT
(continued)

PROPOSAL ONE: ELECTION OF DIRECTORS

Eight directors are to be elected at the Annual Meeting, each to hold office until the Bank's 2012 annual meeting of shareholders and until his respective successor is duly elected and qualified, or until his death, resignation or removal. The Board of Directors' nominees for election are Messrs. Amin, Camp, Chaudhary, Guarini, Laverne, Kendall, Patel and Spatz. Each is presently serving as a director of the Bank. In the event that any of the nominees for election as director become unavailable, which the Bank does not expect, it is intended that, pursuant to the accompanying proxy, votes will be cast for such substitute nominee or nominees as may be designated by the Board of Directors, unless the Board of Directors reduces the number of directors.

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

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

Mr. Guarini has been President and Chief Executive Officer of Bay Commercial Bank since its inception in March 2004. Prior to joining the Bank, Mr. Guarini held several senior lending positions at financial institutions in California. At December 31, 2012, Mr. Guarini was 59 years of age and he has served as a director of the Bank since 2004.

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

Mr. Amin has been the General Counsel and Chief Operating Officer of Lotus Hotels for more than five years. At December 31, 2012, Mr. Amin was 42 years of age. He has served as a director of the Bank since the merger with Global Trust Bank in October 2011.

JAMES S. CAMP . . . . …………………..

Mr. Camp has been the President of the S. A. Camp Companies for more than five years. At December 31, 2012, Mr. Camp was 61 years of age. He has served as a director of the Bank since 2004.

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

Mr. Chaudhary has been a Certified Public Accountant, and a Certified Financial Planner and president of Area Financial Services, Inc., an accounting firm, for more than five years. At December 31, 2012, Mr. Chaudhary was 51 years of age. He has served as a director of the Bank since the merger with Global Trust Bank in October 2011.

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

Mr. Kendall is a practicing attorney, specializing in income tax and real estate law. Since 1982, he has been the President and Chief Executive Officer of Exchange Support Services, Inc., which assists clients in completing tax-free exchanges. Until 2007, Mr. Kendall also served as the President and Chief Executive Officer of Lawyers Asset Management, Inc., which also assisted clients in completing tax-free exchanges. At December 31, 2012, Mr. Kendall was 66 years of age. He has served as a director of the Bank since 2004.

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

Dr. Laverne has been an anesthesiologist at John Muir Medical Center in Walnut Creek, California for more than five years. At December 31, 2012, Dr. Laverne was 64 years of age. He has served as a director of the Bank since 2004.

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

Mr. Patel has been President of Raps Hospitality Group. He has served as a director of the Bank since the merger with Global Trust Bank in October 2011. At December 31, 2012, Mr. Patel was 45 years of age.

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

Mr. Spatz is a real estate investor, and owns and manages several real estate properties. In addition, he has been the President of Anyi Lu International, Inc., a manufacturer of designer shoes, since 2005. At December 31, 2012, Mr. Spatz was 65 years of age. He has served as a director of the Bank since 2004.

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

PROPOSAL TWO: RATIFICATION OF SELECTION OF INDEPENDENT ACCOUNTING FIRM FOR 2012

The firm of Moss Adams LLP, independent public accountants, was appointed in 2013 to audit the financial statements of the Bank for 2013.

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 2013.

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

The Board of Directors recommends a vote FOR this proposal.

PROPOSAL THREE: APPROVAL OF 2013 REPURCHASE PROGRAM

The Board of Directors has voted, subject to shareholder and regulatory approval, to cause the Bank to enter into an agreement with a broker to effect repurchases of the shares of the Bank’s Common Stock on terms specified by the Board of Directors and as conditions warrant. If and when approved by the shareholders and the Bank’s regulators, such repurchases are expected to commence after this Annual Meeting and will end on the date of the next annual meeting in 2014 (“2013 Repurchase Program”) unless the Board of Directors votes to extend the 2013 Repurchase Program, as it deems appropriate.

Pursuant to the 2013 Repurchase Program, the Bank will be authorized to purchase up to 5 percent of the 4,830,457 shares of the Bank’s Common Stock outstanding as of June 30, 2013 (or 241,522 shares of Common Stock) at open market prices.

The Board of Directors has determined that in light of its current and projected capital position and its projected capital needs for operations in accordance with its business plan, the proposed repurchase is a prudent use of the Bank’s capital. Considering its projected capital position, the Board of Directors believes this is an opportune time for the Bank to make a distribution to its shareholders and to continue its strong capital position The Board of Directors expects the repurchase of its Common Shares to support growth in the price of the Bank's stock as it reduces the number of shares outstanding, increases earnings per share and its Return on Equity. Currently, the Bank far exceeds the standards to be rated "Well Capitalized" under applicable state and federal law and regulations and the Bank expects to continue to be rated "Well Capitalized" during and upon completion of the 2013 Repurchase Program.

Prior to commencement of the 2013 Repurchase Program, the approvals of the California Department of Business Oversight, Division of Financial Institutions and of the Board of Governors of the Federal Reserve System must be obtained and the Bank has applied to both agencies for such approval.

The 2013 Repurchase Program does not obligate the Company to repurchase any specific number of shares and may be suspended or terminated at any time without prior notice. Share repurchases, if any, will be made in the open market at such times and in such amounts as the Bank deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, market conditions and applicable legal requirements.

Because the Board of Directors believes the 2013 Repurchase Program to be in the best interests of the Bank's shareholders, the Board would anticipate calling for an adjournment of the Annual Meeting to a later date for the purpose of considering the 2013 Repurchase Program, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Annual Meeting to approve the principal terms of the 2013 Repurchase Program.

The Board of Directors recommends a vote FOR this proposal.

OTHER PROPOSED ACTION

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

BAY COMMERCIAL BANK

Keary L. Colwell
Chief Financial Officer and Secretary

Walnut Creek, California
August 16, 2013

Exhibit A

BAY COMMERCIAL BANK

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

AND

INDEPENDENT AUDITOR'S REPORT

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Bay Commercial Bank

Report on Financial Statements

We have audited the accompanying financial statements of Bay Commercial Bank, which comprise the statements of financial condition as of December 31, 2012 and 2011, and the related statements of operations, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bay Commercial Bank as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Stockton, California
February 20, 2013

BAY COMMERCIAL BANK

STATEMENT OF FINANCIAL CONDITION

December 31, 2012 and 2011

ASSETS		2012		2011
Cash and due from banks		$ 4,422,300		$ 2,759,810
Federal funds sold		68,962,994		36,388,836
Cash and cash equivalents		73,385,293		39,148,646
Interest bearing deposits in banks		10,922,867		11,752,536
Federal Home Loan Bank stock, at par		945,600		592,200
Federal Reserve Bank stock, at par		1,244,100		993,800
Loans	$ 227,491,920		$212,387,137	
Deferred fees, net	(347,495)		(269,601)	
Allowance for loan losses	(2,700,000)		(2,450,000)	
Loans, net		224,444,425		209,667,536
Premises and equipment, net		741,319		711,215
Other real estate owned		150,000		900,000
Deposit intangible		131,777		235,931
Interest receivable and other assets		4,617,984		5,609,558
Total Assets		$ 316,583,365		$ 269,611,422

LIABILITIES AND SHAREHOLDERS' EQUITY	2012	2011
Non-interest bearing deposits	$ 41,004,047	$ 27,571,836
Interest bearing deposits	220,200,383	192,243,289
Total deposits	261,204,430	219,815,125
Other borrowing	2,000,000	-
Interest payable and other liabilities	2,707,148	1,279,228
Total liabilities	265,911,578	221,094,353
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Perferred stock - no par value; 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock - no par value; 100,000,000 shares authorized in 2012 and 2011; 4,830,457 shares issued and outstanding in 2012 and 2011	40,013,940	40,013,940
Additional paid in capital	286,738	286,608
Retained earnings	10,371,109	8,216,521
Total shareholders' equity	50,671,787	48,517,069
Total Liabilities and Shareholders’ Equity	$ 316,583,365	$ 269,611,422

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

BAY COMMERCIAL BANK

STATEMENT OF OPERATIONS

For the years ended December 31, 2012 and 2011

	2012	2011
Interest income:		
Loans	$ 14,375,115	$ 10,208,417
Federal funds sold	116,918	59,078
Investment securities and interest bearing deposits in banks	156,423	31,162
FHLB dividend	8,451	-
FRB dividend	69,769	24,840
Total interest income	14,726,676	10,323,497
Interest expense:		
Deposits	2,346,512	1,755,594
Other borrowings	7,076	19,758
Total interest expense	2,353,588	1,775,352
Net interest income	12,373,088	8,548,145
Provision for loan losses	1,483,033	1,686,894
Net interest income after provision for loan losses	10,890,055	6,861,251
Non-interest income:		
Bargain purchase gain	-	7,650,000
Other income and fees	641,434	586,546
Gain on sale of loans	96,506	-
Total non-interest income	737,940	8,236,546
Non-interest expense:		
Salaries and related benefits	4,785,832	4,053,371
Occupancy and equipment	1,162,240	748,082
Data processing	570,930	851,754
Other	1,262,968	2,112,347
Total non-interest expense	7,781,970	7,765,554
Income before income taxes	3,846,025	7,332,243
Provision for income taxes	1,691,437	18,535
Net income	$ 2,154,588	$ 7,313,708
Income per share:		
Basic: Net income	$ 0.45	$ 1.92
Weighted average shares outstanding	4,830,457	3,809,402
Diluted: Net income	$ 0.45	$ 1.92
Weighted average shares outstanding	4,839,157	3,809,402

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

BAY COMMERCIAL BANK

STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2012 and 2011

	2012	2011
Net income	$ 2,154,588	$ 7,313,708
Other comprehensive income:		
Unrealized loss on available-for-sale of investment securities, net of tax	-	(2,524)
Total comprehensive income	$ 2,154,588	$ 7,311,184

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, 2012 and 2011

	Common Stock Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2010	$ 32,327,940	$ 263,174	$ 902,813	$ 2,524	$ 33,496,451
Issue 1,280,663 shares of common stock	7,686,000	9,790			7,695,790
Net income			7,313,708	(2,524)	7,311,184
Stock based compensation expense		13,644			13,644
Balance, December 31, 2011	40,013,940	286,608	8,216,521	-	48,517,069
Net income			2,154,588		2,154,588
Stock based compensation expense		130			130
Balance, December 31, 2012	$ 40,013,940	$ 286,738	$ 10,371,109	$ -	$ 50,671,787

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

BAY COMMERCIAL BANK

STATEMENT OF CASH FLOWS

For the years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Net income	$ 2,154,588	$ 7,313,708
Adjustments to reconcile net income to net cash provided by operating activities:		
Bargain purchase gain	-	(7,650,000)
Provision for loan losses	1,483,033	1,686,894
Write down and loss on sale of OREO	180,000	315,427
Depreciation and amortization	354,688	196,885
Core deposit intangible amortization	104,154	90,332
Stock based compensation	130	13,644
Deferred loan origination fees, net	77,894	(42,712)
Decrease in accrued interest receivable and other assets	991,574	52,308
Increase in accrued interest payable and other liabilities	1,427,920	305,300
Net cash provided by operating activities	6,773,982	2,281,786
Cash flows from investing activities:		
Maturity of interest bearing deposits in banks	829,669	59,895
Purchase of Federal Home Loan Bank stock	(353,400)	(40,000)
Principal repayment of mortgage-backed securities, net of change in market value	-	177,950
Net increase in loans	(16,662,817)	(21,507,973)
Purchase of Federal Reserve Bank Stock	(250,300)	(993,800)
Sale of OREO	895,000	779,295
Purchase of premises and equipment	(384,792)	(174,476)
Net cash received from acquisition	-	14,888,989
Net cash used in investing activities	(15,926,640)	(6,810,120)
Cash flows from financing activities:		
Net increase (decrease) in demand, interest bearing and savings deposits	37,975,407	(550,579)
Increase (decrease) in time deposits	3,413,898	9,596,402
Net increase (decrease) in other borrowings	2,000,000	(415,081)
Net cash provided by financing activities	43,389,305	8,630,742
Increase in cash and cash equivalents	34,236,647	4,102,408
Cash and cash equivalents at the beginning of the year	39,148,646	35,046,238
Cash and cash equivalents at end of the year	$ 73,385,293	$ 39,148,646
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest expense	$ 2,363,877	$ 1,783,316
Income tax	851,000	440,800
Acquisition:		
Assets purchased	-	72,134,267
Liabilities assumed	-	71,677,466
Stock options extended	-	-
Bargain purchase gain	-	7,650,000
Common stock issued	-	-
Net cash received	-	7,193,199
Non-cash investing activities:		
Net change in unrealized gain on investment securities available for sale	-	(2,524)
Transfers of loans to other real estate owned	325,000	405,000

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

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 five branches located in Contra Costa, Alameda, Santa Clara, and Napa Counties.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant accounting estimates reflected in the Bank's 2012 and 2011 financial statements include the allowance for loan losses, the valuation for deferred tax assets, the fair value of stock options, the valuation of financial assets and the determination, recognition and measurement of impaired loans. Actual results could differ from these estimates.

Acquisition

On October 18, 2011, the Bank acquired all of the assets and assumed all of the liabilities of Global Trust Bank under a Merger and Plan of Reorganization (Merger Agreement). The acquired assets and assumed liabilities, both tangible and intangible, were measured at estimated fair values, as required by the acquisition method of accounting for business combinations Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 805, Business Combinations. Management made significant estimates and exercised significant judgment in accounting for the acquisition. The Bank recorded an identifiable intangible asset representing the value of the core deposit customer base. The deposit intangible asset represents the value ascribed to the long-term deposit relationships acquired and is being amortized over an estimated average useful life of five years.

The Bank is required to expense acquisition related costs separately from the acquisition. It also requires that any restructuring costs be expensed separately from the business combination.

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, 2012 and 2011, 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, 2012 and 2011, $1,180,000 and $553,000 reserve balances were required, respectively.

Interest bearing deposits in banks

The Bank invests in interest bearing deposits in banks with terms of up to three years. At December 31, 2012 and 2011, the Bank held interest bearing deposits totaling $10,922,867 and $11,752,536 with a yield of 1.41% and 1.41% and a weighted average term to maturity of two and three years, respectively.

Federal Home Loan Bank Stock

As of December 31, 2012 and 2011, Federal Home Loan Bank of San Francisco (FHLB) stock totaling $945,600 and $592,200, respectively, is recorded at cost and is redeemable at par value.

Federal Reserve Bank Stock

As of December 31, 2012 and 2011, Federal Reserve Bank (FRB) stock totaling $1,244,100 and $993,800, respectively, is recorded at cost and is redeemable at par value.

Loans

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

In 2011, the Bank acquired loans in a business combination that are recorded at estimated fair value on their purchase date. The purchaser cannot carryover the related allowance for loan losses. Purchased loans are accounted for under either ASC 310-30, Loans and Debt Securities with Deteriorated Credit Quality or ASC 310-20, Non-refundable Fees and other Costs. As of the purchase date, none of the loans were on non-accrual or exhibited credit quality deterioration since origination and are therefore being accounted for under ASC 310-20.

A significant portion of the Bank's loan portfolio is comprised of adjustable rate loans. Interest on loans is calculated and accrued daily using the simple interest method based on the daily amount of principal outstanding. The accrual of interest is discontinued and any accrued and unpaid interest is charged against current income when the payment of principal or interest is 90 days past due, unless the loan is well secured and in the process of collection.

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

Loan Fees and Costs

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

Salaries, employee benefits and other expenses totaling $490,675 and $369,454 are deferred as loan origination costs for the years ended December 31, 2012 and 2011, 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, 2012 and 2011, management believes the allowance for loan losses adequately reflects the credit risk in the loan portfolio.

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

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

Troubled debt restructuring

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

Other Real Estate Owned

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

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

Premises and Equipment

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

Impairment of Assets

All assets are reviewed for impairment whenever events or changes indicate that the carrying value of the asset may not be recoverable. As of December 31, 2012 and 2011, the Bank determined that no events or changes occurred during 2012 and 2011 that would indicate that the carrying value of any long-lived assets may not be recoverable.

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

Transfers of financial assets

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

The Bank may sell certain portions of government guaranteed loans in the secondary market. These sales are recorded by the Bank when control is surrendered and any warranty period or recourse provision expires. During 2012, the Bank sold the guaranteed portion of loans totaling $3.7 million and recognized gains of $96,506. There were no warranty or recourse provisions for loans sold during 2012. No loans were sold during 2011.

Servicing liabilities

Periodically, the Bank sells loans and retains the servicing rights. The gain or loss on sale of loans depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. To obtain fair values, quoted market prices are used if available. However, quotes are generally not available for retained interests, so the Bank generally estimates fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions – credit losses, prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved.

Total loans serviced for others were approximately $15.8 million and $16.9 million as of December 31, 2012 and 2011, respectively. Total servicing liabilities were approximately $193,000 and $215,000 December 31, 2012 and 2011, respectively.

Income Taxes

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

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

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2012 and 2011, the Bank recognized zero in interest and penalties, respectively.

The Bank files income tax returns in the U.S. federal jurisdiction and with the State of California. The Bank is subject to U.S. federal and state income tax examinations by tax authorities for years beginning 2009 and 2008, respectively. The Bank had no unrecognized tax benefits at December 31, 2012 or 2011.

Non-interest Income

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

Stock Based Compensation

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

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

Income Per Share

Basic income per share (EPS) is computed by dividing the net income by the weighted-average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if stock options or warrants were exercised. The treasury stock method is applied to determine the dilutive effect of stock options and warrants in computing diluted EPS. For the period ended December 31, 2012, a total of 8,700 stock options were included in the calculation of diluted common shares, and none of the warrants were include because they were antidilutive. For the period ended December 31, 2011, all of the stock options and warrants were excluded from the diluted common shares because they were antidilutive.

For the periods ended December 31, 2012 and 2011, total weighted average common shares outstanding are as follows:

	2012	2011
Common Stock	3,809,402	3,809,402
Diluted effect of warrants	-	-
Diluted effect of stock options	-	-
Total weight average diluted shares	3,809,402	3,809,402

Common Stock and Warrants

In 2011, the Bank issued 1,280,663 shares of common stock in connection with the merger of Global Trust Bank.

Comprehensive Income (Loss)

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

Recent Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05 *Comprehensive Income (Topic 220) Presentation of Comprehensive Income.* The ASU improves the comparability, consistency, and transparency of financial reporting and increases the prominence of items reported in other comprehensive income. The amendments to Topic 220, *Comprehensive Income,* require entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Entities are no longer permitted to present components of other comprehensive income as part of the statement of changes in stockholders' equity. Any adjustments for items that are reclassified from other comprehensive income to net income are to be presented on the face of the entities' financial statement regardless of the method of presentation for comprehensive income. The amendments do not change items to be reported in comprehensive income or when an item of other comprehensive income must be reclassified to net income, nor do the amendments change the option to present the components of other comprehensive income either net of related tax effects or before related tax effects. In December 2011, the FASB issued ASU No. 2011-12 *Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards,* which supersedes certain pending paragraphs in ASU No. 2011-05 that pertain to how, when, and where reclassification adjustments are presented. ASU 2011-05 is effective for fiscal years, and interim periods beginning on or after December 15, 2011. We have adopted this ASU as of January 1, 2012. In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The ASU requires entities to provide enhanced disclosures to present separately by component, reclassifications out of accumulated other comprehensive income. An entity is required to disclose in the notes of the financial statements or parenthetically on the face of the financial statements the effect of significant items reclassified out of accumulated other comprehensive income on the respective line items of net income, but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety. ASU 2013-02 is effective for fiscal years, and interim periods beginning on or after December 15, 2012. The specific requirement to present items that are reclassified from other comprehensive income to net income alongside their respective components of net income and other comprehensive income is deferred until the FASB re-deliberates. We have adopted this ASU as of January 1, 2012.

In May 2011, the FASB issued ASU No. 2011-04 *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* The ASU improves the comparability of fair value measurements presented and disclosed in accordance with U.S. GAAP and IFRS. The amendments to this ASU provide explanations on how to measure fair value, but do not require any additional fair value measurements and do not establish valuation standards or affect valuation practices outside of financial reporting. The amendments clarify existing fair value measurements and disclosure requirements to include: 1) application of the highest and best use and valuation premises concepts; 2) measuring fair value of an instrument classified in a reporting entity's shareholders' equity; and 3) disclosure requirements regarding quantitative information about unobservable inputs categorized within Level 3 of the fair value hierarchy. In addition, for assets and liabilities not recognized at fair value but disclosure is required, entities need to disclose the level in which the fair value measurement would be categorized within the fair value hierarchy. ASU 2011-04 is effective during interim and annual periods beginning after December 15, 2011. We have adopted this ASU effective January 1, 2012.

Subsequent Events

Management has evaluated subsequent events for recognition and disclosure through February 19, 2012, the date the financial statements were issued.

Reclassifications

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

2. ACQUISITION

On October 18, 2011, the Bank merged with Global Trust Bank with one branch office located in Mountain View, California. The transaction was recorded as a business combination. The Bank acquired total assets of $90.0 million including $56.7 million in loans, and assumed $71.7 million in liabilities including $71.3 million in deposit liabilities. The Bank assumed the lease obligation related to the branch facility.

The Merger Agreement provided that Global Bancorp merge with and into Global Trust Bank and, immediately thereafter, Global Trust Bank merged with and into the Bank. Each share of Global Bancorp common stock issued and outstanding converted into either 0.75678 shares of the Bank's common stock, $7.25 in cash, or a combination of the two, at the election of the holder of such share of Global Bancorp common stock, provided that the resulting mix of consideration is such that at least approximately 80% of the shares of Global Bancorp common stock is converted into the Bank's common stock and the remainder of the shares of Global Bancorp common stock is exchanged for cash. The Bank issued a total of 1,280,663 shares of common stock and paid $3,023,428 in cash to Global Trust Bank shareholders.

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

		Acquisiton Date October 18, 2011
Fair value of Assets:		
Cash and due from Banks	$	3,587,417
Federal funds sold		14,325,000
Total cash and cash equivalents		17,912,417
Interest bearing deposits in banks		11,671,000
Loans		56,691,259
Core deposit intangible		211,781
Deferred tax asset		2,407,984
Other assets		1,152,243
Total assets acquired		90,046,684
Liabilities:		
Deposits		
Noninterest bearing		7,699,920
Interest bearing		63,612,279
Total deposits		71,312,199
Other liabilities		365,267
Total liabilities assumed		71,677,466
Common stock/cash		10,719,218
Bargain purchase gain (included in non-interest income)	$	7,650,000

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

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

		Date October 18, 2011
Book value of net assets acquired	$	16,918,988
Fair value adjustments:		
Loans		(921,535)
Investment in time deposits		203,000
Core deposit intangible		211,781
Deferred tax assets		2,407,984
Contingent liability - servicing costs		(218,000)
Discount on time deposits		(233,000)
Total purchase accounting adjustments		1,450,230
Fair value of assets acqcuired		18,369,218
Stock options issued		9,790
Cash paid		3,023,428
Common stock issued		7,686,000
Total price paid		10,719,218
Bargain purchase gain, net of tax (included in non-interest income)	$	7,650,000

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

Loans

The fair values for acquired loans were calculated using a discounted cash flow analysis with certain assumptions related to expected cash flows and probability of loss. For purchased non-credit impaired loans, the total gross contractual amounts receivable were $57.6 million as of the acquisition date.

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

Deposits

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

pro Forma Results of Operations

The contribution of the acquired operations from the former Global Trust Bank to our results of operations for the 2011 is as follows:

	Revenue	Earnings
Actual from October 19, 2011 to December 31, 2011	$ 261,190	$ 1,223,708
2011 supplemental proforma from January 1, 2011 to October 18, 2011	8,873,501	217,775
2010 supplemental proforma from January 1, 2010 to December 31, 2010	8,461,158	(947,166)

These amounts include the bargain purchase gain, acquisition-related third party expenses, accretion of the discounts on acquired loans and amortization of the fair value mark on the investments, time deposits and core deposit intangible. Global Trust Bank's results of operations prior to the merger date are not included in the Bank's results for 2011. The contribution shown above excludes allocated overhead and allocated cost of funds.

Acquisition-related expenses are recognized as incurred and continue until all systems are converted and operational functions become fully integrated. We incurred third-party acquisition-related expenses in the following line items in the statement of income for the year ended December 31, 2011 as follows:

	December 31, 2011
Acquisition related expenses	
Professional fees	$ 475,670
Data processing	495,694
Severence expense	439,422
Other	169,214
Total	$ 1,580,000

3. LOANS

The Bank's loan portfolio at December 31, 2012 and 2011 is summarized below:

	2012	2011
Commercial	$ 69,839,874	$ 61,132,612
Construction and land	15,998,110	14,932,437
Commercial real estate	126,373,785	122,301,372
Residential real estate	14,796,975	13,197,021
Consumer	483,176	823,695
Total loans	$ 227,491,920	$ 212,387,137
Deferred loan fees and costs, net	(347,495)	(269,601)
Allowance for loan losses	(2,700,000)	(2,450,000)
Net loans	$ 224,444,425	$ 209,667,536

For the years ended December 31, 2012 and 2011, the Bank had $2,546,000 and $1,355,000, respectively, of impaired loans on nonaccrual. For the period ended December 31, 2012 and 2011, if interest had been accrued such income would have been approximately $76,000 and $68,300, respectively.

As of December 31, 2012 and 2011, the Bank's impaired and non-accrual loans have a related allowance for loss as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2012					
With no related allowance recorded					
Commercial	$ 380,000	$ 380,000	$ -	$ 1,158,400	$ -
Construction and land	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Residential	-	-	-	-	-
Consumer	-	-	-	-	-
With an allowance recorded					
Commercial	-	-	-	-	-
Construction and land	-	-	-	-	-
Commercial real estate	2,165,902	2,165,902	96,000	175,911	106,049
Residential	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 2,545,902	$ 2,545,902	$ 96,000	$ 1,334,311	$ 106,049
2011					
With no related allowance recorded					
Commercial	1,354,758	1,354,758	-	1,138,303	20,786
Construction and land	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Residential	-	-	-	-	-
Consumer	-	-	-	-	-
With an allowance recorded					
Commercial	-	-	-	-	-
Construction and land	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Residential	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 1,354,758	$ 1,354,758	$ -	$ 1,138,303	$ 20,786

As of December 31, 2012 and 2011, the Bank had no loans 90 days delinquent and still accruing interest. Loans restructured during the period ending December 31, 2012 and 2011, were as follows:

	2012			2011		
	Number of Loans	Pre-modification Amount Due	Post-modification Amount Due	Number of Loans	Pre-modification Amount Due	Post-modification Amount Due
Troubled debt restructurings that subsequently defaulted	-	$ -	$ -	-	$ -	$ -
Troubled debt restructurings						
Commercial	2	$ 380,000	$ 380,000	1	$ 600,047	$ 600,047

The terms of the loan have been restructured to extend the maturity date to allow for the orderly liquidation of the underlying collateral. In 2012 and 2011, the Bank charged-off $409,619 and $150,047, respectively from the allowance for loan losses related to the restructured loans based on the collateral shortfall as determined by calculating the present value of expected future cash flows discounted at the loan's effective interest rate. As of December 31, 2012, restructured loans have no related allowance.

As of December 31, 2012 and 2011, the Bank has fixed rate loans totaling $48.6 million and $37.0 million, respectively, and variable rate loans total $178.9 million and $175.4 million, respectively. As of December 31, 2012, variable rate loans with interest rate caps of 12% or lower total $64.3 million none of which have reached their caps, and a total of $147.4 million have interest rate floors all of which are at their floors. More than 95% 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, 2012 and 2011, a total of $6.5 million and $3.1 million, respectively, of variable rate loans are tied to the treasury constant maturity rate (CMT) as published by the Federal Reserve and adjust every five years. At December 31, 2012 and 2011, a total of $568,000 and $1.0 million, respectively, of variable rate loans are tied other indexes and adjust every five years.

Loans are made primarily for business, personal, and real estate purposes concentrated in Contra Costa, Alameda, Santa Clara and Napa Counties. As of December 31, 2012, the Bank's loans outstanding comprised 56% term mortgage-type loans secured primarily by commercial real estate, 4% for the purpose of constructing commercial and residential property, 3% for the purpose of holding or acquiring unimproved land, 6% term mortgage-type loans secured by residential property, and 31% for general commercial uses including professional, retail, and small business. Less than 1% of Bank's loans are consumer loans.

As of December 31, 2012, the Bank's unsecured loans outstanding totaled 6.2% of total loans. Real estate loans are secured by real property. Secured commercial and other loans are secured by deposits, or business or personal assets. The Bank's policy for requiring collateral is based on analysis of the borrower, the borrower's industry and the economic environment in which the loan is granted. The loans are expected to be repaid from cash flows or proceeds from the sale of selected assets of the borrower.

As of December 31, 2012 and 2011, the single largest loan totaled $6.8 million and $6.9 million, respectively, and are secured by commercial real estate. As of December 31, 2012 and 2011, undisbursed commitments total $47.8 million and $32.1 million, respectively. The Bank sold one participation loan totaling $4.3 million in 2012 and none in 2011.

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

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

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

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

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

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

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

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

Any asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and value, highly questionable and improbable. Doubtful assets have a high probability of loss, yet certain important and reasonably specific pending factors may work toward the strengthening of the asset. The Bank had no assets classified as doubtful as of December 31, 2012 and 2011.

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

The following table summarizes the Bank's loan portfolio by credit quality and product and/or collateral type as of December 31, 2012 and 2011:

2012	Pass	Special Mention	Substandard	Total
Commercial	$ 63,182,998	$ 82,779	$ 6,574,097	$ 69,839,874
Construction and land	15,998,110	-	-	15,998,110
Commercial real estate	119,381,754	-	6,992,031	126,373,785
Residential real estate	14,796,975	-	-	14,796,975
Consumer	483,176	-	-	483,176
Total	$ 213,843,013	$ 82,779	$ 13,566,128	$ 227,491,920

2011	Pass	Special Mention	Substandard	Total
Commercial	$ 55,964,378	$ -	$ 5,168,234	$ 61,132,612
Construction and land	13,815,207	-	1,117,230	14,932,437
Commercial real estate	114,939,563	3,718,530	3,643,279	122,301,372
Residential real estate	13,197,021	-	-	13,197,021
Consumer	823,695	-	-	823,695
Total	$ 198,739,864	$ 3,718,530	$ 9,928,743	$ 212,387,137

The following table provides an aging of the Bank's loans receivable as of December 31, 2012 and 2011.

2012	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
Commercial	$ 257,351	$ -	$ 380,000	$ 637,351	$ 69,202,523	$ 69,839,874	-
Construction and land	-	-	-	-	15,998,110	15,998,110	-
Commercial real estate	2,165,902	-	-	2,165,902	124,207,883	126,373,785	-
Residential	-	-	-	-	14,796,975	14,796,975	-
Consumer	93,636		-	93,636	389,540	483,176	-
Total	$ 2,516,889	$ -	$ 380,000	$ 2,896,889	$ 224,595,031	$ 227,491,920	-
2011							
Commercial	$ 500,000	$ 904,758	$ 450,000	$ 1,854,758	$ 59,277,854	$ 61,132,612	-
Construction and land					14,932,437	14,932,437	-
Commercial real estate	-	-	-	-	122,301,372	122,301,372	-
Residential	560,936	-	-	560,936	12,636,085	13,197,021	-
Consumer	-	-	-	-	823,695	823,695	-
Total	$ 1,060,936	$ 904,758	$ 450,000	$ 2,415,694	$ 209,971,443	$ 212,387,137	-

4. ALLOWANCE FOR LOAN LOSSES

The following table summarizes the Bank's allowance for loan losses for the year ended December 31, 2012 and 2011 by loan product and collateral type:

2012	Commercial	Construction and Land	Commercial Real Estate	Residential	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 1,150,000	$ 180,000	$ 1,015,000	$ 60,000	$ 5,000	$ 40,000	$ 2,450,000
Charge-offs	(1,033,063)	-	(222,308)	-	-	-	(1,255,371)
Recoveries	22,339	-	-	-	-	-	22,339
Provision	1,300,724	(70,000)	251,308	(40,000)	(4,000)	45,000	1,483,032
Ending balance	$ 1,440,000	$ 110,000	$ 1,044,000	$ 20,000	$ 1,000	$ 85,000	$ 2,700,000
							-
Allowance for loan loss related to loans individually evaluted for impairment	$ -	$ -	$ 96,000	$ -	$ -	$ -	$ 96,000
Balance of loans individually evaluated for impairment	$ 380,000	-	2,165,902	-	-	-	$ 2,545,902
Allowance for loan loss related to loans collectively evaluted for impairment	$ 1,440,000	$ 110,000	$ 948,000	$ 20,000	$ 1,000	$ 85,000	$ 2,604,000
Balance of loans collectively evaluated for impairment	$ 69,459,874	$ 15,998,110	$ 124,207,883	$ 14,796,975	$ 483,176	-	$ 224,946,018
Ending balance	$ 69,839,874	$ 15,998,110	$ 126,373,785	$ 14,796,975	$ 483,176	-	$ 227,491,920

2011	Commercial	Construction and Land	Commercial Real Estate	Residential	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 995,000	$ 175,000	$ 970,000	$ 210,000	$ 5,000	$ 10,000	$ 2,365,000
Charge-offs	(1,524,201)	-	-	(83,733)	-	-	(1,607,934)
Recoveries	6,040	-	-	-	-	-	6,040
Provision	1,673,161	5,000	45,000	(66,267)		30,000	1,686,894
Ending balance	$ 1,150,000	$ 180,000	$ 1,015,000	$ 60,000	$ 5,000	$ 40,000	$ 2,450,000
Allowance for loan loss related to loans individually evaluted for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Balance of loans individually evaluated for impairment	$ 1,354,758	-	-	-	-	-	$ 1,354,758
Allowance for loan loss related to loans collectively evaluted for impairment	$ 1,150,000	$ 180,000	$ 1,015,000	$ 60,000	$ 5,000	$ 40,000	$ 2,450,000
Balance of loans collectively evaluated for impairment	$ 59,777,854	$ 14,932,437	$ 122,301,372	$ 13,197,021	$ 823,695	-	$ 211,032,379
Ending balance	$ 61,132,612	$ 14,932,437	$ 122,301,372	$ 13,197,021	$ 823,695	-	$ 212,387,137

5. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31, 2012 and 2011:

	2012	2011
Furniture, fixtures and equipment	$ 1,205,508	$ 973,720
Leasehold improvements	576,974	503,078
Less accumulated depreciation and amortizatio	(1,041,164)	(765,583)
Total premises and equipment, net	$ 741,318	$ 711,215

Depreciation and amortization included in occupancy and equipment expense total $354,688 for the year ended December 31, 2012 and $196,885 for the year ended December 31, 2011.

The Bank leases its branches and administration office under noncancelable operating leases. These leases expire on various dates through 2022. All leases have options to renew for five years. Future minimum lease payments are as follows:

Year Ending December 31,	
2013	$ 707,837
2014	458,040
2015	465,697
2016	473,431
2017	463,234
Thereafter	2,297,315
	$ 4,865,554

Rental expense included in occupancy and equipment expense totals $757,399 and $449,900 for the years ended December 31, 2012 and 2011, respectively.

6. OTHER REAL ESTATE OWNED

Other real estate owned as of December 31, 2012 and 2011 consisted of the following:

	2012	2011
Residential	$ 405,000	$ 1,215,427
Allowance for loss	(255,000)	(315,427)
Total	$ 150,000	$ 900,000

7. DEPOSITS

Deposits consisted of the following at December 31, 2012 and 2011:

	2012	2011
Demand deposits	$ 41,004,047	$ 27,571,836
NOW accounts and Savings	14,604,694	11,325,971
Money market	89,984,425	68,719,952
Time – less than $100,000	18,871,653	20,357,488
Time – $100,000 or more	96,739,611	91,839,878
Total deposits	$ 261,204,430	$ 219,815,125

At December 31, 2012 and 2011, the weighted average stated rate is 0.86% and 1.14%, respectively. At December 31, 2012, approximately $35.6 million, or 13.6%, of the Bank's deposits are derived from seven (7) depositors. At December 31, 2011, approximately $25.1 million, or 11.4%, of the Bank's deposits are derived from nine (9) 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 $6.5 million and $3.0 million at December 31, 2012 and 2011, respectively. Average deposit balances for this activity totaled $6.2 million and $3.5 million during 2012 and 2011, respectively.

At December 31, 2012, aggregate annual maturities of time deposits are as follows:

Year Ending, December 31,	
2013	$ 79,770,669
2014	26,827,985
2015	2,210,941
2016	1,175,002
2017	5,626,667
Total time deposits	$ 115,611,264

Interest expense, net of early withdrawal penalty, recognized on interest-bearing deposits for the years ended December 31, 2012 and 2011 consists of the following:

	2012	2011
NOW accounts and Savings	$ 50,508	$ 25,678
Money market	780,766	510,238
Time - less than $100,000	207,587	212,043
Time - $100,000 or more	1,307,651	1,007,635
Total interest expense	$ 2,346,512	$ 1,755,594

8. OTHER BORROWINGS

Other borrowings for the period ending and as of December 31, 2012 and 2011 are as follows:

	2012	2011
Outstanding balance	$2,000,000	$ -
Interest rate	0.70%	0.00%
Average balance	$ 1,000,000	$ 103,770
Average interest rate	0.70%	6.50%
Maximum balance	$ 2,000,000	$ 415,081

In 2010, the Bank assumed the senior lien on one of its OREO properties. The Bank repaid this lien in 2011.

The Bank has an approved secured borrowing facility with the FHLB for up to 25% of total assets for a term not to exceed five years under a blanket lien of certain types of loans. There were $2.0 million outstanding under this facility at December 31, 2012 and none was outstanding as of December 31, 2011.

The Bank has two Federal Funds lines with available balances totaling $9.0 million with two correspondent banks. There are no amounts outstanding under these facilities at December 31, 2012 and 2011.

9. INCOME TAXES

Income taxes expense for the years ended December 31, 2012 and 2011 are as follows:

	2012		2011	
	Federal	State	Federal	State
Current income taxes	$ 1,091,150	$ 412,976	$ (95,518)	$ 57,265
Deferred income taxes, net	154,765	32,546	51,841	4,947
Total provision for income taxes	$ 1,245,915	$ 445,522	$ (43,677)	$ 62,212

The provision for income tax differs from the amounts computed by applying the statutory Federal and State income tax rates. The significant items comprising these differences for the years ended December 31, 2012 and 2011 consist of the following:

	2012		2011	
	Amount	Rate %	Amount	Rate %
Federal statutory tax rate	$ 1,307,649	34.00%	$ 2,492,963	34.00%
State statutory tax rate, net of Federal effective tax rate	274,991	7.15%	524,255	7.15%
Stock based compensation	54	0.00%	2,816	0.04%
Bargain purchase gain	-	0.00%	(3,156,390)	-43.05%
Acquisition expenses	-	0.00%	160,089	2.18%
Other	108,743	1.48%	(5,198)	-0.07%
Total income tax expense	$ 1,691,437	42.63%	$ 18,535	0.25%

Deferred tax assets at December 31, 2012 and 2011, included as a component of other assets in the Statement of Financial Condition, consisted of the following:

Deferred tax assets, net of liabilities:	2012	2011
Net operating loss carryforward	$ 1,464,890	$ 1,497,436
Mark to market adjustments	399,819	403,355
Amortization of start up costs	325,242	355,483
Write down of OREO	111,399	142,159
Allowance for loan losses	694,435	840,347
Deferred loan fees net of costs	143,009	110,953
Stock based compensation	42,968	40,158
Stock dividend	(12,717)	(22,939)
Other	(4,045)	(14,641)
Total deferred tax assets	$ 3,165,000	$ 3,352,311

The Bank acquired certain deferred tax assets when it merged with Global Trust Bank including the net operating loss carry-forward totaling $3.6 million. The utilization of the net operating losses is subject to an annual limit and begins expiring in 2028. As of December 31, 2012 and 2011, there is no valuation allowance based on management's estimate that the Bank will more likely than not be able to utilize all of the deferred tax assets.

The Bank files income tax returns in the U.S. federal jurisdiction and in California. The Bank is no longer subject to income tax examinations by taxing authorities for years before 2009 for its federal filings and 2008 for its California filings. The Bank's policy is to recognize penalties and interest as income tax expense.

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, 2012 and 2011, undisbursed commitments total $47,825,000 and $32,081,000, respectively. In addition, at December 31, 2012 and 2011, the Bank issued letters of credit totaling $1,968,000 and $2,097,000, respectively, which represent guarantees of obligations of Bank clients. As of December 31, 2012 and 2011, the Bank pledged time deposits totaling zero and $28,200, respectively, to a correspondent bank as security related to one of its branch offices.

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, 2012 and 2011, the reserve associated with these commitments is $69,000 and $53,000, respectively.

Local Agency Deposits

In the normal course of business, the Bank accepts deposits from local agencies. The Bank is required to provide collateral for certain local agency deposits. As of December 31, 2012 and 2011, the FHLB issued a letter of credit on behalf of the Bank totaling $4,250,000, respectively, as collateral for local agency deposits.

Litigation and Legal Claims

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

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, 2012 and 2011 the Bank made contributions to the plan of $60,200 and $51,800, respectively.

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.

As of December 31, 2012, pursuant to the Plan, 483,045 shares of common stock are reserved for issuance to employees, organizers and Directors under incentive and nonstatutory agreements. To date options to acquire 9,794 shares of common stock have been exercised.

No options were granted in 2012. The following are the weighted average assumptions used to estimate the fair value of stock options granted or extended during 2011:

	Granted 10/25/2011	Granted 10/18/2011	Extensions 10/18/2011
Expected dividend yield	0.0%	0.0%	0.0%
Risk-free interest rate	1.07%	0.38%	0.38%
Expected volatility factor	21.7%	21.7%	21.7%
Expected term	5.0	2.5	2.5
Weighted average exercise price	$ 10.00	$ 10.00	$ 10.00
Weighted average fair value	0.20	0.08	0.08
Number of options granted/extended	23,182	106,654	98,152
Fair value of options granted	$ 4,660	$ 8,426	$ 7,754

The following table provides the stock option activity for the year ending December 31, 2012:

	2012	
	Number of Shares	Weighted Average Exercise Price
Balance at beginning of the year	471,688	$ 10.23
Granted	-	-
Exercised	-	-
Expired	(38,308)	11.77
Balance at end of the year	433,380	$ 10.09

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, 2012 and 2011:

	2012	2011
Weighted-average fair value of options granted during the year	$ -	$ 0.09
Intrinsic value of options exercised	-	-
Options exercisable at year end:	433,380	466,688
Weighted-average exercise price	$ 10.09	$ 10.23
Intrinsic value	14,750	-
Weighted-average remaining contractual life	2.5 years	3.5 years
Options outstanding at year end:	433,380	471,688
Weighted-average exercise price	$ 10.09	$ 10.23
Intrinsic value	14,750	-
Weighted-average remaining contractual life	2.5 years	3.5 years

As of December 31, 2012, 170,200 incentive stock options and 263,180 non-qualified stock options are outstanding. As of December 31, 2012, there is no unrecognized compensation cost related to non-vested stock. No stock options were exercised in 2012 and 2011. A total of zero and $6,835, respectively, net of tax benefits related to non-qualified stock options were recorded during 2012 and 2011.

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, 2012, $10.4 million is free from such restrictions.

Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. As of December 31, 2012 and 2011, management believes that the Bank meets all its capital adequacy requirements. The Bank received notification from the FDIC categorizing the Bank as Well Capitalized under the framework of prompt corrective action regulations.

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

	2012		2011	
Leverage Ratio	Dollars	Ratio	Dollars	Ratio
Bay Commercial Bank	$ 49,678	15.5%	$ 46,391	20.6%
Minimum requirement for "Well-Capitalized"	16,023	5.0%	11,274	5.0%
Minimum regulatory requirement	12,818	4.0%	9,019	4.0%
Tier 1 Risk-Based Capital Ratio				
Bay Commercial Bank	$ 49,678	20.5%	$ 46,391	21.1%
Minimum requirement for "Well-Capitalized"	14,515	6.0%	13,216	6.0%
Minimum regulatory requirement	9,676	4.0%	8,811	4.0%
Total Risk-Based Capital Ratio				
Bay Commercial Bank	$ 52,377	21.6%	$ 48,841	22.2%
Minimum requirement for "Well-Capitalized"	24,191	10.0%	22,026	10.0%
Minimum regulatory requirement	19,353	8.0%	17,621	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, 2012 and 2011:

	2012	2011
Balance, beginning	$4,730,559	$3,476,532
Disbursements	614,145	3,320,559
Amounts repaid	(3,680,559)	(2,066,532)
Balance, ending	$ 1,664,145	$ 4,730,559
Undisbused commitments to related parties	$ 6,285,855	$ 626,000
Letters of credit issued for related parties	$ -	$ -

At December 31, 2012 and 2011, the Bank's deposits included deposits from related parties which total approximately $6.7 million and $7.5 million, respectively.

15. OTHER EXPENSES

For the years ended December 31, 2012 and 2011, respectively, other expenses consist of the following:

	2012	2011
Professional fees	$ 192,743	$ 757,989
Write-down on OREO	165,000	315,427
Insurance including FDIC Premiums	148,621	224,026
Stationery and supplies	142,650	102,904
Other	125,456	133,454
Marketing and promotions	123,443	90,556
Loan default related expenses	105,519	325,950
Communication and postage	101,436	63,826
Bank service charges	70,259	38,179
Director fees	50,500	39,000
Courier Expense	37,341	21,036
Total other expenses	$ 1,262,968	$ 2,112,347

The Bank expenses marketing and promotions costs as they are incurred. Advertising expense, included in marketing and promotions, total $36,400 and $18,475 for the years ended December 31, 2012 and 2011, respectively.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables present information about the Bank's assets and liabilities measured at fair value as of December 31, 2012 and 2011, and the fair value techniques used to determine such fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, Level 2, and Level 3).

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

Level 2 - Inputs are inputs other than quoted prices include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability such as interest rates and yield curves that are observable at commonly quoted intervals.

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

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

As of December 31, 2012, the Bank held no assets or liabilities that are measured at fair on a recurring basis.

The following table presents the recorded amount of assets measured at fair value on a non-recurring basis as of December 31, 2012 and 2011:

2012	Fair value	Fair value measurements Level 1	Level 2	Level 3
Impaired loans	$ 2,545,902	$ -	$ 2,165,902	$ 380,000
Other real estate owned	150,000	-	-	150,000
Total impaired assets measured at fair value	$ 2,695,902	$ -	$ 2,165,902	$ 530,000

2011	Fair value	Fair value measurements Level 1	Level 2	Level 3
Impaired loans	$ 1,354,758	$ -	$ -	$ 1,354,758
Other real estate owned	900,000	-	-	900,000
Total impaired assets measured at fair value	$ 2,254,758	$ -	$ -	$ 2,254,758

The Bank does not record loans at fair value on a recurring basis. However, from time to time, a loan may be considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. When the fair value of the collateral is based on an observable market price or a current appraised value which uses substantially observable data, the Bank records the impaired loan as non-recurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value, or the appraised value contains a significant assumption, and there is no observable market price, the Bank records the impaired loan as non-recurring Level 3.

The Bank records OREO at fair value on a non-recurring basis based on the collateral value of the property. When the fair value of the collateral is based on an observable market price or a current appraised value which uses substantially observable data, the Bank records the OREO as non-recurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value, or the appraised value contains a significant assumption, and there is no observable market price, the Bank records the impaired loan as non-recurring Level 3.

The following methods and assumptions were used to estimate the fair value disclosure for financial instruments:

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

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

Other equity securities – Other equity securities are valued at the quoted market prices. See Note 1 for further analysis. The carrying value of the FHLB and FRB stock approximates the fair value because the stock is redeemable at par.

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

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

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

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

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

The carrying amounts and fair values of the Bank's financial instruments at December 31, 2012 and 2011 are presented below.

2012	Carrying Amount	Fair value	Fair value measurements Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	$ 73,385,293	$ 73,385,293	$ 73,385,293	-	-
Interest bearing deposits in banks	10,922,867	10,922,867	10,922,867	-	-
Other equity securities	2,189,700	2,189,700	-	$ 2,189,700	-
Loans, net	224,444,425	223,827,910	-	223,447,910	$ 380,000
Accrued interest receivable	784,603	784,603	-	784,603	-
Financial Liabilities:					
Accrued interest payable	74,242	74,242	-	74,242	-
Deposits	261,204,430	262,058,478	183,216,524	78,841,954	-
Federal Home Loan Bank advances	2,000,000	2,009,000	-	2,009,000	-
Off-balance sheet liabilities:					
Undisbursed loan commitments	-	315,000	-	-	315,000

2011	Carrying Amount	Fair value	Fair value measurements Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	$ 39,148,646	$ 39,148,646	$ 39,148,646	-	-
Interest bearing deposits in banks	11,752,536	11,752,536	11,752,536	-	-
Other equity securities	1,053,000	1,053,000	-	$ 1,053,000	-
Loans, net	209,667,536	209,535,000	-	208,180,242	$ 1,354,758
Accrued interest receivable	738,494	738,494	-	738,494	-
Financial Liabilities:					
Accrued interest payable	84,531	84,531	-	84,531	-
Deposits	219,815,125	220,450,000	184,938,202	35,511,798	-
Federal Home Loan Bank advances	-	-	-	-	-
Off-balance sheet liabilities:					
Undisbursed loan commitments	-	-	-	-	-