Written Consent Solicitation Statement of
Bay Commercial Bank
Prospectus of BayCom Corp

November 25, 2016

Dear Shareholder:

Bay Commercial Bank is seeking shareholders' approval of a corporate reorganization of Bay Commercial Bank, whereby Bay Commercial Bank will become the wholly-owned subsidiary of a new holding company, BayCom Corp. The board of directors believes that this holding company formation will provide growth opportunities and business alternatives for Bay Commercial Bank.

Shareholder approval is being sought by written consent rather than by holding a special shareholders' meeting. Please read the enclosed materials and vote by returning the enclosed "Written Consent" form. The board unanimously believes that the proposed reorganization is in the best interests of Bay Commercial Bank and its shareholders and strongly recommends a vote "FOR" the plan of reorganization and merger. The plan of reorganization and merger agreement is attached as Exhibit A to the written consent solicitation statement/prospectus.

If the shareholders and appropriate state and federal regulators approve this reorganization, your shares of Bay Commercial Bank's common stock will be converted into an equal number of shares of common stock of BayCom Corp, the bank holding company for Bay Commercial Bank. The reorganization has been structured in such a manner as to qualify the transaction as a tax-free reorganization; therefore the exchange of your shares will also be tax-free. Immediately following the reorganization, if approved by shareholders and completed, your current stock certificates of Bay Commercial Bank will represent shares of BayCom Corp.

The enclosed written consent solicitation statement/prospectus contains detailed explanations of the proposed reorganization, so please read it carefully. If you have any questions or would like any additional information, please call George Guarini, the Bank's President and CEO at (925) 476-1800. A vote of the holders of a majority of the shares of Bay Commercial Bank's issued and outstanding common stock is required to approve the reorganization, so we urge you to cast your vote. Any shareholder who signs and returns this form of written consent without indicating a vote FOR, AGAINST, or ABSTAIN the proposal, will be deemed to have consented to the proposal. Please complete, date and sign the written consent form and return it in the enclosed postage-paid return envelope.

Your attention to this matter and your prompt action in casting your vote are very much appreciated.

Sincerely yours,

George Guarini
President & Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities regulators have approved either the reorganization described in this written consent solicitation statement/prospectus or the BayCom Corp common stock to be issued in the reorganization, nor have they determined if this written consent solicitation statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

The date of this written consent solicitation statement/prospectus is November 25, 2016.

Written Consent Solicitation Statement/Prospectus

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Summary of Written Consent Solicitation Statement/Prospectus

The following is a brief summary of certain information contained in this written consent solicitation statement/prospectus, which is intended to assist you in your review of this written consent solicitation statement/prospectus. This summary is qualified in its entirety by the more detailed information appearing elsewhere in this written consent solicitation statement/prospectus and the exhibits to the written consent solicitation statement/prospectus.

Bay Commercial Bank is a California state-chartered commercial bank. BayCom Corp was incorporated on behalf of Bay Commercial Bank, under California law, for the purpose of becoming a bank holding company for Bay Commercial Bank. The principal executive offices of Bay Commercial Bank and BayCom Corp are located at 500 Ygnacio Valley Road, Suite 200, Walnut Creek, California 94596, and the telephone number is (925) 476-1800.

Date of Mailing of Written Consent Solicitation Statement	On or about November 25, 2016. The written consent solicitation period will remain open until December 30, 2016, or such earlier time that written consents representing the requisite majority of the outstanding shares of Bay Commercial Bank common stock have been received by Bay Commercial Bank.
Purpose of the Written Consent Solicitation Statement	To consider and vote on (1) a proposal to approve a Plan of Reorganization and Merger Agreement, pursuant to which Bay Commercial Bank will become a wholly-owned subsidiary of BayCom Corp, and the shareholders of Bay Commercial Bank will become shareholders of BayCom Corp, receiving, in exchange for each share of Bay Commercial Bank's common stock owned, one share of common stock of BayCom Corp, without any recognition of gain or loss for tax purposes. We refer to the reorganization transaction as the "reorganization" throughout this written consent solicitation statement/prospectus. The agreement is attached as Exhibit A.
Voting Rights of Shareholders	Each shareholder of Bay Commercial Bank will be entitled to cast one vote for each share of Bay Commercial Bank common stock held of record as of the close of business on November 18, 2016 in voting on the agreement. Directors and executive officers of Bay Commercial Bank own, in the aggregate, approximately 7.81% of Bay Commercial Bank's outstanding common stock entitled to vote and intend to vote in favor of the agreement.

Vote Required to Approve the Agreement	The affirmative vote of the holders of not less than a majority of the outstanding shares of Bay Commercial Bank common stock is required for the approval of the agreement.
Dissenters' Rights	California state law does not provide for the exercise of dissenters' rights in the context of the reorganization.
Reasons for the Reorganization	The board of directors of Bay Commercial Bank believes that the reorganization will provide Bay Commercial Bank's shareholders with the opportunity to own a business entity which will not only own and operate Bay Commercial Bank as a wholly-owned subsidiary, but also will be a more flexible entity for purposes of growth and expansion. See "Bank Holding Company Reorganization and Merger -- Reasons for the Reorganization."
Description of the Reorganization	BayCom Corp will become a holding company for Bay Commercial Bank pursuant to the agreement. Under the agreement: (i) Bay Merger Company, a California corporation, has been formed as a wholly-owned subsidiary of BayCom Corp; (ii) Bay Merger Company will be merged with and into Bay Commercial Bank; and (iii) the shareholders of Bay Commercial Bank will receive common stock of BayCom Corp in exchange for their shares of Bay Commercial Bank's common stock on a one-for-one basis. The shareholders of Bay Commercial Bank will thus become the sole shareholders of BayCom Corp in its form as the holding company for Bay Commercial Bank. See "Bank Holding Company Reorganization and Merger -- Description of the Reorganization and the Merger Between Bay Commercial Bank and Bay Merger Company."
Conditions to the Reorganization	In addition to approval of the shareholders of Bay Commercial Bank, consummation of the reorganization requires the prior approval, on terms satisfactory to Bay Commercial Bank and BayCom Corp, of certain regulatory agencies, including the Federal Reserve, the Federal Deposit Insurance Corporation and the California Commissioner of the Department of Business Oversight. Management of Bay Commercial Bank is not aware of any circumstances which would lead it to believe that such agencies will not approve the reorganization. Even if such approvals are obtained, the board of directors of Bay Commercial Bank may, under certain circumstances, terminate the agreement. See "Bank Holding Company Reorganization and Merger -- Ratification and Approval of the Reorganization; Effective Date."

Management and Operations of Bay Commercial Bank and BayCom Corp After the Reorganization

After the reorganization, Bay Commercial Bank will continue its current business and operations as a California state-chartered bank under its current existing name and with its existing charter and bylaws. The reorganization will not have any substantive effect on the operations or management of Bay Commercial Bank, which will continue to have the same directors, executive officers, assets, liabilities and operating policies. BayCom Corp's directors will be the same persons who serve as Bay Commercial Bank's directors and BayCom Corp will have substantially the same principal executive officers as Bay Commercial Bank.

It is anticipated that following the consummation of the reorganization, management of BayCom Corp will be exploring opportunities for growth of Bay Commercial Bank.

Bay Commercial Bank and BayCom Corp are neither engaged in any negotiations to acquire any other banks or businesses at the present time, nor are Bay Commercial Bank and BayCom Corp engaged in any negotiations to sell Bay Commercial Bank or any business of Bay Commercial Bank at the present time. In the future, BayCom Corp may enter into nonbanking businesses, either through the acquisition of existing businesses or the establishment of new businesses, and such businesses may entail operating and business risks different from the risks normally associated with the banking business.

Tax Consequences of the Reorganization

The agreement has been structured to qualify the reorganization as a tax-free reorganization such that, among other things, no gain or loss will be recognized by the shareholders of Bay Commercial Bank upon the exchange of their shares of Bay Commercial Bank's common stock for shares of common stock of BayCom Corp. See "Bank Holding Company Reorganization and Merger -- Federal Income Tax Consequences."

Market for BayCom Corp Stock

The common stock of BayCom Corp to be received by Bay Commercial Bank's shareholders in the reorganization will not be listed on any exchange nor will the common stock of BayCom Corp be more marketable than Bay Commercial Bank's common stock. In addition, there has been a limited trading market for Bay Commercial Bank's common stock and it is unlikely that there will be an active market after completion of the reorganization. See "Bay Commercial Bank -- Trading in Bay Commercial Bank's Common Stock."

Regulation of BayCom Corp	BayCom Corp will be subject to the regulation of the Board of Governors of the Federal Reserve System under the Bank Holding Company Act, as amended, and, with respect to matters arising under securities laws, by the SEC. See “Operations under BayCom Corp -- Supervision and Regulation of BayCom Corp.”
Recommendations of the Board of Directors	At a meeting held on November 4, 2016, the board of directors of Bay Commercial Bank approved the agreement, and directed that it be submitted to the shareholders of Bay Commercial Bank, with the board of directors’ recommendation that it be approved.

Written Consent Solicitation Statement of
Bay Commercial Bank
Prospectus of BayCom Corp

Introduction

This written consent solicitation statement/prospectus is furnished in connection with the solicitation of written consents from the shareholders of Bay Commercial Bank. Shareholders are requested to consider and vote upon the following matter:

Approval of Plan of Reorganization and Merger Agreement. Approval of the Plan of Reorganization and Merger Agreement dated November 15, 2016, which provides for the merger of Bay Commercial Bank with Bay Merger Company, a wholly-owned subsidiary of the newly-formed holding company, BayCom Corp and conversion of shares of Bay Commercial Bank's common stock into shares of common stock of BayCom Corp on a share-for-share basis. The reorganization and merger provided for by the agreement shall be referred to herein as the "reorganization". These transactions are more fully described herein and in the agreement attached hereto as Exhibit A.

This written consent solicitation statement/prospectus will be mailed to Bay Commercial Bank's shareholders on or about November 25, 2016. At the direction of the management of Bay Commercial Bank, BayCom Corp has been organized under the laws of the State of California for the purpose of acting as a bank holding company. BayCom Corp owns all of the outstanding shares of Bay Merger Company, a corporation that has been organized under the laws of the State of California at the direction of the management of Bay Commercial Bank for the purpose of facilitating the reorganization. If the agreement is approved, upon its effective date: (i) Bay Merger Company will merge with and into Bay Commercial Bank and will cease to exist; (ii) the 100 shares of common stock of Bay Merger Company outstanding immediately prior to the merger will be converted into 100 shares of common stock of Bay Commercial Bank; and (iii) each share of Bay Commercial Bank's common stock outstanding immediately prior to the merger will be converted into one share of common stock of BayCom Corp. As a result of the reorganization, Bay Commercial Bank will become a wholly-owned subsidiary of BayCom Corp and the shareholders of Bay Commercial Bank will become the shareholders of BayCom Corp. The rights of the holders of shares of common stock of BayCom Corp after the reorganization will be substantially the same as the rights of the holders of Bay Commercial Bank's common stock prior to the reorganization; however, after the reorganization, the holders of BayCom Corp common stock will not be entitled to vote on matters requiring the approval of the holders of Bay Commercial Bank's common stock as Bay Commercial Bank's present shareholders will own 100 percent of the outstanding shares of BayCom Corp's common stock, and BayCom Corp will own 100 percent of the outstanding shares of Bay Commercial Bank's common stock.

The reorganization will not be effective until the Board of Governors of the Federal Reserve System (the "FRB"), the Federal Deposit Insurance Corporation (the "FDIC") and the California Commissioner of the Department of Business Oversight (the "CDBO") have approved the reorganization and further until a waiting period of fifteen days has elapsed.

Action by Written Consent

The proposals are submitted to Bay Commercial Bank's shareholders by written consent as provided in Bay Commercial Bank's Bylaws and Section 603 of the California General Corporation Law. Section 603 of the California General Corporation Law provides that "any action which may be taken at any annual or special meeting of shareholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted." Bay Commercial Bank has decided to submit the proposals to the shareholders by written consent for the purpose of expediency. A written consent form is enclosed for shareholders of Bay Commercial Bank to vote on the proposals discussed in this written consent solicitation statement/prospectus. The written consent solicitation will be conducted during the period commencing with the date of this written consent solicitation statement/prospectus and ending no later than December 30, 2016. The proposal will not be deemed to have been approved or rejected by Bay Commercial Bank's shareholders until 5:00 p.m., December 30, 2016, or such earlier time that written consents representing the requisite majority of the outstanding shares of Bay Commercial Bank's common stock have been received by Bay Commercial Bank. The affirmative vote of not less than a majority of the outstanding shares of Bay Commercial Bank's common stock is required for approval of the agreement.

No shareholders' meeting is planned in connection with these actions. If you approve of Bay Commercial Bank's reorganization to become a subsidiary of BayCom Corp, you should check the box marked "FOR", execute the enclosed written consent form and return it to Bay Commercial Bank. If you are opposed to the proposal, you should indicate your opposition by voting "AGAINST" that proposal. Your failure to submit a written consent will have the effect of a negative vote on the proposals. In other words, **your failure to submit the written consent will be treated as the equivalent of a vote against the proposals**.

Revocability of Written Consent

Any shareholder who executes and delivers a written consent has the right to revoke it by filing with the Secretary of Bay Commercial Bank an instrument revoking such written consent at any time before written consents representing the requisite majority of the outstanding shares of Bay Commercial Bank's common stock have been filed with the Secretary of Bay Commercial Bank, but may not do so thereafter and in no event after the termination of the written consent solicitation period on December 30, 2016. **If no instruction is specified with regard to the matter to be acted upon for any written consent form that is signed and returned to Bay Commercial Bank, the shares represented by the written consent form will be voted in accordance with the recommendations of the management in favor of the proposal.**

Persons Making the Solicitation

This solicitation is being made by the board of directors of Bay Commercial Bank. The expense of preparing, assembling, printing and mailing this written consent solicitation statement/prospectus and the material used in this solicitation of written consents will be borne by Bay Commercial Bank. It is contemplated that written consents will be solicited through the mail, but directors, officers and employees of Bay Commercial Bank may solicit written consents personally or by telephone without receiving special compensation for their solicitation. In addition, Bay Commercial Bank may utilize the services of individuals or companies not regularly employed by Bay Commercial Bank in connection with the solicitation if the board of directors of Bay Commercial Bank determines that this is advisable.

Voting Securities

There were issued and outstanding 5,472,426 shares of Bay Commercial Bank's common stock on November 18, 2016, which has been fixed as the record date for the purpose of determining the shareholders entitled to vote in connection with this written consent solicitation. Each holder of shares of Bay Commercial Bank's common stock will be entitled to one vote for each share of Bay Commercial Bank's common stock held of record on the books of Bay Commercial Bank as of the record date. Bay Commercial Bank's common stock is held, as of the record date, by approximately 350 shareholders.

Shareholdings of Certain Beneficial Owners and Management

Management of Bay Commercial Bank knows of no person who owns, beneficially or of record, either individually or together with associates, five percent or more of the outstanding shares of Bay Commercial Bank common stock and common stock equivalents, except as set forth in the table below. The following table sets forth as of November 18, 2016 the number and percentage of shares of Bay Commercial Bank's common stock beneficially owned, directly or indirectly, by each of Bay Commercial Bank's directors, executive officers and principal shareholders and by the directors and named executive officers of Bay Commercial Bank as a group. The shares "beneficially owned" are determined under SEC Rules, and do not necessarily indicate ownership for any other purpose. In general, beneficial ownership includes shares over which the director, principal shareholder or executive officer has sole or shared voting or investment power and shares which such person has the right to acquire within 60 days of November 18, 2016. Unless otherwise indicated, the persons listed below have sole voting and investment powers of the shares beneficially owned. Management is not aware of any arrangements which may, at a subsequent date, result in a change of control of Bay Commercial Bank, other than the proposed reorganization.

Name of Beneficial Owner	Number of Shares of Common Stock	Restricted Stock Grants (1)	Percentage Owned(2)
George J. Guarini, Director, President, and Chief Executive Officer	32,791	33,613	1.20%
Bhupen B. Amin, Director	41,359	1,760	
James S. Camp, Director	106,697	1,760	2.00%
Harpreet C. Chaudhary, Director	13,520	1,760	
Lloyd W. Kendall, Jr., Chairman	57,062	3,740	1.10%
Robert G. Laverne, Director	95,957	1,760	1.80%
Pramod R. Patel, Director	41,359	1,760	
David M. Spatz, Director	58,820	1,760	1.10%
Keary L. Colwell Chief Financial Officer, Secretary, and Executive Vice President	5,954	10,196	0.30%
Janet L. King Chief Operating Officer and Executive Vice President	6,954	10,196	0.30%
Charles Yun Chief Lending Officer and Executive Vice President	-	-	-
David J. Funkhouser Chief Credit Officer and Executive Vice President	-	-	-
Directors and Executive Officers as a Group (eleven persons)	364,235	63,025	7.81%

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

(2) Includes the restricted stock.

Proposal: Bank Holding Company Reorganization and Merger

General

Shareholders of Bay Commercial Bank are being asked to consider and approve the agreement, pursuant to which Bay Commercial Bank will become a wholly-owned subsidiary of BayCom Corp through the reorganization. If the agreement is approved by Bay Commercial Bank's shareholders and the regulatory authorities, Bay Commercial Bank's outstanding common stock will be exchanged for an equal number of shares of BayCom Corp's common stock, and shareholders of Bay Commercial Bank will become shareholders of BayCom Corp. The board of directors of Bay Commercial Bank approved the agreement at a board meeting held on November 4, 2016, and directed that it be submitted to the shareholders of Bay Commercial Bank.

The detailed terms and conditions of the reorganization are set forth in the agreement attached hereto as Exhibit A. The statements made herein regarding the agreement are qualified in their entirety by reference to the full text of the agreement as set forth in Exhibit A.

Recommendation of Directors

The terms and conditions of the agreement have been approved by the board of directors of Bay Commercial Bank. The board of directors of Bay Commercial Bank has unanimously recommended that the shareholders approve the agreement providing for the reorganization.

Reasons for the Reorganization

As stated above, the board of directors of Bay Commercial Bank has approved the agreement, believes that its approval is in the best interests of Bay Commercial Bank and its shareholders, and recommends that Bay Commercial Bank's shareholders vote in favor of approval of the agreement.

Management and the board of directors of Bay Commercial Bank believe that the formation of a bank holding company, under which Bay Commercial Bank will operate, will result in a more flexible entity for purposes of growth and expansion into permissible nonbanking activities. The existence of a holding company will permit the acquisition and ownership of other banks in California and certain other states and bank-related businesses. A bank holding company, by complying with Bank Holding Company Act, as amended (the "BHC Act"), may acquire and operate more than one bank and acquire and engage in bank-related businesses, where such acquisitions would serve the convenience and needs of the public. While no assurances can be given that any acquisitions can or will be made in the future, the existence of a bank holding company would facilitate such future acquisitions. In addition, while BayCom Corp has no present plans to expand into permissible nonbanking activities, BayCom Corp may expand into permissible nonbanking activities including owning mortgage companies, savings and loans subsidiaries and thrift subsidiaries, whereas Bay Commercial Bank is prohibited from owning some of these separate entities and must instead merge these entities with and into Bay Commercial Bank. The entry into nonbanking businesses, either through the acquisition of existing businesses or the establishment of new businesses may entail operating and business risks different from the risks normally associated with the banking business.

<u>Description of the Reorganization and the Merger between Bay Commercial Bank and Bay Merger Company</u>

BayCom Corp has been organized for the purposes of becoming a bank holding company under the laws of the United States and has been organized at the direction of Bay Commercial Bank's management. BayCom Corp was incorporated as a California corporation on November 9, 2016. BayCom Corp holds all of the outstanding stock of Bay Merger Company, a newly organized California corporation, which was incorporated in California on November 2, 2016. The reorganization will be accomplished by merging Bay Merger Company into Bay Commercial Bank. Upon the date of the merger of Bay Merger Company into Bay Commercial Bank, the shares of capital stock of the respective corporate parties to the agreement shall be converted as follows:

1. Each and every share of common stock of Bay Commercial Bank issued and outstanding shall, by virtue of the merger and without any action on the part of the shareholders, be exchanged for and converted into one share of fully paid and nonassessable common stock of BayCom Corp. Shareholders of Bay Commercial Bank will be entitled to exchange their present share certificates for new certificates evidencing shares of common stock of BayCom Corp. If no request is made, new certificates will be issued whenever old certificates are surrendered for transfer. Until so exchanged, the certificates for shares of Bay Commercial Bank's common stock will represent shares of BayCom Corp's common stock into which shares of Bay Commercial Bank's common stock have been converted.

2. The 100 shares of capital stock of Bay Merger Company issued and outstanding immediately prior to the completion date of the reorganization shall be converted into and exchanged by BayCom Corp for 100 shares of fully paid and nonassessable common stock of Bay Commercial Bank as the surviving corporation. Bay Merger Company will disappear and all of the outstanding shares of Bay Commercial Bank's common stock will be owned by BayCom Corp.

3. The shareholders of Bay Commercial Bank will, as a result of the reorganization be and become the shareholders of BayCom Corp, and will no longer be entitled to vote on matters requiring the approval of Bay Commercial Bank's shareholders since BayCom Corp will own all of the shares of Bay Commercial Bank. Shareholders of BayCom Corp will be entitled to vote with respect to matters affecting BayCom Corp. A discussion of those rights is contained in the section entitled: "Bank Holding Company Reorganization and Merger -- Comparison of Bay Commercial Bank's and BayCom Corp's Stock: Analysis of Corporate Structures."

4. The stock awards of common stock of Bay Commercial Bank which have been granted by Bay Commercial Bank pursuant to the 2014 Omnibus Equity Incentive Plan shall be deemed to be stock awards by BayCom Corp and the obligations of Bay Commercial Bank with respect to those stock awards shall be assumed by BayCom Corp with the same terms and conditions, and each award of one share of common stock of Bay Commercial Bank which is not vested prior to the reorganization, shall be deemed to be an award of one share of common stock of BayCom Corp. BayCom Corp will also adopt and assume the 2014 Omnibus Equity Incentive Plan.

Consequences of the Merger Between
Bay Commercial Bank and Bay Merger Company

If the reorganization is consummated, Bay Merger Company will be merged with and into Bay Commercial Bank. The separate existence of Bay Merger Company will cease, and the present directors, officers and employees of Bay Commercial Bank will remain the directors, officers and employees of Bay Commercial Bank, as the surviving corporation.

Pursuant to the agreement, the Articles of Incorporation of Bay Commercial Bank, as in effect immediately prior to the completion date of the reorganization, shall be and remain the Articles of Incorporation of the surviving corporation. Further, the Bylaws of Bay Commercial Bank shall be and remain the Bylaws of the surviving corporation. The Certificate of Authority of Bay Commercial Bank issued by the CDBO shall remain the Certificate of Authority of the surviving corporation. Also, Bay Commercial Bank's insurance of deposits coverage by the FDIC shall be and remain the deposit insurance of the surviving corporation following the reorganization.

Conversion and Exchange of Bay Commercial Bank's Shares

Upon the reorganization becoming effective, the shareholders of record of Bay Commercial Bank shall be entitled to receive and shall be allocated one share of common stock of BayCom Corp for each share of common stock of Bay Commercial Bank held by them. BayCom Corp shall issue certificates evidencing ownership of the shares of its common stock which the shareholders of Bay Commercial Bank shall be entitled to receive. Each holder of a certificate representing shares of Bay Commercial Bank's common stock shall, upon presentation of such certificate for surrender to BayCom Corp, be entitled to receive in exchange for the certificate, a certificate or certificates representing the number of shares of BayCom Corp's common stock to which such holder shall be entitled. On and after the completion date of the reorganization, each issued and outstanding share of common stock of Bay Commercial Bank shall represent one share of common stock of BayCom Corp. Such certificates may, but need not be, surrendered and exchanged by the holders after the completion date of the reorganization, for new certificates representing the number of shares of BayCom Corp to which the shareholders are entitled.

Certificates evidencing ownership of shares of BayCom Corp common stock shall be issued to the holders of lost or destroyed shares of Bay Commercial Bank's common stock upon presentation to BayCom Corp of such evidence of ownership and agreement of indemnity as BayCom Corp may reasonably require.

Ratification and Approval of the Reorganization; Effective Date

The reorganization requires the approvals of the FRB, the FDIC and the CDBO. Applications for the necessary approvals have been made and are now pending before those regulatory agencies. If any one or more of the above regulatory agencies should fail to give the required approval for this transaction within a reasonable time, or if any such approval contains terms not satisfactory to the boards of directors of Bay Commercial Bank and BayCom Corp, then the board of directors of Bay Commercial Bank reserves the right, in its sole discretion, to terminate and cancel the agreement. It is presently contemplated that the merger will be effective in the first quarter of 2017.

Before the reorganization can be completed, it must be approved by the holders of a majority of the issued and outstanding shares of Bay Commercial Bank common stock. In addition, if any action, suit, or proceeding should be threatened or instituted with respect to the reorganization, the board of directors of Bay Commercial Bank reserves the right, in its sole discretion, to terminate the transaction at any time before the merger is effective.

If the holders of a majority of the issued and outstanding shares of Bay Commercial Bank's common stock should fail to approve the reorganization, or if the transaction is otherwise terminated, as provided above, then the business of Bay Commercial Bank shall continue to operate under the ownership of its existing shareholders as it had prior to the adoption of the agreement.

It is estimated at this time that the total expenses of the reorganization are approximately $10,000.00, and these expenses will be borne appropriately by the respective parties.

Should the agreement be terminated or canceled for any of the reasons set forth above or in the attached agreement, such termination or cancellation will not result in any liability on the part of Bay Commercial Bank, Bay Merger Company, BayCom Corp, or any of the respective directors, officers, employees, agents or shareholders of Bay Commercial Bank, Bay Merger Company or BayCom Corp.

<u>Federal Income Tax Consequences</u>

Upon the advice of counsel, the agreement has been structured to qualify the reorganization as a tax-free reorganization under section 368(a)(1)(A) of the Internal Revenue Code of 1986, as amended. If the reorganization is treated as a tax-free reorganization, it will have the following federal income tax consequences:

1. No gain or loss will be recognized by Bay Commercial Bank, or any of the other parties to the reorganization as a result of the reorganization.

2. No gain or loss will be recognized by the shareholders of Bay Commercial Bank upon the exchange of their shares of Bay Commercial Bank's common stock solely for shares of BayCom Corp's common stock.

3. The basis and holding periods of the assets exchanged between the parties to the reorganization shall remain the same as those prior to the reorganization.

4. The basis of the shares of common stock of BayCom Corp to be received by shareholders of Bay Commercial Bank will be the same as the basis of the shares of common stock of Bay Commercial Bank surrendered.

5. The holding period of the shares of common stock of BayCom Corp to be received by shareholders of Bay Commercial Bank will include the holding period of the shares of common stock of Bay Commercial Bank surrendered, provided that such stock is held as capital asset on the date of the completion of the reorganization.

Management cannot advise individual shareholders and prospective shareholders of the proper tax consequences or suggest the methods of reporting the reorganization. Each shareholder or prospective shareholder is advised to contact his or her accountant or tax counsel with respect to the reorganization and the means of reporting the transaction as well as regarding the state and local tax consequences which may or may not parallel the federal income tax consequences.

Comparison of Bay Commercial Bank's and BayCom Corp's Stock: Analysis of Corporate Structures

The following constitutes a summarization of a comparison between Bay Commercial Bank's and BayCom Corp's stock as of November 18, 2016.

Item	Bay Commercial Bank's Stock	BayCom Corp's Stock
Authorized and Outstanding	110,000,000 shares authorized, of which 100,000,000 shares are common stock, no par value, and 10,000,000 are preferred stock; total shares outstanding are 5,472,426 shares of common stock.	110,000,000 shares authorized, of which 100,000,000 shares are common stock, no par value, and 10,000,000 shares are preferred stock; total shares outstanding are 100 shares of common stock and no shares of preferred stock.
Voting Rights	One vote per share. Cumulative voting for directors if all requirements are satisfied.	One vote per share of common stock. Cumulative voting for directors if all requirements are satisfied.
Dividend Rights	As declared by the board of directors subject to restrictions of California Banking Law and applicable federal law.	As declared by the board of directors subject to restrictions contained in the California Corporations Code and applicable federal law.
Assessment	Fully paid and nonassessable.	Fully paid and nonassessable.
Redemption	Bay Commercial Bank may redeem its shares under restrictive conditions of federal and California banking laws.	BayCom Corp may redeem under restrictive conditions of the California Corporations Code.
Preemptive Rights	None.	None.
Number of Directors	Fixed in accordance with the Bylaws.	Fixed in accordance with the Bylaws.

Authorized and Outstanding Stock

Bay Commercial Bank currently has an authorized capitalization of 110,000,000 shares, of which 100,000,000 shares are common stock, no par value and 10,000,000 are shares of preferred stock. Of these authorized capital shares, 5,472,426 shares of Bay Commercial Bank's common stock are currently issued and outstanding. Bay Commercial Bank has no shares of preferred stock outstanding. BayCom Corp has an authorized capitalization of 110,000,000 shares, of which 100,000,000 shares are common stock, no par value, and 10,000,000 shares are preferred stock. Of these authorized capital shares, 100 shares of BayCom Corp's common stock are currently issued and outstanding and no shares of preferred stock are issued and outstanding.

Dividend Rights

Holders of Bay Commercial Bank's common stock are entitled to dividends legally available therefor, when and as declared by Bay Commercial Bank's board of directors. The California Financial Code provides that a bank may not make a cash distribution to its shareholders in an amount which exceeds the lesser of:

- the retained earnings, or
- the net income of the bank for its last three fiscal years, less the amount of any distributions made by the bank to its shareholders during such period.

However, a bank may, with the approval of the CDBO, make a distribution to its shareholders in an amount not exceeding the greatest of:

- the retained earnings of the bank,
- the net income of the bank for its last fiscal year, or
- the net income of the bank for its current fiscal year.

If the CDBO finds that the shareholders' equity of a bank is not adequate or that the payment of a dividend would be unsafe or unsound for the bank, the CDBO may order the bank not to pay any dividend to the shareholders.

In addition, under the Financial Institutions Supervisory Act of 1966, as amended, the FDIC also has the authority and general enforcement powers to prohibit a bank from engaging in practices which the FDIC considers to be unsafe or unsound. It is possible, depending upon the financial condition of Bay Commercial Bank and other factors, that the FDIC could assert that the payment of dividends or other payments might under some circumstances be such an unsafe or unsound practice and thereby prohibit such payment. The Federal Deposit Insurance Corporation Improvement Act of 1991 further prohibits a bank from paying a dividend if the dividend payment would result in the bank failing to meet any of its minimum capital requirements.

The shareholders of BayCom Corp will be entitled to receive dividends when and as declared by its board of directors, out of funds legally available for the payment of dividends, as provided in the California General Corporation Law. The California General Corporation Law provides that a corporation may make a distribution to its shareholders if retained earnings immediately prior to the dividend payout at least equal the amount of the proposed distribution. In the event that sufficient retained earnings are not available for the proposed distribution, a corporation may, nevertheless, make a distribution, if it meets both the "quantitative solvency" and the "liquidity" tests. In general, the quantitative solvency test requires that the sum of the assets of the corporation equal at least 1-1/4 times its liabilities. The liquidity test generally requires that a corporation have current assets at least equal to current liabilities, or, if the average of the earnings of the corporation before taxes on income and before interest expenses for the two preceding fiscal years was less than the average of the interest expense of the corporation for such fiscal years, then current assets must equal at least 1-1/4 times current liabilities. In certain circumstances, BayCom Corp may be required to obtain the prior approval of the Federal Reserve Board to make capital distributions to shareholders.

Liquidation Rights

The holders of Bay Commercial Bank's common stock are entitled to share equally in Bay Commercial Bank's assets legally available for distribution in the event of liquidation or dissolution. Similarly, holders of BayCom Corp common stock will have a pro rata right to participate in BayCom Corp's assets legally available for distribution in the event of liquidation or dissolution.

Preemptive Rights

The holders of Bay Commercial Bank's common stock do not have preemptive rights to subscribe to any additional shares of Bay Commercial Bank's common stock being issued. The holders of BayCom Corp's common stock also will not have preemptive rights to subscribe to any additional shares of the BayCom Corp's common stock being issued. Therefore, shares of BayCom Corp common stock or other securities may be offered in the future to the investing public or to shareholders at the discretion of the BayCom Corp's board of directors.

Directors

Bay Commercial Bank's Bylaws authorize its board of directors or shareholders to designate the number of directors at any number from 7 to 13, and BayCom Corp's Bylaws authorize its board of directors or shareholders to designate the number of directors at any number from 4 to 9.

Rights of Dissenting Shareholders of Bay Commercial Bank

California state law does not provide for exercise of dissenters' rights in the context of the reorganization.

Corporate Operation and Management

The Articles of Incorporation and Bylaws of Bay Commercial Bank and BayCom Corp are substantially similar in all material provisions, except with respect to provisions in Bay Commercial Bank's Articles of Incorporation and Bylaws required by California Financial Code and applicable only to banks.

Operations Under BayCom Corp

Organization

BayCom Corp was organized and incorporated under the laws of the State of California on November 9, 2016, at the direction of the board of directors of Bay Commercial Bank for the purpose of becoming a bank holding company to acquire all of the outstanding capital stock of Bay Commercial Bank. The principal location of BayCom Corp and its operations will be at 500 Ygnacio Valley Road, Suite 200, Walnut Creek, California.

In order to effect the reorganization and to provide initial operating funds for BayCom Corp, a loan in the amount of $10,000 was obtained from George Guarini. Mr. George Guarini, a bank director and CEO of Bay Commercial Bank has purchased 100 shares of the common stock of BayCom Corp at an aggregate purchase price of $150. Upon the completion of the reorganization, the 100 shares of BayCom Corp's common stock will be repurchased and canceled by BayCom Corp for the sum of $150 and Bay Commercial Bank will pay a dividend of $10,000 to BayCom Corp, which dividend will be used to repay the loan. Presently, 100 shares of BayCom Corp's common stock are outstanding, and BayCom Corp will have no additional stock issued until after the shareholders of Bay Commercial Bank have approved the plan of reorganization and merger agreement and the reorganization is completed.

Management and Directors of BayCom Corp

The present board of directors of BayCom Corp is composed of five of the current directors of Bay Commercial Bank, and consists of the following individuals:

Lloyd W. Kendall, Jr.
George J. Guarini
James S. Camp
Robert G. Laverne, MD
David M. Spatz

Upon completion of the reorganization, the business of Bay Commercial Bank will be conducted as a subsidiary of BayCom Corp, and will be carried on with the same directors, officers, personnel, property and name as before the transaction. BayCom Corp will not compensate its executive officers any amounts in addition to the amounts they receive as executive officers of Bay Commercial Bank.

The following directors and officers of Bay Commercial Bank have agreed to serve as the initial directors and officers of BayCom Corp:

Name	Position with Bay Commercial Bank	Position with BayCom Corp
Lloyd W. Kendall, Jr.	Director	Director
George J. Guarini	Director, President & CEO	Director, President & CEO
James S. Camp	Director	Director
Robert G. Laverne, MD	Director	Director
David M. Spatz	Director	Director
Keary Colwell	Exec. Vice Pres., CFO & CAO	Exec. Vice Pres & CFO
Janet King	Exec. Vice Pres., & COO	Exec. Vice Pres., & COO

The business of Bay Commercial Bank will be carried on after the reorganization, with the same officers, employees and properties, and the BayCom Corp directors shall serve until their successors have been duly elected and qualified at BayCom Corp's next annual meeting of shareholders.

Supervision and Regulation of BayCom Corp

Upon completion of the reorganization, BayCom Corp will become a bank holding company within the meaning of the Bank Holding Company Act, and will become subject to the supervision and regulation of the Federal Reserve Board. A notice application for prior approval to become a bank holding company has previously been filed by BayCom Corp with the Federal Reserve Board.

As a bank holding company, BayCom Corp will be required to register with the Federal Reserve Board, and thereafter file annual reports and other information concerning its business operations and those of its subsidiaries as the Federal Reserve Board may require. The Federal Reserve Board also has the authority to examine BayCom Corp and each of its respective subsidiaries, as well as any arrangements between BayCom Corp and any of its respective subsidiaries, with the cost of any such examination to be borne by BayCom Corp.

In the future, BayCom Corp will be required to obtain the prior approval of the Federal Reserve Board before it may acquire all or substantially all of the assets of any bank, or ownership or control of voting securities of any bank if, after giving effect to such acquisition, BayCom Corp would own or control more than five percent (5%) of the voting shares of such bank.

A bank holding company and its subsidiaries are also prohibited from engaging in certain tie-in arrangements in connection with extensions of credit, leases, sales, or the furnishing of services. For example, Bay Commercial Bank will generally be prohibited from extending credit to a customer on the condition that the customer also obtain other services furnished by BayCom Corp, or any of its subsidiaries, or on the condition that the customer promise not to obtain financial services from a competitor. BayCom Corp and its subsidiaries will also be subject to certain restrictions with respect to engaging in the underwriting, public sale and distribution of securities.

BayCom Corp and any subsidiaries which it may acquire or organize after the reorganization will be deemed affiliates of Bay Commercial Bank within the meaning of the Federal Reserve Act. Loans by Bay Commercial Bank to affiliates, investments by Bay Commercial Bank in affiliates' stock, and taking affiliates' stock by Bay Commercial Bank as collateral for loans to any borrower will be limited to 10 percent of Bay Commercial Bank's capital, in the case of each affiliate, and 20 percent of Bay Commercial Bank's capital, in the case of all affiliates. In addition, these transactions must be on terms and conditions that are consistent with safe and sound banking practices and, in particular, a bank and its subsidiaries generally may not purchase from an affiliate a low-quality asset, as that term is defined in the Federal Reserve Act. Such restrictions also prevent a bank holding company and its other affiliates from borrowing from a banking subsidiary of the bank holding company unless the loans are secured by marketable collateral of designated amounts.

A bank holding company is also prohibited from itself engaging in or acquiring direct or indirect ownership or control of more than five percent (5%) of the voting shares of any company engaged in nonbanking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board by order or regulation to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In making these determinations, the Federal Reserve Board considers whether the performance of such activities by a bank holding company or a bank holding company subsidiary would offer advantages to the public which outweigh possible adverse effects.

Federal Reserve Regulation Y sets out those activities which are regarded as closely related to banking or managing or controlling banks, and thus, are permissible activities that may be engaged in by bank holding companies subject to approval in certain cases by the Federal Reserve Board. The Gramm-Leach-Bliley Act ("GLBA") allows for a new type of bank holding company under the Bank Holding Company Act. The new bank holding company is allowed to engage in insurance and securities underwriting, merchant banking and insurance company portfolio investment activities. GLBA also allows bank holding companies to engage in any activity considered "financial" in nature or incidental to such financial activities.

Although BayCom Corp has no present plans, agreements or arrangements to engage in any nonbanking activities, BayCom Corp may consider in the future engaging in one or more of the above activities, subject to the approval of the Federal Reserve Board.

Directors, executive officers, and principal shareholders of BayCom Corp will be subject to restrictions on the sale of their BayCom Corp stock under Rule 144 as promulgated under the Securities Act of 1933.

Indemnification of BayCom Corp's Directors and Officers

BayCom Corp's Articles of Incorporation and Bylaws provide for indemnification of agents including directors, officers and employees to the maximum extent allowed by California law. The indemnification law of the State of California generally allows indemnification, in matters not involving the right of the corporation, to an agent of the corporation if such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the corporation, and in the case of a criminal matter had no reasonable cause to believe the conduct of such person was unlawful. California law, with respect to matters involving the right of a corporation, allows indemnification of an agent of the corporation, if such person acted in good faith, in a manner such person believed to be in the best interests of the corporation and its shareholders; provided that there shall be no indemnification for: amounts paid in settling or otherwise disposing of a pending action without court approval; expenses incurred in defending a pending action which is settled or otherwise disposed of without court approval; or matters which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the court in which the proceeding is or was pending shall determine that such person is entitled to be indemnified.

The Bylaws provide that BayCom Corp will indemnify its directors, officers and employees and that such right to indemnification shall be a contract right. The Bylaws also provide that BayCom Corp may purchase and maintain insurance covering its directors, officers and employees against any liability asserted against any of them and incurred by any of them, whether or not BayCom Corp would have the power to indemnify them against such liability under the provisions of applicable law or the provisions of the Bylaws.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling BayCom Corp pursuant to the foregoing, BayCom Corp has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is therefore unenforceable.

Bay Merger Company

General Background

At the direction of the board of directors of Bay Commercial Bank, Bay Merger Company was incorporated on November 2, 2016. It was organized to facilitate the reorganization. On the date of the reorganization, Bay Commercial Bank will merge with Bay Merger Company, with Bay Commercial Bank as the surviving entity.

Initial Capitalization

Bay Merger Company was initially capitalized through the purchase of 100 shares of its common stock by BayCom Corp for an aggregate sum of $100.00. The 100 shares of capital stock of Bay Merger Company issued and outstanding immediately prior to the date of reorganization shall be converted into and exchanged by BayCom Corp for 100 shares of Bay Commercial Bank's common stock. Bay Merger Company will disappear and all of the outstanding shares of Bay Commercial Bank's common stock will be owned by BayCom Corp.

Bay Commercial Bank

General

Bay Commercial Bank was incorporated as a California state-chartered bank on March 24, 2004 and commenced operations on July 20, 2004. Bay Commercial Bank's deposits are insured up to the applicable limits by the FDIC. Bay Commercial Bank has no parents, affiliates or subsidiaries. Bay Commercial Bank's head office is located at 500 Ygnacio Valley Road, Suite 200, Walnut Creek, California and Bay Commercial Bank has branch offices in Oakland, Castro Valley, Mountain View, Napa, Stockton, Pleasanton, Livermore and San Jose, California.

Bank Services

The Bank engages in a general commercial banking business with an emphasis on serving the banking needs of small to medium size businesses, professionals, and the general public in Contra Costa, Alameda, Santa Clara, Napa and San Joaquin Counties. The Bank is committed to fulfilling its responsibilities under the Community Reinvestment Act in assessing and attempting to meet the credit needs of all members of the communities served by the Bank. The Bank provides clients with a high level of personalized service with highly personable employees, while at the same time offering them a wide range of commercial banking services including automated systems, including ATM services, remote deposit, telephone banking and on-line banking services. The Bank also specializes in business escrow services and facilitates tax free exchanges through its Banker's Exchange division.

The Bank offers a wide range of deposit accounts designed to attract small to medium-size commercial businesses, professionals and residents in its primary service areas which it is located. These accounts include personal and business checking accounts, savings accounts, money market accounts, time certificates of deposit and specialized deposit accounts including professional and trust accounts, and tiered accounts designed to attract larger deposits and IRA accounts.

The Bank also offers a full complement of lending products designed to meet the specialized needs of its clients throughout the greater Bay Area and in the Central Valley, including commercial lines of credit and term loans, commercial real estate loans, equipment loans, accounts receivable and inventory financing, credit lines to individuals and real estate loans, construction loans primarily for owner-occupied commercial buildings, SBA loans, FSA and Agriculture loans, USDA loans, letters of credit, equity lines of credit and overdraft credit lines. In addition, consumer loans may include overdraft protection loans and home equity lines of credit. Loans in amounts which exceed Bank's lending limits may be offered through participation agreements with Bank's correspondent banks or with other banks.

Bank provides a number of convenience oriented services and products to its clients, including direct payroll and social security deposit services, Internet banking services, merchant credit card services, letter of credit collections, safe deposit boxes, foreign exchange transactions, municipal and government accounts, bank-by-mail services, cash management, access to a national automated teller machine network, courier services, night depository facilities, travelers and cashiers checks, money order, credit cards and account reconciliation services. Products offered through correspondent banks or third party vendors may include lockbox, credit cards, payroll and bookkeeping and escrow accounting services.

Management of Bank will evaluate its services on an ongoing basis, and will add or delete services based upon the needs of Bank's clients, competitive factors and the financial and other capabilities of Bank. Future services may also be significantly influenced by improvements and developments in technology and evolving state and federal laws and regulations.

Sources of Business

The Bank offers a relatively broad range of commercial banking products and services, as described above. In marketing its services, Bank capitalizes on its identity as an independent bank, with directors, officers and shareholders who have business and personal ties to the community. Bank is in a position to respond promptly to the changing needs of its local clients.

Bank competes with other financial institutions in Bank's service areas by means of localized promotional activity, personalized service, and personal contact with potential clients by Bank's executive officers, directors, employees and shareholders. Promotional activities include direct mail, media advertising, conducting financial seminars, community advisory groups and the participation by executive officers in community business and civic groups. The executive officers and directors are active members in the communities comprising Bank's service areas and they personally call on their business contacts and acquaintances to become clients of Bank.

Shareholders are not required to maintain any type of banking relationship with Bank as a result of their purchase of Shares of Bank, however, shareholders are encouraged to maintain their banking relationship with Bank and to provide business development referrals on an ongoing basis.

Competition

The banking business in California generally, and in Bank's service area in particular, is highly competitive with respect to both loans and deposits and is dominated by a relatively small number of major banks which have many offices operating over wide geographic areas. The Bank is one of a handful of community banks headquartered in Bank's primary service area. The Bank competes for deposits and loans with such banks as well as with savings and loan associations, credit unions, mortgage companies, money market and other mutual funds, stock brokerage firms, insurance companies, and other traditional and nontraditional financial institutions.

The major banks and some of the other institutions have the financial capability to conduct extensive advertising campaigns and to shift their resources to regions or activities of greater potential profitability. Many of the competing banks and other institutions offer diversified financial services (such as trust and investment services) which may not be directly offered by the Bank (but some of which it offers indirectly through correspondent institutions). The major banks also have substantially more capital and higher lending limits than Bank. In addition, in recent years, the competition between banks, savings and loan associations and credit unions for the deposit and loan business of individuals has increased. The Bank cannot presently predict at what effect the increased competition will have on the Bank's ability to attract the banking business of the area's businesses, residence, businesspersons and professionals. (See "Bank -- Supervision and Regulation of Bank.")

The Bank competes for clients' funds with governmental and private entities issuing debt or equity securities or other forms of investments which may offer different and potentially higher yields than those available through bank deposits. The Bank also competes with other smaller banks in its intended service areas.

Existing and future state and federal legislation could significantly affect the cost of doing business, range of permissible activities and competitive balance among major and smaller banks and other financial institutions. Management of the Bank cannot predict the impact such developments may have on commercial banking in general or on the business of the Bank in particular.

In order to compete with the financial institutions operating in the Bank's service areas, the Bank relies on its independent status to provide flexibility and greater personal service to clients. the Bank emphasizes personal contacts with potential clients by Bank's executive officers, directors and employees, develops local promotional activities, and seeks to develop specialized or streamlined services for clients. Loan programs have been developed to specifically address the needs of professionals and small-to-medium sized businesses. To the extent clients desire loans in excess of Bank's lending limit or services not offered, the Bank will attempt to assist clients in obtaining such loans or other services through participations with other banks or assistance from the Bank's correspondent banks. The Bank will also assist those clients requiring other services not offered by Bank to obtain such services from its correspondent banks. In addition, the Bank offers access to the ATM network and also offers, among other services, a night depository, courier services, bank-by-mail services, merchant windows, safe deposit box, direct deposit, notary services and check imaging. However, no assurances can be given that the Bank's efforts to compete with other financial institutions will be successful.

Premises

Bay Commercial Bank operates ten full service banking branches. These offices are located as follows:

Walnut Creek Branch
500 Ygnacio Valley Road, Suite 130
Walnut Creek, CA 94596

Oakland Branch
155 Grand Avenue, suite 105
Oakland, CA 94612

Castro Valley Branch
3895 East Castro Valley Blvd. Suite A
Castro Valley, CA 94552

Mountain View Branch
700 E. El Camino Real, Suite 110
Mountain View, CA 94040

Napa Branch
960 School Street
Napa, CA 94599

Stockton Branch
22 West Yokuts Avenue
Stockton, CA 95207

Waterloo Branch
4426 East Waterloo Road
Stockton, CA 95215

Pleasanton Branch
465 Main Street
Pleasanton, CA 94566

Livermore Branch
2300 First Street, Suite 100
Livermore, CA 94550

San Jose Branch
1150 S. Bascom Avenue, Suite 29
San Jose, CA 95128

Employees

As of September 30, 2016, Bay Commercial Bank employed 108 persons, including 5 principal officers. Bay Commercial Bank's employees are not represented by a union or covered by a collective bargaining agreement. Management of Bay Commercial Bank believes that, in general, its employee relations are excellent.

Legal Proceedings

There are no pending legal proceedings against Bay Commercial Bank. From time to time, however, Bay Commercial Bank may become subject to legal proceedings, claims, and litigation arising in the ordinary course of business.

Supervision and Regulation of Bay Commercial Bank

General: Bay Commercial Bank, as a California state-chartered nonmember bank whose deposits are insured by the FDIC up to the maximum legal limits thereof, is subject to regulation, supervision and regular examination by the CDBO and the FDIC. Bay Commercial Bank is also subject to provisions of the Federal Reserve Act and their regulations. The regulations of these various agencies govern most aspects of Bay Commercial Bank's business, including required reserves on deposits, investments, loans, certain of their check clearing activities, issuance of securities, payment of dividends, branching and numerous other matters. As a consequence of the extensive regulation of commercial banking activities in California and the United States, Bay Commercial Bank's business is particularly susceptible to changes in California and federal legislation and regulations which may have the effect of increasing the cost of doing business, limiting permissible activities or increasing competition.

Impact of Monetary Policies: Banking is a business which depends on interest rate differentials. In general, the difference between the interest paid by Bay Commercial Bank on its deposits and its other borrowings and the interest received by Bay Commercial Bank on loans extended to its customers and securities held in its portfolio, comprises the major portion of Bay Commercial Bank's earnings. These rates are highly sensitive to many factors which are beyond the control of Bay Commercial Bank. Accordingly, the earnings and growth of Bay Commercial Bank are subject to the influence of domestic and foreign economic conditions, including inflation, recession and unemployment.

The earnings and growth of Bay Commercial Bank are affected not only by general economic conditions, both domestic and international, but also by the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve Board. The Federal Reserve Board can and does implement national monetary policy such as seeking to curb inflation and combat recession, by its open market operations in U.S. Government securities, by adjusting the required level of reserves for financial institutions subject to reserve requirements and by varying the discount rates applicable to borrowings by banks from the Federal Reserve System. The actions of the Federal Reserve Board influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. The nature and impact that future changes in fiscal or monetary policies or economic controls may have on Bay Commercial Bank's business and earnings cannot be predicted. In addition, adverse economic conditions could make a higher provision for loan losses a prudent course and could cause higher loan charge-offs, thus adversely affecting Bay Commercial Bank's net income.

Recent Legislation and Other Changes: From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks and other financial institutions are frequently made in Congress, in the California legislature and before various bank regulatory agencies. Certain of the potentially significant changes which have been enacted recently and others which are currently under consideration by Congress or various regulatory agencies are discussed below.

The federal banking agencies continue to implement the remaining requirements in the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") as well as promulgating other regulations and guidelines intended to assure the financial strength and safety and soundness of banks and the stability of the U.S. banking system. Following on the implementation in 2014 and effectiveness in 2015 of new capital rules ("the New Capital Rules") and the so called Volcker Rule restrictions on certain proprietary trading and investment activities

Capital Adequacy Requirements

Bank holding companies and banks are subject to similar regulatory capital requirements administered by state and federal banking agencies. The basic capital rule changes in the New Capital Rules adopted by the federal bank regulatory agencies were fully effective on January 1, 2015, but many elements are being phased in over multiple future years. The risk-based capital guidelines for bank holding companies, and additionally for banks, require capital ratios that vary based on the perceived degree of risk associated with a banking organization's operations, both for transactions reported on the balance sheet as assets, such as loans, and for those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risks, and with the applicable ratios calculated by dividing qualifying capital by total risk-adjusted assets and off-balance sheet items. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors. Bank holding companies and banks engaged in significant trading activity may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards. To the extent that the new rules are not fully phased in, the prior capital rules will continue to apply.

The New Capital Rules revised the previous risk-based and leverage capital requirements for banking organizations to meet the requirements of the Dodd-Frank Act and to implement the international Basel Committee on Banking Supervision Basel III agreements. Many of the requirements in the New Capital Rules and other regulations and rules are applicable only to larger or internationally active institutions and not to all banking organizations, including institutions currently with less than $10 billion of assets, which includes BayCom Corp and Bay Commercial Bank. These include required annual stress tests for institutions with $10 billion or more assets and Enhanced Prudential Standards, Comprehensive Capital Analysis and Review requirements, Capital Plan and Resolution Plan or living will submissions. These also include an additional countercyclical capital buffer, a supplementary leverage ratio and the Liquidity Coverage Ratio rule requiring sufficient high-quality liquid assets, which may in turn apply to institutions with $50 billion or more in assets, $250 billion or more in assets, or institutions which may be identified as Global Systematically Important Banking Institutions.

Under the risk-based capital guidelines in place prior to the effectiveness of the New Capital Rules, which trace back to the 1988 Basel I accord, there were three fundamental capital ratios: a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio. To be deemed "well capitalized," a bank must have a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio of at least ten percent, six percent and five percent, respectively. Under the capital rules that applied in 2014, there was no Tier 1 leverage requirement for a holding company to be deemed well-capitalized.

The following are the New Capital Rules applicable to BayCom Corp and Bay Commercial Bank beginning January 1, 2015:

- an increase in the minimum Tier 1 capital ratio from 4.00% to 6.00% of risk-weighted assets;
- a new category and a required 4.50% of risk-weighted assets ratio is established for "common equity Tier 1" as a subset of Tier 1 capital limited to common equity;
- a minimum non-risk-based leverage ratio is set at 4.00%;
- changes in the permitted composition of Tier 1 capital to exclude trust preferred securities subject to certain grandfathering exceptions for organizations which were under $15 billion in assets as of December 31, 2009, mortgage servicing rights and certain deferred tax assets and include unrealized gains and losses on available for sale debt and equity securities unless the organization opts out of including such unrealized gains and losses;
- the risk-weights of certain assets for purposes of calculating the risk-based capital ratios are changed for high volatility commercial real estate acquisition, development and construction loans, certain past due non-residential mortgage loans and certain mortgage-backed and other securities exposures; and
- an additional capital conservation buffer of 2.5% of risk weighted assets above the regulatory minimum capital ratios, which will be phased in until 2019 beginning at 0.625% of risk-weighted assets for 2016 and must be met to avoid limitations on the ability of the bank to pay dividends, repurchase shares or pay discretionary bonuses.

Management believes that, as of September 30, 2016, Bay Commercial Bank would meet all requirements under the New Capital Rules applicable to them on a fully phased-in basis if such requirements were currently in effect.

Including the capital conservation buffer of 2.5%, the New Capital Rules would result in the following minimum ratios to be considered well capitalized: (i) a Tier 1 capital ratio of 8.5%, (ii) a common equity Tier 1 capital ratio of 7.0%, and (iii) a total capital ratio of 10.5%. At September 30, 2016, the capital ratios of Bay Commercial Bank exceeded the minimum percentage requirements to be deemed "well-capitalized" for regulatory purposes.

Prompt Corrective Action Provisions

The Federal Deposit Insurance Act requires the federal bank regulatory agencies to take "prompt corrective action" with respect to a depository institution if that institution does not meet certain capital adequacy standards, including requiring the prompt submission of an acceptable capital restoration plan. Depending on the bank's capital ratios, the agencies' regulations define five categories in which an insured depository institution will be placed: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. At each successive lower capital category, an insured bank is subject to more restrictions, including restrictions on the bank's activities, operational practices or the ability to pay dividends or executive bonuses. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment.

The prompt corrective action standards were also changed as the New Capital Rules ratios became effective. Under the new standards, in order to be considered well-capitalized, the bank will be required to meet the new common equity Tier 1 ratio of 6.5%, an increased Tier 1 ratio of 8% (increased from 6%), a total capital ratio of 10% (unchanged) and a leverage ratio of 5% (unchanged).

The federal banking agencies also may require banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized, in which case institutions may no longer be deemed to be well capitalized and may therefore be subject to certain restrictions such as taking brokered deposits.

Volcker Rule

In December 2013, the federal bank regulatory agencies adopted final rules that implement a part of the Dodd-Frank Act commonly referred to as the "Volcker Rule." Under these rules and subject to certain exceptions, banking entities are restricted from engaging in activities that are considered proprietary trading and from sponsoring or investing in certain entities, including hedge or private equity funds that are considered "covered funds." These rules became effective on April 1, 2014, although certain provisions are subject to delayed effectiveness under rules promulgated by the FRB. Bay Commercial Bank holds no investment positions which are subject to the final rule. Therefore, while these new rules may require us to conduct certain internal analysis and reporting to ensure continued compliance, they did not require any material changes in our operations or business.

Capital Ratios

As of September 30, 2016, Bay Commercial Bank's leverage ratio was 11.2%, its Tier 1 risk-based capital ratio was 13.1%, and its total risk-based capital ratio was 13.9%. Based upon these capital ratios and Bay Commercial Bank's standing with the FDIC, Bay Commercial Bank is considered a well-capitalized institution.

Selected Financial Information

The following table presents selected historical consolidated financial data, including per share information, for Bay Commercial Bank for the years ended December 31, 2015, 2014 and 2013.

The following financial data should be read in conjunction with the consolidated financial statements of Bay Commercial Bank and the notes to such statements:

Selected Financial Data			
	Year Ending	Year Ending	Year Ending
Balance Sheet	12/31/2015	12/31/2014	12/31/2013
(dollars in thousands)			
Total Assets	$ 623,704	$ 504,391	$ 342,304
Total Loans	464,400	325,699	254,178
Allowance for loan losses	(3,850)	(2,500)	(2,775)
Total Deposits	543,304	437,941	286,464
Shareholders' Equity	72,380	58,174	52,322
Operating Results			
(dollars in thousands)			
Interest income	$ 25,715	$ 19,637	$ 14,915
Interest expense	3,140	2,580	2,080
Net interest income	22,575	17,057	12,835
Provision for loan losses	1,412	1,074	348
Non-interest income	1,491	920	628
Bargain Purchase Gain	5,410	3,785	-
Non-interest expense	18,901	12,793	8,526
Net Income before tax	9,163	7,895	4,589
Income tax expense	1,711	1,717	1,899
Net Income	$ 7,452	$ 6,178	$ 2,690
Operating and other financial ratios			
Loan to deposit ratio	85.5%	74.4%	88.7%
Net interest margin	3.90%	3.91%	4.1%
Efficiency ratio	64.1%	58.8%	63.3%
Per share data			
Book value per shares outstanding	$ 13.47	$ 11.93	$ 11.07
Income per share - basic	$ 1.37	$ 1.09	$ 0.56
Common stock - weighted average	5,437,790	4,740,152	4,811,512
Income per share - diluted	$ 1.36	$ 1.08	$0.54
Common stock - diluted weighted average	5,493,398	4,780,345	4,971,213
Capital ratios			
Total shareholders equity to total assets	11.6%	11.5%	15.3%
Leverage ratio	10.6%	10.7%	15.7%
Tier 1 risk-based capital	13.3%	15.8%	19.5%
Total risk-based capital	14.1%	16.5%	20.5%
Asset quality ratios			
Nonperforming loans to total loans	0.1%	0.3%	0.3%
Nonperforming assets to total assets	0.1%	0.6%	0.8%
Allowance for loan losses to nonperforming loans	1152.7%	292.4%	338.8%
Allowance for loan losses to total loans	0.8%	0.8%	1.1%

Price Range and Dividends for Bay Commercial Bank's Common Stock

Bay Commercial Bank's common stock is not listed on any exchange nor is it listed with the National Association of Securities Dealers Automated Quotation ("NASDAQ"), however, the shares are traded on the OTC Bulletin Board under the trading symbol "BCML." At September 30, 2016, Bay Commercial Bank had approximately 350 shareholders of record.

The following table shows the high and low prices of Bay Commercial Bank's common stock for each quarterly period since January 1, 2015, and is based upon information provided by the OTCBB. The quotations and the data in the table that follows do not reflect retail mark-up, mark-down or commissions and do not necessarily represent actual transactions. The information does not include transactions for which no public records are available. The trading prices in such transactions may be higher or lower than the prices reported below.

	Sales Prices		Approximate Number of Shares
Quarter ended:	High	Low	Traded
9/30/2016	$ 12.42	$ 11.99	660,600
6/30/2016	12.15	11.56	225,000
3/31/2016	13.25	11.95	107,500
12/31/2015	13.40	12.03	650,600
9/30/2015	12.25	11.50	257,800
6/30/2015	12.75	11.55	221,700
3/31/2015	11.90	11.50	297,100

Since Bay Commercial Bank's inception, there have been limited trades in the shares of common stock. Currently, Bay Commercial Bank has 4 market makers:

Joey J. Warmenhoven
Managing Director, Investments
PCS Community Banking Group
Wedbush Securities
One SW Columbia Street, Suite 1000
Portland, OR 97258
503-922-4888

Richard S. Levenson
President and CEO
Western Financial Corporation
600 B Street, Suite 2204
San Diego, CA 92101
619-544-0260

John T. Cavender
Senior Vice President
Financial Institution Sales
Raymond James & Associates
415-616-8935

Timothy Padala
Senior Vice President
OTC Community Bank Market Making
FIG Partners LLC
628 Shrewsbury Avenue Suite F
Tinton Falls, NJ 07701
732-741-3906

The frequency and amount of dividends to be paid are determined by Bay Commercial Bank's board of directors. In issuing dividends, the board of directors considers the experience and expectations of Bay Commercial Bank, including net income generated, strategic plans, and the level of capital of Bay Commercial Bank. To date, Bay Commercial Bank has paid no dividends.

Unaudited Pro Forma Capitalization

The following table sets forth the unaudited actual capitalization of Bay Commercial Bank at September 30, 2016, the proposed capitalization of Bay Merger Company and BayCom Corp immediately prior to completion of the reorganization, and the pro forma capitalization of Bay Commercial Bank and BayCom Corp on a consolidated basis to reflect the completion of the reorganization.

	Bay Commercial Bank (unaudited)	Bay Merger Company (unaudited)	BayCom Corp (unaudited)	Proforma Consolidated BayCom Corp (unaudited)
Shareholders' Equity:				
Common Stock	$ 47,037,567	$ 100	$ 150	$ 75,857,344
Other Capital Accounts	28,984,385			164,608
Total	$ 76,021,952	$ 100	$ 150	$ 76,021,952
Share Data:				
Common Stock				
Authorized	100,000,000	100	100,000,000	100,000,000
Outstanding	5,459,094	100	5,459,094	5,459,094
Preferred Stock				
Authorized	10,000,000	-	10,000,000	10,000,000

Capital stock and outstanding shares are stated as of September 30, 2016. Funds to capitalize Bay Merger Company were obtained by issuing 100 shares to BayCom Corp for $100.00. At the time of the reorganization, BayCom Corp will receive $100, and the shares of Bay Merger Company common stock will be exchanged for shares of Bay Commercial Bank common stock. Initial funding of BayCom Corp was obtained by a loan in the amount of $10,000 and the issuing of a total of 100 shares of BayCom Corp for the sum of $150.00. Upon completion of the reorganization, the 100 shares will be repurchased by BayCom Corp and Bay Commercial Bank will pay a dividend of $10,000 to BayCom Corp, which dividend will be used to repay the loan.

Financial Statements and Related Matters

Bay Commercial Bank's audited statements of condition as of December 31, 2015 and 2014 and related audited statements of earnings, changes in stockholders' equity and cash flows for each of the years ended December 31, 2015 and 2014, prepared in conformity with generally accepted accounting principles, report of independent public accountants are set forth in Bay Commercial Bank's 2015 Annual Report to Shareholders which is being delivered with this written consent solicitation statement/prospectus.

Legal Matters

Certain legal matters in connection with the issuance of the shares of BayCom Corp common stock will be passed upon by Gary Steven Findley & Associates, Anaheim, California.

Exhibit A

Plan of Reorganization and Merger Agreement

This Plan of Reorganization and Merger Agreement ("Agreement") is made and entered into as of this 15th day of November, 2016 by and between Bay Commercial Bank (the "Bank") and Bay Merger Company ("Subsidiary"), to which BayCom Corp (the "Holding Company") is a party.

Recitals and Undertakings

A. The Bank is a California banking corporation with its head banking office in Walnut Creek, California. Subsidiary and the Holding Company are each corporations duly organized and existing under the laws of the State of California with their principal offices in Walnut Creek, California.

B. As of the date hereof, the Bank has 110,000,000 shares authorized, consisting of 100,000,000 shares of no par value common stock, of which there are 5,472,420 shares of stock outstanding, and 10,000,000 shares of preferred stock, of which there are no shares outstanding. It is anticipated that prior to the Effective Date (as defined in Section 1.2 herein), the Bank will have no more than 5,472,420 shares of common stock outstanding, reflecting the number of shares of common shares outstanding as of the date of this Agreement including unvested restricted stock totaling 69,105 as of November 15, 2016, and no shares of preferred stock outstanding.

C. As of the date hereof, Subsidiary has an authorized maximum number of shares of capital stock of 1,000 shares, and at the Effective Date of the merger 100 of such shares will be issued and outstanding, all of which shares will be owned by the Holding Company.

D. As of the date hereof, the Holding Company has 110,000,000 shares authorized, of which 100,000,000 shares are no par value common stock and 10,000,000 shares are preferred stock, and of which no shares of preferred stock and 100 shares of common stock will be outstanding at the time of the merger referred to herein.

E. The Boards of Directors of the Bank and Subsidiary have, respectively, approved this Agreement and authorized its execution, and the Board of Directors of the Holding Company has approved this Agreement, undertaken that the Holding Company shall join in and be bound by it, and authorized the undertakings hereinafter made by the Holding Company.

F. The parties intend by this Agreement to set forth the terms and conditions of a "reorganization" under Sections 368(a)(1)(A) and 368(a)(2)(E) of the Internal Revenue Code of 1986, as amended.

NOW, THEREFORE, in consideration of the mutual agreements of the parties contained herein, the parties hereby agree as follows:

<u>Section 1</u>. <u>General</u>

1.1 <u>The Merger</u>. On the Effective Date, Subsidiary shall be merged into the Bank, and the Bank shall be the surviving corporation (the "Surviving Corporation") and a subsidiary of the Holding Company, and its name shall continue to be "Bay Commercial Bank."

1.2 <u>Effective Date</u>. This Agreement shall become effective at the close of business on the day on which this Agreement shall have been filed with the Secretary of State of the State of California in accordance with Section 1103 of the California General Corporation Law (the "Effective Date").

1.3 <u>Articles of Incorporation and Bylaws</u>. On the Effective Date, the Articles of Incorporation of the Bank, as in effect immediately prior to the Effective Date, shall be and remain the Articles of Incorporation of the Surviving Corporation; the Bylaws of the Bank shall be and remain the Bylaws of the Surviving Corporation until altered, amended or repealed; the certificate of authority of the Bank issued by the Commissioner of the California Department of Business Oversight ("CDBO") shall be and remain the certificate of authority of the Surviving Corporation; and the Bank's insurance of deposits coverage by the Federal Deposit Insurance Corporation ("FDIC") shall be and remain the deposit insurance of the Surviving Corporation. The Bank will continue to remain a member bank of the Federal Reserve System.

1.4 <u>Directors and Officers of the Surviving Corporation</u>. On the Effective Date, the directors and officers of the Bank immediately prior to the Effective Date shall be and remain the directors and officers of the Surviving Corporation. Directors of the Surviving Corporation shall serve until the next annual meeting of shareholders of the Surviving Corporation or until such time as their successors are elected and have qualified.

1.5 <u>Effect of the Merger</u>.

a. <u>Assets and Rights</u>. Upon the merger becoming effective, all rights, privileges, franchises and property of Subsidiary, and all debts and liabilities due or to become due to Subsidiary, including things in action and every interest or asset of conceivable value or benefit, shall be deemed fully and finally and without any right of reversion transferred to and vested in the Surviving Corporation without further act or deed, and the Surviving Corporation shall have and hold the same in its own right as fully as the same was possessed and held by Subsidiary.

b. <u>Liabilities</u>. Upon the merger becoming effective, all debts, liabilities, and obligations due or to become due of, and all claims or demands for any cause existing against Subsidiary shall be and become the debts, liabilities, obligations of, and the claims and demands against, the Surviving Corporation in the same manner as if the Surviving Corporation had itself incurred or become liable for them.

c. <u>Creditors' Rights and Liens</u>. Upon the merger becoming effective, all rights of creditors of Subsidiary, and all liens upon the property of Subsidiary, shall be preserved unimpaired, limited in lien to the property affected by the liens immediately prior to the time of the merger.

d. Pending Actions. Upon the merger becoming effective, any action or proceeding pending by or against Subsidiary shall not be deemed to have abated or been discontinued, but may be prosecuted to judgment, with the right to appeal or review as in other cases, as if the merger had not taken place or the Surviving Corporation may be substituted for Subsidiary.

1.6 Further Assurances. The Bank and Subsidiary each agree that at any time, or from time to time, as and when requested by the Surviving Corporation, or by its successors and assigns, it will execute and deliver, or cause to be executed and delivered in its name by its last acting officers, or by the corresponding officers of the Surviving Corporation, all such conveyances, assignments, transfers, deeds or other instruments, and will take or cause to be taken such further or other action as the Surviving Corporation, its successors or assigns may deem necessary or desirable, in order to evidence the transfer, vesting or devolution of any property right, privilege or franchise or to vest or perfect in or confirm to the Surviving Corporation, its successors and assigns, title to and possession of all the property, rights, privileges, powers, immunities, franchises and interests referred to in this Section 1 and otherwise to carry out the intent and purposes hereof.

Section 2. Capital Stock of the Surviving Corporation

2.1 Stock of Subsidiary. Upon the merger becoming effective, each share of capital stock of Subsidiary issued and outstanding immediately prior to the Effective Date shall thereupon be converted into and exchanged for one share of fully paid and nonassessable common stock of the Bank as the Surviving Corporation.

2.2 Stock of the Bank. Upon the merger becoming effective, each and every share of common stock of the Bank issued and outstanding shall, by virtue of the merger and without any action on the part of the holders thereof, be exchanged for and converted into one share of fully paid and nonassessable common stock of the Holding Company, without par value.

2.3 Exchange of Stock. Upon the merger becoming effective:

a. the shareholders of record of the Bank shall be entitled to receive and shall be allocated one share of common stock of the Holding Company for each share of common stock of the Bank;

b. the Holding Company shall issue the shares of its common stock which the shareholders of the Bank shall be entitled to receive; and

c. each holder of a certificate representing shares of common stock of the Bank shall, upon presentation of such certificate for surrender to the Holding Company, be entitled to receive in exchange thereof, a certificate or certificates representing the number of shares of common stock of the Holding Company to which such holder shall be entitled. Until so surrendered, each outstanding certificate which prior to the merger represented shares of common stock of the Bank shall be deemed, for all corporate purposes, to evidence ownership of an equal number of shares of common stock of the Holding Company. On and after the Effective Date, each issued and outstanding share of common stock of the Bank shall represent one (1) share of common stock of the Holding Company. Such certificates may, but need not be, surrendered and exchanged by the holders thereof after the Effective Date, for new certificates representing the number of shares of common stock of the Holding Company to which the shareholders are entitled as set forth in this Agreement. Certificates evidencing ownership of shares of common stock of the Holding Company shall be issued to the holders of lost or destroyed shares of common stock of the Bank upon presentation to the Holding Company of such evidence of ownership and agreement of indemnity as the Holding Company may reasonably require.

2.4 Equity Incentive Plan. At the close of business on the Effective Date, the Holding Company will adopt and assume all of the Bank's rights and obligations under the Bay Commercial Bank 2014 Omnibus Equity Incentive Plan (the "Equity Incentive Plan") and under each outstanding stock award agreement evidencing an restricted stock grant previously granted under the Stock Incentive Plan. The Stock Incentive Plan shall be continued by the Holding Company, the obligations of the Stock Incentive Plan shall be assumed by the Holding Company and the Stock Incentive Plan shall become the "BayCom Corp Stock Incentive Plan," and by virtue of such assumption, all rights of an awardee with respect to the common stock of the Bank shall become the same right with respect to the common stock of the Holding Company, on a one-for-one basis. Each such stock award, subject to such modifications as may be appropriate or required, and subject to the requirements of the Securities Act of 1933, as amended, and the California Corporate Securities Law of 1968, shall constitute a continuation of the stock award, substituting the Holding Company for the Bank. The stock award vesting period and price per share of Holding Company common stock shall be the same vesting period and price as were applicable to the purchase of Bank common stock, and all other terms and conditions applicable to the stock award shall, except as may be otherwise provided herein, be unchanged. Each stock award granted pursuant to the Stock Incentive Plan, from and after the close of business on the Effective Date of the Reorganization, shall constitute a stock award granted by the Holding Company and outstanding pursuant to the BayCom Corp Stock Incentive Plan.

Section 3. Approvals

3.1 Shareholder Approval. This Agreement shall be submitted to the shareholders of the Bank and Subsidiary for ratification and approval in accordance with the applicable provisions of law.

3.2 Regulatory Approvals. The parties shall obtain the waivers, consents and approvals of all regulatory authorities as required by law for consummation of the merger and plan of reorganization on the terms herein provided.

Section 4. Conditions Precedent, Termination and Payment of Expenses

4.1 Conditions Precedent to the Merger. This Agreement shall not be submitted to the California Secretary of State for filing until the following conditions are satisfied or waived:

a. ratification and approval of this Agreement by the shareholders of the Bank and Subsidiary, as required by law;

b. obtaining all other consents and approvals, and satisfaction of all other requirements prescribed by law which are necessary for consummation of the merger, including, but not limited to, approval of the FDIC, approval of the CDBO, approval of the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended, and any required action under the Securities Act of 1933 with respect to the securities of the Holding Company issuable upon consummation of the merger;

c. obtaining all consents or approvals, governmental or otherwise, which are or,

in the opinion of counsel for the Bank may be, necessary to permit or enable the Surviving Corporation, upon and after the merger, to conduct all or any part of the business and activities of the Bank up to the time of the merger, in the manner in which such activities and business are then conducted;

d. for the benefit of the Bank and unless waived, the Holding Company shall have received an opinion from a law firm or tax accounting firm, in form and substance satisfactory to both the Bank and the Holding Company, to the effect that: the merger of Subsidiary with and into the Bank and the exchange of shares of common stock of the Bank for shares of common stock of the Holding Company, as provided for herein, will be considered a reorganization within the meaning of Section 368(a)(1)(A) of the Code; no gain or loss will be recognized by the Bank pursuant to consummation of the merger; and no gain or loss will be recognized by the shareholders of the Bank upon the exchange of their shares of common stock of the Bank for shares of common stock of the Holding Company, as provided for herein; and

e. performance by each party hereto of all of its obligations hereunder to be performed prior to the merger becoming effective.

4.2 Termination of the Merger. If any condition in Paragraph 4.1 has not been fulfilled, or, if in the opinion of a majority of the Board of Directors of any of the parties:

a. any action, suit, proceeding or claim has been instituted, made or threatened relating to the proposed merger which makes consummation of the merger inadvisable; or

b. for any other reason consummation of the merger is inadvisable;

then this Agreement may be terminated at any time before the merger becomes effective. Upon termination, this Agreement shall be void and of no further effect, and there shall be no liability by reason of this Agreement or the termination thereof on the part of the parties or their respective directors, officers, employees, agents or shareholders, except as provided in Section 4.3 hereof.

4.3 Expenses of the Merger. Subject to applicable federal laws and regulations, each party shall bear its own expenses of the merger, including filing fees, printing costs, mailing costs, accountants' fees and legal fees.

Section 5. Miscellaneous

5.1 Assignment. Neither party shall have the right to assign its rights or obligations under this Agreement.

5.2 Execution. This Agreement may be executed in counterparts, each of which when so executed shall be deemed an original and such counterparts shall together constitute one and the same instrument.

5.3 Governing Law. This Agreement is made and entered into in the State of California, and the laws of said State shall govern the validity and interpretation hereof.

5.4 Entire Agreement. This Agreement contains the entire agreement between the parties hereto with respect to the plan of reorganization and merger and supersedes all prior arrangements or understandings with respect thereto.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized officers as of the day and year first above written.

BAY COMMERCIAL BANK

By: /s/ George Guarini
Its: President

By: /s/ Keary Colwell
Its: Secretary

BAY MERGER COMPANY

By: /s/ George Guarini
Its: President and Secretary

BAYCOM CORP

By: /s/ George Guarini
Its: President

By: /s/ Keary Colwell
Its: Secretary

BAY COMMERCIAL BANK

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 and 2014

AND

INDEPENDENT AUDITOR'S REPORT

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Bay Commercial Bank

Report on the Financial Statements

We have audited the accompanying financial statements of Bay Commercial Bank, which comprise the statements of financial condition as of December 31, 2015 and 2014, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bay Commercial Bank as of December 31, 2015 and 2014, 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

Sacramento, California
March 11, 2016

BAY COMMERCIAL BANK
STATEMENT OF FINANCIAL CONDITION

December 31, 2015 and 2014

ASSETS		2015	2014
Cash and due from banks		$ 5,170,877	$ 9,029,815
Federal funds sold		103,000,891	126,166,605
Cash and cash equivalents		108,171,768	135,196,420
Interest bearing deposits in banks		3,219,000	10,084,760
Investment securities available-for-sale		23,614,514	17,540,010
Federal Home Loan Bank stock, at par		2,359,800	1,646,000
Federal Reserve Bank stock, at par		1,486,100	1,212,950
Loans	$ 464,399,699		
Deferred fees, net	(342,085)		
Allowance for loan losses	(3,850,000)		
Loans, net		460,207,614	322,907,555
Premises and equipment, net		1,390,561	1,265,064
Other real estate owned		-	2,102,844
Core deposit intangible		1,200,500	811,889
Cash surrender value of bank owned life insurance policies, net		6,248,652	2,974,602
Interest receivable and other assets		15,405,124	8,648,910
Total Assets		$ 623,303,633	$ 504,391,004

LIABILITIES AND SHAREHOLDERS' EQUITY	2015	2014
Non-interest bearing deposits	$ 152,012,575	$ 124,228,498
Interest bearing deposits	391,291,259	313,712,843
Total deposits	543,303,834	437,941,341
Other borrowings	-	6,000,000
Salary continuation plan	3,193,264	165,000
Interest payable and other liabilities	4,426,270	2,110,595
Total liabilities	550,923,368	446,216,936
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Perferred stock - no par value; 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock - no par value; 100,000,000 shares authorized in 2015 and 2014; 5,493,209 and 4,875,787 shares issued and outstanding in 2015 and 2014, respectively	46,279,899	39,580,462
Additional paid in capital	286,738	286,738
Accumulated other comprehensive income, net of tax	121,628	67,312
Retained earnings	25,692,000	18,239,556
Total shareholders' equity	72,380,265	58,174,068
Total Liabilities and Shareholders’ Equity	$ 623,303,633	$ 504,391,004

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

BAY COMMERCIAL BANK
STATEMENT OF INCOME

For the years ended December 31, 2015 and 2014

	2015	2014
Interest income:		
Loans, including fees	$ 24,414,762	$ 18,778,447
Federal funds sold	11,091	11,330
Investment securities and interest bearing deposits in banks	985,011	665,197
FHLB dividend	229,556	97,654
FRB dividend	74,652	84,486
Total interest income	25,715,072	19,637,114
Interest expense:		
Deposits	3,134,862	2,510,706
Other borrowings	5,248	68,903
Total interest expense	3,140,110	2,579,609
Net interest income	22,574,962	17,057,505
Provision for loan losses	1,412,000	1,073,785
Net interest income after provision for loan losses	21,162,962	15,983,720
Non-interest income:		
Other income and fees	1,491,960	753,130
Bargain purchase gain	5,410,000	2,785,000
Gain on sale of securities	-	94,394
Gain on sale of Trust business	-	72,801
Total non-interest income	6,901,960	3,705,325
Non-interest expense:		
Salaries and related benefits	11,281,382	7,564,116
Occupancy and equipment	2,117,424	1,415,864
Data processing	2,251,206	1,167,381
Other	3,251,236	2,645,955
Total non-interest expense	18,901,248	12,793,316
Income before provision for income taxes	9,163,674	6,895,729
Provision for income taxes	1,711,230	1,717,300
Net income	$ 7,452,444	$ 5,178,429
Earnings per common share:		
Basic: Earnings per common share	$ 1.37	$ 1.09
Weighted average shares outstanding	5,437,790	4,740,152
Diluted: Earnings per common share	$ 1.36	$ 1.08
Weighted average shares outstanding	5,493,398	4,780,345

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

BAY COMMERCIAL BANK
STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2015 and 2014

		2015		2014
Net income	$	7,452,444	$	5,178,429
Other comprehensive income:				
Unrealized holding gain on available-for-sale of investment securities, net of tax of $86,282 in 2015 and $39,174 in 2014		54,316		122,532
Reclassification adjustment for gains realized in income, net of tax of $39,174 in 2014		-		(55,220)
Other comprehensive income		54,316		67,312
Total comprehensive income	$	7,506,760	$	5,245,741

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, 2015 and 2014

	Number of Shares	Common Stock Amount	Additional Paid in Capital	Retained Earnings	Accum-ulated Other Compre-hensive Income	Total Shareholders' Equity
ance, December 31, 2013	4,727,457	$ 38,974,441	$ 286,738	$ 13,061,127	$ -	$ 52,322,306
Net income				5,178,429		5,178,429
Other comprehensive income, net					67,312	67,312
Restricted Stock granted	95,796					-
Stock based compensation		113,215				113,215
Exercise of stock options	20,000	200,000				200,000
Exercise of warrants	32,534	292,806				292,806
ance, December 31, 2014	4,875,787	39,580,462	286,738	18,239,556	67,312	58,174,068
Net income				7,452,444		7,452,444
Other comprehensive income, net					54,316	54,316
Restricted Stock granted	13,872					-
Stock based compensation		304,320				304,320
Exercise of stock options	10,000	70,800				70,800
Issuance of shares	675,867	7,975,620				7,975,620
Repurchase of shares	(209,600)	(2,796,855)				(2,796,855)
Exercise of warrants	127,283	1,145,552				1,145,552
ance, December 31, 2015	5,493,209	$ 46,279,899	$ 286,738	$ 25,692,000	$ 121,628	$ 72,380,265

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

BAY COMMERCIAL BANK
STATEMENT OF CASH FLOWS

For the years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Net income	$ 7,452,444	$ 5,178,429
Adjustments to reconcile net income to net cash provided by operating activities:		
Bargain purchase gain	(5,410,000)	(2,785,000)
Gain on sale of securities	-	(94,394)
Change in cash surrender value of the life insurance policies	(165,848)	25,398
Provision for loan losses	1,412,000	1,073,785
Write down and net loss on sale of OREO	249,566	490,000
Amortization/accretion of premium/discount on investment securities	234,825	225,436
Depreciation and amortization	487,345	411,464
Core deposit intangible amortization	449,389	270,156
Stock based compensation	304,320	113,215
Deferred loan origination expenses, net	50,350	(6,331)
(Increase) decrease in accrued interest receivable and other assets	(261,465)	1,149,010
Increase in salary continuation liability	28,264	165,000
Increase in accrued interest payable and other liabilities	1,342,387	288,634
Net cash provided by operating activities	6,173,577	6,504,802
Cash flows from investing activities:		
Maturity of interest bearing deposits in banks	6,865,760	1,755,670
Proceeds from the sale of investment securities	-	9,800,877
Proceeds from the maturity and repayment of securities	18,430,469	1,601,096
Purchase of Federal Home Loan Bank stock	-	(39,800)
Net increase in loans	(69,144,777)	(14,459,283)
(Purchase) redemption of Federal Reserve Bank Stock	(273,150)	31,150
Purchase of Bank Owned Life Insurance	(7,726)	(3,000,000)
Proceeds from sale of OREO	1,853,278	-
Purchase of premises and equipment	(509,711)	(237,928)
Net cash received from acquisition	19,676,542	16,527,381
Net cash (used) provided by investing activities	(23,109,315)	11,979,163
Cash flows from financing activities:		
Net increase in demand, interest bearing and savings deposits	13,595,748	54,647,575
Decrease in time deposits	(16,104,160)	(10,327,291)
Repurchase of common stock	(2,796,855)	-
Exercise of warrants	1,145,552	292,806
Exercise of stock options	70,800	200,000
Increase in other borrowings	-	29,000,000
Decrease in other borrowings	(6,000,000)	(28,750,000)
Net cash (used) provided by financing activities	(10,088,915)	45,063,090
(Decrease) increase in cash and cash equivalents	(27,024,652)	63,547,055
Cash and cash equivalents at the beginning of the year	135,196,420	71,649,365
Cash and cash equivalents at end of the year	$ 108,171,768	$135,196,420

BAY COMMERCIAL BANK
STATEMENT OF CASH FLOWS - CONTINUED

For the years ended December 31, 2015 and 2014

Supplemental disclosure of cash flow information:	2015	2014
Cash paid during the year for:		
Interest expense	$ 3,137,274	$ 2,312,819
Income tax	1,978,908	765,000
Non-cash investing activities:		
Net change in unrealized gain on investment securities available for sale	54,316	67,312
Transfers of loans to other real estate owned	-	552,844
Acquisitions:		
Assets acquired, net of cash received	105,553,272	97,469,000
Liabilities assumed	111,844,193	111,211,381
Common stock issued	7,975,620	-
Bargain purchase gain	5,410,000	2,785,000
Net cash received	$ 19,676,542	$ 16,527,381

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Bay Commercial Bank (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 ten branches located in Contra Costa, Alameda, Santa Clara, Napa, and San Joaquin 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 2015 and 2014 financial statements include the allowance for loan losses, the valuation for deferred tax assets, the fair value of stock options, the valuation of financial assets and liabilities, and the determination, recognition and measurement of impaired loans. Actual results could differ from these estimates.

Acquisition

On February 13, 2015, the Bank acquired all of the assets and assumed all of the liabilities of Valley Community Bank (VCB) under a Merger and Plan of Reorganization (Merger Agreement).

On April 25, 2014, the Bank acquired all of the assets and assumed all of the liabilities of Bank On It. Inc. and its wholly owned subsidiary, Community Bank of San Joaquin (CBSJ) under a Merger and Plan of Reorganization (Merger Agreement).

In both acquisitions, 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 assets represent the value ascribed to the long-term deposit relationships acquired and is being amortized over an estimated average useful life of four years.

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

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 original 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, 2015 and 2014, 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, 2015 and 2014, $5,440,000 and $4,591,000 reserve balances were required, respectively.

Interest Bearing Deposits in Banks

The Bank invests in interest bearing deposits in banks with maturities of up to three years. At December 31, 2015 and 2014, the Bank held interest bearing deposits totaling $3,219,000 and $10,084,760 with a yield of 1.60% and 1.95% and a weighted average term to maturity of less than a year, respectively.

Investment Securities Available-for-Sale

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

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

Federal Home Loan Bank Stock

As of December 31, 2015 and 2014, Federal Home Loan Bank of San Francisco (FHLB) stock totaling $2,359,800 and $1,646,000, respectively, is recorded at cost and is redeemable at par value. Investment in FHLB stock is carried at cost and periodically evaluated for impairment based on ultimate recovery of par value.

Federal Reserve Bank Stock

As of December 31, 2015 and 2014, Federal Reserve Bank (FRB) stock totaling $1,486,100 and $1,212,950, respectively, is recorded at cost and is redeemable at par value. Investment in FRB stock is carried at cost and periodically evaluated for impairment based on ultimate recovery of par value.

Loans

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

In 2015 and in 2014, the Bank acquired loans in a business combination that are recorded at estimated fair value on their purchase date. The purchaser cannot carryover the related allowance for loan losses as probable credit losses are considered in the estimation of fair value. Purchased loans are accounted for under either ASC 310-30, Loans and Debt Securities with Deteriorated Credit Quality or ASC 310-20, Non-refundable Fees and other Costs. Certain acquired loans exhibited credit quality deterioration since origination and are therefore being accounted for under ASC 310-30. The acquired loans that did not exhibit credit quality deterioration are accounted for under ASC 310-20.

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

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

Loan Fees and Costs

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

Salaries, employee benefits and other expenses totaling $774,355 and $698,553 are deferred as loan origination costs for the years ended December 31, 2015 and 2014, 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 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, 2015 and 2014, 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 and included in impaired loans. These loans are returned to accrual status after the borrower demonstrates performance with the modified terms for a sustained period of time (generally six months) and has the capacity to continue to perform in accordance with the modified terms of the restructured debt.

Other Real Estate Owned

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

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

Premises and Equipment

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

Cash Surrender Value of Life Insurance

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

Impairment of Assets

All assets are reviewed for impairment whenever events or changes indicate that the carrying value of the asset may not be recoverable. As of December 31, 2015 and 2014, the Bank determined that no events or changes occurred during 2015 and 2014 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 an entire financial asset, a group of financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been relinquished. 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 constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The Bank may sell certain portions of government guaranteed loans in the secondary market. These sales are recorded by the Bank when control is surrendered and any warranty period or recourse provision expires. No loans were sold during 2015 or 2014.

Servicing Assets and Liabilities

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

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

Loans serviced for others totaled \$85.9 million and \$29.4 million as of December 31, 2015 and 2014, respectively. Total servicing liabilities, included in other liabilities on the statement of financial condition, were \$327,600 and \$227,800 as of December 31, 2015 and 2014, respectively. Servicing assets totaled \$725,000 and zero as of December 31, 2015 and 2014, respectively, and were not considered material.

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, 2015 and 2014, the Bank recognized zero and $269 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 had no unrecognized tax benefits at December 31, 2015 or 2014.

Non-interest Income

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

Stock Based Compensation

Stock Options
The Bank recognized in the statement of income 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 was estimated on the date of grant using the Black-Scholes options pricing model. The fair value method includes an estimate of expected volatility 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 does not intend to grant stock options in the future.

Restricted Equity Grants
The Bank granted restricted stock to directors and employees in 2014 and 2015 as shown in footnote 13. The grant-date fair value of the award is amortized on the straight-line basis over the requisite service period, which is generally the vesting period, as compensation expense.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing the net income by the weighted-average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if stock options or warrants were exercised. The treasury stock method is applied to determine the dilutive effect of stock options, restricted stock and warrants in computing diluted EPS. For the period ending December 31, 2015, a total of 8,001 stock options, 8,207 unvested restricted stock grants and 13,012 warrants were included in the calculation of diluted common shares. For the period ended December 31, 2014, a total of 7,926 stock options, 1,249 unvested restricted stock grants and 31,018 warrants were included in the calculation of diluted common shares. There were no anti-dilutive shares in 2015 or 2014.

For the periods ended December 31, 2015 and 2014, total weighted average common shares outstanding are as follows:

	2015	2014
Common Stock	5,437,790	4,740,152
Diluted effect of warrants	19,475	31,018
Diluted effect of restricted stock grants	25,839	1,249
Diluted effect of stock options	10,294	7,926
Total weight average diluted shares	5,493,398	4,780,345

Common Stock and Warrants

In 2015 and in 2014, warrants to purchase 127,283 and 32,534 shares of common stock, respectively, with an exercise price of $9.00 per share were exercised. As of December 31, 2015, the Bank repurchased 209,600 shares of common stock respectively. No shares were repurchased in 2014. As of December 31, 2015 and 2014, total warrants outstanding were zero and 127,283, respectively.

Comprehensive Income (Loss)

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

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which creates Topic 606 and supersedes Topic 605, Revenue Recognition. This amendment supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, and expands and improves disclosures. The standard is effective for public entities for interim and annual periods beginning after December 15, 2016; early adoption is not permitted. For financial reporting purposes, the standard allows for either full retrospective adoption, or modified retrospective adoption. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606). This ASU defers the effective date of ASU No. 2014-09 by one year. Application of the guidance is to be effective for interim and annual periods beginning after December 15, 2017. The Bank is currently evaluating the impact of these new accounting standards on the financial statements.

In January 2016, the FAS issued ASU 2016-01, Recognition of Financial Assets and Liabilities. The main objective of this update is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendment is effective for years beginning after December 15, 2017. The Bank is currently evaluating the impact of the new pronouncement.

In February 2016, the FASB issued ASU 2016-02, Leases. From the lessee's perspective, the new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessee. From the lessor's perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing lease. If the lessor does not convey risks and rewards or control, the lease is treated as an operating lease. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. A modified retrospective transition approach is required for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Bank is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

Subsequent Events

Management has evaluated subsequent events for potential recognition and disclosure through March 11, 2015, the date the financial statements were issued.

Reclassifications

Certain prior year amounts may have been reclassified to conform to the current year presentation. None of the reclassifications impact net income or net earnings per common share.

2. ACQUISITION

On April 25, 2014, the Bank merged with Community Bank of San Joaquin with two branch offices located in Stockton, California. The transaction was recorded as a business combination. The Bank acquired total assets of $123.7 million including $59.0 million in loans, and assumed $111.2 million in liabilities including $107.2 million in deposit liabilities. The Bank assumed the lease obligation related to each branch facility. The Merger Agreement provided that Community Bank of San Joaquin merged with and into Bank On It, Inc. and, immediately thereafter, Community Bank of San Joaquin merged with and into the Bank. The Bank acquired all of the shares of common stock issued and outstanding for $2.57 per share.

On February 13, 2015, to enhance market share, the Bank merged with Valley Community Bank adding three branch offices located in Pleasanton, Livermore, and San Jose, California. The Bank issued 675,867 shares at a price of $11.80 per share of common stock in exchange for the all of the common shares outstanding of Valley Community Bank. In addition, the Bank repurchased all of the Series A and B (Fixed-Rate Non-Cumulative Perpetual) Preferred Stock for total cash consideration of $4.3 million. Each share of Valley Community Bank's common stock outstanding converted into 0.345 shares of the Bank's common stock. As of the merger date, the fair value of Valley Community Bank's assets totaled approximately $130.0 million and deposits totaled approximately $107.9 million. The fair value of estimates are subject to change during the measurement period, after the acquisition date as additional information relative to the acquisition date fair values becomes available. The merger transaction is accounted for using the acquisition method of accounting for business combinations FASB ASC 805, Business Combinations. The net assets acquired and the liabilities assumed totaled approximately $17.7 million at the date of merger. The Bank assumed the lease obligation related to each branch facility.

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

	Acquisition Date February 13, 2015
Fair value of Assets:	
Cash and due from Banks	$ 23,986,278
Federal funds sold	36,298
Total cash and cash equivalents	24,022,576
Investment securities	24,685,482
FHLB stock	713,800
Loans	69,617,632
Core deposit intangible	838,000
Deferred tax asset	5,115,000
Servicing asset	792,000
BOLI	3,100,476
Other assets	690,882
Total assets acquired	129,575,848
Liabilities:	
Deposits	
Noninterest bearing	32,974,746
Interest bearing	74,896,159
Total deposits	107,870,905
Salary continuation plan	3,000,000
Servicing liability	171,000
Contingent liabilities - SBA repair risk	550,000
Other liabilities	252,288
Total liabilities assumed	111,844,193
Consideration paid	12,321,655
Bargain purchase gain (included in non-interest income)	$ 5,410,000

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 consideration paid represented a substantial discount to the book value of pre-Merger Valley community Bank's net assets at the acquisition date.

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

	Acquisition Date February 13, 2015
Book value of net assets acquired	$ 19,290,655
Fair value adjustments:	
Loans	(6,340,000)
Servicing asset	(451,000)
Contingent liabilities - servicing	(171,000)
Contingent liabilities - SBA repair risk	(550,000)
Core deposit intangible	838,000
Deferred tax assets	5,115,000
Total purchase accounting adjustments	(1,559,000)
Fair value of assets acquired	17,731,655
Common stock issued	7,975,620
Cash paid	4,346,035
Total price paid	12,321,655
Bargain purchase gain (included in non-interest income)	$ 5,410,000

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 based on the present value of the expected cash flows utilizing market-derived discount rates and certain assumptions related to expected cash flows including prepayment estimates adjusted based on loan type and seasoning, and probability of default and loss severity. For purchased non-credit impaired loans (PNCI), the total gross contractual amounts receivable was $63.4 million as of the acquisition date. For purchased credit impaired loans (PCI), the total contractual amounts receivable was $12.6 million as of the date of acquisition. The fair value of the PCI loans is estimated to total $8.4 million as of the date of acquisition.

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

In estimating the fair value of PCI loans at the acquisition date, the Bank calculated the contractual amount and timing of undiscounted principal and interest payments and estimated the amount and timing of undiscounted expected principal and interest payments. The difference between these two amounts represented the nonaccretable difference. On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the acquired loans is the “accretable yield”. The accretable yield is then measured at each financial reporting date and represented the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans. For PCI loans the accretable yield is accreted into interest income over the life of the estimated remaining cash flows. At each financial reporting date, the carrying value of each PCI loan is compared to an updated estimate of expected principal payment or recovery on each loan. To the extent that the loan carrying amount exceeds the updated expected principal payment or recovery, a provision of loan loss would be recorded as a charge to income and an allowance for loan loss established.

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

	February 13, 2015		
	Credit-impaired loans	Non-credit impaired loans	Total
Contractually required payments including interest	$ 15,074,202	$ 63,406,430	$ 78,480,632
Less: nonaccretable difference	(2,830,000)	-	(2,830,000)
Cash flows expected to be collected (undiscounted)	12,244,202	63,406,430	75,650,632
Accretable yield	(3,888,000)	(2,145,000)	(6,033,000)
Fair value of purchased loans	$ 8,356,202	$ 61,261,430	$ 69,617,632

Servicing Assets and Liabilities

The merger included the acquisition of loans serviced for others including the SBA. The fair value of the servicing assets and contingent liabilities were calculated based on the net present value of the servicing income stream using a market-derived discount rate and estimated expected cash flows based on the estimated life of the underlying loans less the estimated cost of servicing plus a normal profit. In addition, the SBA has certain remedies in the event that a loan is not underwritten or serviced within its guidelines. Those remedies include requiring the Bank to repurchase the guaranteed portion loans or that the certain losses or expenses be reimbursed by the Bank. The loss related to this uncertainty was estimated taking into consideration the SBA guaranteed portion of PCI loans based on loan type and seasoning, probability of default, loss severity, and probability the SBA will exercise its remedies.

Core Deposit Intangible

The core deposit intangible asset, with an estimated acquisition date fair value of $838,000, represents the value ascribed to the long-term deposit relationships acquired and is being amortized over an estimated average useful life of four years. The estimated retention rates used to calculate the fair values were 95% for transaction accounts, 95% for savings deposits 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.

Deposits

The fair values used for the retail DDA and Now deposits were equal to the amounts payable on demand at the acquisition date. There was no fair value adjustment for time deposits as the fair values were equal to the carrying value as of the acquisition date based on the discounted cash flow that applied interest rates offered by market participants as of the acquisition date on time deposits with similar maturity dates.

Pro Forma Results of Operations

The contribution of the acquired operations from the former Valley Community Bank to our results of operations for the 2015 is as follows:

	Revenue	Earnings
Actual from February 13, 2015 to December 31	$ 10,449,300	$ 6,587,000
2015 supplemental proforma from January 1, 2015 to December 31, 2015	10,992,200	6,582,900
2014 supplemental proforma from January 1, 2014 to December 31, 2014	6,504,600	(509,000)

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 adjustments on core deposit intangible. Valley Community Bank's results of operations prior to the merger date are not included in the Bank's results for 2015. 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, 2015 as follows:

	December 31, 2015
Acquisition related expenses	
Professional fees	$ 197,000
Data processing	820,000
Severence expense	540,000
Other	143,000
Total	$ 1,700,000

3. INVESTMENTS

The amortized cost and estimated fair value of investment securities available for sale at December 31, 2015 and 2014 consist of the following:

2015

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Municipal securities	$ 5,002,153	$ 164,407	$ (6,810)	$ 5,159,750
Mortgage-backed securities	2,207,070	24,358	(2,901)	2,228,527
Collateralized mortgage obligations	2,813,210	24,323	(13,069)	2,824,465
U.S. Government Agencies	12,352,908	29,975	(10,487)	12,372,396
U.S. Treasury	1,031,264	-	(1,886)	1,029,378
Total investment securities	$ 23,406,605	$ 243,063	$ (35,153)	$ 23,614,515

2014

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

No investment securities were sold in 2015. In 2014, the Bank received gross proceeds of $9,800,877 and recognized a gain on sale of $94,394. None of the investments were sold at a loss.

The unrealized losses at December 31, 2015 and 2014 are summarized and classified according to the duration of the loss period as follows:

2015

	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Municipal securities	$ 1,129,692	$ (2,881)	$ 412,899	$ (3,930)	$ 1,542,591	$ (6,810)
Mortgage-backed securities	388,933	(2,607)	19,588	(294)	408,521	(2,901)
Collateralized mortgage obligations	-	-	667,739	(13,069)	667,739	(13,069)
U.S. Government Agencies	6,468,574	(10,487)	-	-	6,468,574	(10,487)
U.S. Treasury	1,030,160	(1,886)	-	-	1,030,160	(1,886)
Total	$ 9,017,359	$ (17,861)	$ 1,100,226	$ (17,292)	$ 10,117,585	$ (35,153)

2014

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

Certain investment securities shown in the previous table have fair values less than amortized cost and therefore contain unrealized losses. The Bank considers a number of factors including, but not limited to: (a) length of time and the extent to which the fair value has been less than the amortized costs, (b) the financial condition and near-term prospects of the issuer, (c) the intent and ability of the Bank to retain its investment for a period of time sufficient to allow for an anticipated recovery in value, (d) whether the debtor is current on interest and principal payments, and (e) general market conditions and the industry or sector-specific outlook. Management has evaluated all securities at December 31, 2015 and has determined that no securities are other than temporarily impaired. Because the Bank does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, which may be maturity, the Bank does not consider these securities to be other-than temporarily impaired.

At December 31, 2015, the Bank held 99 investment securities, of which six of were in a loss position for more than twelve months in 2015 and 37 were in an unrealized loss position for less than twelve months in 2015. These temporary unrealized losses relate principally to current interest rates for similar types of securities. The Bank anticipates full recovery of amortized cost with respect to these securities at maturity or sooner in the event of a more favorable market interest rate environment.

The amortized cost and estimated fair value of debt securities at December 31, 2015 and 2014, by call date are shown below. Expected maturities will differ from contractual maturities because a borrower may have the right to call or pre-pay obligations with or without call or prepayment penalties.

	2015		2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 1,540,442	$ 1,536,287	$ 3,237,114	$ 3,232,918
Due after one year through five years	14,634,938	14,661,859	4,920,617	4,920,769
Due after five year through ten years	6,215,252	6,406,101	4,424,813	4,490,113
Due after ten years	1,015,973	1,010,268	4,890,154	4,896,210
Total	$ 23,406,605	$ 23,614,515	$17,472,698	$ 17,540,010

At December 31, 2015 and 2014, available for sale securities with a carrying amount of approximately $3,011,000 and $3,028,000, respectively, were pledged to secure borrowing arrangements with the Federal Home Loan Bank (see Note 9).

4. LOANS

The Bank's loan portfolio at December 31, 2015 and 2014 is summarized below:

	2015	2014
Commercial	$ 71,380,309	$ 72,296,572
Construction and land	19,217,128	12,851,984
Commercial real estate	343,232,340	216,555,980
Residential real estate	29,603,136	23,694,363
Consumer	966,786	300,391
Total loans	$ 464,399,699	$ 325,699,290
Deferred loan fees and costs, net	(342,085)	(291,735)
Allowance for loan losses	(3,850,000)	(2,500,000)
Net loans	$ 460,207,614	$ 322,907,555

For the years ended December 31, 2015 and 2014, the Bank had $333,676 and $855,000, respectively, of impaired loans on nonaccrual. For the period ended December 31, 2015 and 2014, if interest had been accrued such income would have been approximately $22,000 and $83,000, respectively.

As of December 31, 2015 and 2014, the Bank's impaired or non-accrual originated and PNCI loans have a related allowance for loss as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2015					
With no related allowance recorded					
Commercial	$ 333,676	$ 333,676	$ -	$ 339,910	$ -
Construction and land	-	-	-	-	-
Commercial real estate	2,020,641	2,020,641	-	2,039,191	129,360
Residential	-	-	-	-	-
Consumer	-	-	-	-	-
With an allowance recorded					
Commercial	$ -	$ -	$ -	$ -	$ -
Construction and land	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Residential	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 2,354,317	$ 2,354,317	$ -	$ 2,379,101	$ 129,360
2014					
With no related allowance recorded					
Commercial	$ 346,145	$ 346,145	$ -	$ 595,900	$ 26,780
Construction and land	-	-	-	-	-
Commercial real estate	2,057,621	2,057,621	-	2,074,981	131,621
Residential	240,547	240,547	-	265,900	18,687
Consumer	-	-	-	-	-
With an allowance recorded					
Commercial	$ 268,597	$ 268,597	$ 26,000	$ 328,649	$ 20,195
Construction and land	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Residential	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 2,912,910	$ 2,912,910	$ 26,000	$ 3,265,430	$ 197,283

As of December 31, 2015 and 2014, the Bank had no loans 90 days delinquent and still accruing interest and no troubled debt restructured loans that were not performing under the post–modification terms. During 2015 and 2015, the Bank did not recognize any interest income under the cash basis.

In 2015, there were no restructured loans and none were outstanding at December 31, 2015. In 2014, one loan totaling $240,547 was restructured to extend the maturity date to allow for the orderly liquidation of the underlying collateral. This loan was on non-accrual. In 2015, the Bank recorded a $71,636 charge-off related to restructured loans and none in 2014. As of December 31, 2014, restructured loans had no related allowance.

As of December 31, 2015 and 2014, the Bank has fixed rate loans totaling $234.7 million and $132.8 million, respectively, and variable rate loans total $229.7 million and $192.9 million, respectively. As of December 31, 2015, variable rate loans with interest rate caps of 12% or lower total $43.6 million none of which have reached their caps, and a total of $158.9 million have interest rate floors, all of which are at their floors. More than 91% 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, 2015 and 2014, a total of $20.1 million and $16.0 million, respectively, of variable rate loans are tied to the treasury constant maturity rate (CMT) as published by the Federal Reserve and adjust every five years. At December 31, 2015 and 2014, $3.7 million and $3.0 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 Alameda, Santa Clara, Contra Costa and Napa counties, and the Central Valley, including San Joaquin and Sacramento counties. As of December 31, 2015, the Bank's loans outstanding comprised 73.9% term mortgage-type loans secured primarily by commercial real estate, 0.9% for the purpose of constructing commercial and residential property, 3.2% for the purpose of holding or acquiring unimproved land, 6.4% term mortgage-type loans secured by residential property, and 15.4% for general commercial uses including professional, retail, and small business. Less than 0.5% of the Bank's loans are consumer loans.

As of December 31, 2015, the Bank's unsecured loans outstanding totaled 3.1% 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, 2015 and 2014, the single largest loan totaled $10.3 million and $6.5 million, respectively, and is secured by commercial real estate. As of December 31, 2015 and 2014, undisbursed commitments total $92.4 million and $55.3 million, respectively.

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

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

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

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

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

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

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

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

Any asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and value, highly questionable and improbable. Doubtful assets have a high probability of loss, yet certain important and reasonably specific pending factors may work toward the strengthening of the asset. The Bank had two loans in the combined amount of $333,676 classified as doubtful as of December 31, 2015 and 2014. Both loans are guaranteed by the California government and not accruing interest as described above.

Assets classified loss are considered uncollectible and of minimal value. Assets classified losses 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, 2015 and 2014:

2015	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 66,039,590	$ 728,889	$ 4,278,154	$ 333,676	$ 71,380,309
Construction and land	16,230,128	-	2,987,000	-	19,217,128
Commercial real estate	340,010,673	1,201,026	2,020,641	-	343,232,340
Residential real estate	29,603,136	-	-	-	29,603,136
Consumer	966,786	-	-	-	966,786
Total	$ 452,850,313	$ 1,929,915	$ 9,285,795	$ 333,676	$ 464,399,699

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

The following table provides an aging of the Bank's loans receivable as of December 31, 2015 and 2014.

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	PCI Loans	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
2015								
Commercial	$ -	$ -	$ 333,676	$ 333,676	$ 70,798,926	$ 247,708	$ 71,380,309	-
Construction and land	-	-	-	-	19,217,128	-	19,217,128	-
Commercial real estate	-	-	-	-	335,061,200	8,166,701	343,232,340	-
Residential	-	-	-	-	28,163,585	1,439,551	29,603,136	-
Consumer	499	-	-	499	966,287	-	966,786	-
Total	$ 499	$ -	$ 333,676	$ 334,174	$ 454,207,126	$ 9,853,959	$ 464,399,699	$ -
2014								
Commercial	$ 398,597	$ -	$ 95,937	$ 494,534	$ 71,802,038	$ -	$ 72,296,572	-
Construction and land	-	-	-	-	12,851,984	-	12,851,984	-
Commercial real estate	-	-	-	-	214,444,187	2,111,793	216,555,980	-
Residential	-	-	-	-	23,694,363	-	23,694,363	-
Consumer	-	-	-	-	300,391	-	300,391	-
Total	$ 398,597	$ -	$ 95,937	$ 494,534	$ 323,092,963	$ 2,111,793	$ 325,699,290	$ -

The following table reflects contractual cash flows, non-accretable difference, accretable yield, and carrying amount for PCI loans as of December 31, 2015 and 2014.

	2015 Credit-impaired Loans	2014 Credit-impaired Loans
Contractually required payments, including interest	$ 16,076,681	$ 3,195,518
Less: non-accretable difference	(3,478,590)	(1,062,654)
Cash flows expected to be collected (undiscounted)	12,598,091	2,132,864
Accretable Yield	(2,744,132)	(21,071)
Carrying Amount	$ 9,853,959	$ 2,111,793

The following table is a summary of the change in accretable yield for PCI loans for the period ended December 31, 2015 and 2014.

	2015	2014
Balance at beginning of period	$ 21,071	$ -
Additions	3,888,134	79,567
Removals	(80,618)	(31,511)
Accretion	(1,084,455)	(26,985)
Balance at end of period	$ 2,744,132	$ 21,071

5. ALLOWANCE FOR LOAN LOSSES

The following table summarizes the Bank's allowance for loan losses for the year ended December 31, 2015 and 2014 by loan product and collateral type:

2015	Commercial	Construction and Land	Commercial Real Estate	Residential	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 1,328,000	$ 282,000	$ 520,000	$ 277,000	$ 3,000	$ 90,000	$ 2,500,000
Charge-offs	(95,042)	-	-	-	(12,959)	-	(108,001)
Recoveries	46,001	-	-	-	-	-	46,001
Provision	139,041	(70,000)	1,215,000	(146,000)	12,959	261,000	1,412,000
Ending balance	$ 1,418,000	$ 212,000	$ 1,735,000	$ 131,000	$ 3,000	$ 351,000	$ 3,850,000
Allowance for loan loss related to:							
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans collectively evaluted for impairment	1,418,000	212,000	1,735,000	131,000	3,000	351,000	3,850,000
PCI loans	-	-	-	-	-	-	-
Balance of loans:							
Individually evaluated for impairment	333,676	-	2,020,641	-	-	-	2,354,317
Collectively evaluated for impairment	70,798,925	19,217,128	333,044,999	28,163,585	966,786	-	452,191,423
PCI loans	247,708	-	8,166,700	1,439,551	-	-	9,853,959
Total	$ 71,380,309	$ 19,217,128	$ 343,232,340	$ 29,603,136	$ 966,786	$ -	$ 464,399,699

2014	Commercial	Construction and Land	Commercial Real Estate	Residential	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 1,320,000	$ 105,000	$ 1,184,000	$ 25,000	$ 1,000	$ 140,000	$ 2,775,000
Charge-offs	(1,111,976)		(355,550)				(1,467,526)
Recoveries	118,741						118,741
Provision	1,001,235	177,000	(308,450)	252,000	2,000	(50,000)	1,073,785
Ending balance	$ 1,328,000	$ 282,000	$ 520,000	$ 277,000	$ 3,000	$ 90,000	$ 2,500,000
Allowance for loan loss related to:							
Loans individually evaluated for impairment	$ 26,000	$ -	$ -	$ -	$ -	$ -	$ 26,000
Loans collectively evaluted for impairment	1,302,000	282,000	520,000	277,000	3,000	90,000	2,474,000
PCI loans	-	-	-	-	-	-	-
Balance of loans:							
Individually evaluated for impairment	$ 614,742	$ -	$ 2,057,621	$ 240,547	$ -	$ -	$ 2,912,910
Collectively evaluated for impairment	71,681,830	12,851,984	212,386,566	23,453,816	300,391	-	320,674,587
PCI loans	-	-	2,111,793	-	-	-	2,111,793
Total	$ 72,296,572	$ 12,851,984	$ 216,555,980	$ 23,694,363	$ 300,391	$ -	$ 325,699,290

6. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31, 2015 and 2014:

	2015	2014
Furniture, fixtures and equipment	$ 2,257,478	$ 1,768,845
Leasehold improvements	1,037,669	919,144
Less accumulated depreciation and amortization	(1,904,586)	(1,422,926)
Total premises and equipment, net	$ 1,390,561	$ 1,265,064

Depreciation and amortization included in occupancy and equipment expense total $487,345 for the year ended December 31, 2015 and $411,464 for the year ended December 31, 2014.

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

Year Ending December 31,	
2016	$ 1,224,795
2017	942,230
2018	857,096
2019	740,523
2020	558,856
Thereafter	1,279,762
Total	$ 5,603,262

Rental expense included in occupancy and equipment expense totals $1,395,798 and $861,975 for the years ended December 31, 2015 and 2014, respectively.

7. OTHER REAL ESTATE OWNED

Other real estate owned as of December 31, 2015 and 2014 consisted of the following:

	2015	2014
Commercial real estate	$ -	$ 2,592,844
Valuation allowance	-	(490,000)
Total	$ -	$ 2,102,844

8. DEPOSITS

Deposits consisted of the following at December 31, 2015 and 2014:

	2015	2014
Demand deposits	$ 152,012,575	$ 124,228,498
NOW accounts and Savings	53,981,517	42,760,922
Money market	210,522,820	143,028,203
Time – less than $250,000	73,539,294	70,694,530
Time – $250,000 or more	53,247,628	57,229,188
Total deposits	$ 543,303,834	$ 437,941,341

At December 31, 2015 and 2014, the weighted average stated rate is 0.51% and 0.54%, respectively. At December 31, 2015, approximately $71.5 million, or 13.2%, of the Bank's deposits are derived from ten (10) depositors. At December 31, 2014, approximately $69.6 million, or 15.9%, of the Bank's deposits are derived from eight (8) depositors.

The Bank accepts deposits related to real estate transactions qualifying under the Internal Revenue Code Section 1031, Tax Deferred Exchanges. These deposits fluctuate as the sellers of real estate have up to six months to invest in replacement real estate to defer the income tax on the property sold. The Bank also accepts deposits related to business escrow services. Deposits related to these activities total $27.7 million and $10.7 million at December 31, 2015 and 2014, respectively. Average deposit balances for these activities totaled $11.9 million and $9.8 million during 2015 and 2014, respectively.

At December 31, 2015, aggregate annual maturities of time deposits are as follows:

Year Ending December 31,	
2016	$ 86,498,284
2017	34,002,319
2018	4,292,693
2019	1,484,956
2020	508,670
	$ 126,786,922

Interest expense, net of early withdrawal penalty, recognized on interest-bearing deposits for the years ended December 31, 2015 and 2014 consists of the following:

	2015	2014
NOW accounts and savings	$ 90,686	$ 55,603
Money market	1,257,911	912,105
Time-less than $250,000	1,115,729	749,011
Time $250,000 or more	670,536	793,987
Total	$ 3,134,862	$ 2,510,706

9. OTHER BORROWINGS

Other borrowings for the period ending and as of December 31, 2015 and 2014 are as follows:

	2015	2014
Outstanding balance	$ -	$ 6,000,000
Interest rate	0.00%	0.41%
Average balance	$ 991,780	$ 4,614,836
Average interest rate	0.53%	1.49%
Maximum balance	$ 6,000,000	$ 30,750,000

The Bank has an approved secured borrowing facility with the FHLB for up to 25% of total assets for a term not to exceed five years under a blanket lien of certain types of loans. There were no outstanding borrowings in 2015 and $6.0 million outstanding under this facility at December 31, 2014, respectively.

The Bank has two Federal Funds lines with available commitments totaling $20.0 million with two correspondent banks. There are no amounts outstanding under these facilities at December 31, 2015 and 2014.

10. INCOME TAXES

Income taxes expense for the years ended December 31, 2015 and 2014 are as follows:

	2015		2014	
	Federal	State	Federal	State
Current income taxes	$ 5,391,089	$ 1,296,707	$ 1,512,988	$ 504,692
Deferred income taxes, net	(4,111,859)	(864,707)	(248,188)	(52,192)
Total provision for income taxes	$ 1,279,230	$ 432,000	$ 1,264,800	$ 452,500

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, 2015 and 2014 consist of the following:

	2015		2014	
	Amount	Rate %	Amount	Rate %
Federal statutory tax rate	$3,115,649	34.00%	$ 2,344,548	34.00%
State statutory tax rate, net of Federal effective tax rate	655,203	7.15%	493,045	7.15%
Tax exempt interest	(29,410)	-0.32%	(36,851)	-0.54%
Bank owned life insurance	(68,246)	-0.74%	(10,451)	-0.15%
Stock based compensation	-	0.00%	38,493	0.56%
Bargain purchase gain	(2,226,215)	-24.29%	(946,900)	-13.73%
Acquisition expenses	41,150	0.45%	48,857	0.70%
Other	223,099	2.43%	(213,441)	-3.10%
Total income tax expense	$1,711,230	18.67%	$ 1,717,300	24.90%

Deferred tax assets at December 31, 2015 and 2014, included as a component of other assets in the Statement of Financial Condition, consisted of the following:

Deferred tax assets, net of liabilities:	2015	2014
Net operating loss carryforward	$ 5,002,599	$3,738,335
Mark to market adjustments	3,267,413	1,246,780
Amortization of start up costs	236,138	265,966
Write down of OREO	-	88,317
Allowance for loan losses	1,584,444	1,347,129
Deferred loan fees net of costs	88,548	(35,462)
Stock based compensation	2,006	2,006
FHLB stock dividend	(117,356)	(68,401)
Unrealized gain on AFS securities	357,308	299,446
Salary continuation plan	1,301,638	70,778
Other	362,762	154,040
Total deferred tax assets	$ 12,085,500	$7,108,934

The utilization of the net operating losses is subject to an annual limit and begins expiring in 2029. As of December 31, 2015 and 2014, there is no valuation allowance based on management's estimate that the Bank will more likely than not be able to utilize all of the deferred tax assets. At December 31, 2015, Federal net operating losses included in the deferred tax asset totaled $11.8 million and California net operating losses totaled $13.9 million.

The Bank files income tax returns in the U.S. federal jurisdiction and in California. The Bank's policy is to recognize penalties and interest as income tax expense.

11. COMMITMENTS AND CONTINGENCIES

Lending and Letter of Credit Commitments

In the normal course of business, the Bank enters into various commitments to extend credit which are not reflected in the financial statements. These commitments consist of the undisbursed balance on personal and commercial lines of credit and of undisbursed funds on construction and development loans. At December 31, 2015 and 2014, undisbursed commitments total $92,358,000 and $55,293,000, respectively. In addition, at December 31, 2015 and 2014, the Bank has issued standby letter of credit commitments, primarily issued for 3rd party performance obligations of Bank clients totaling $5,724,000 and $1,591,000, respectively, of which zero was outstanding at both December 31, 2015 and December 31, 2014.

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, 2015 and 2014, the reserve associated with these commitments is $280,000 and $260,000, 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, 2015 and 2014, the FHLB issued a letter of credit on behalf of the Bank totaling $10,000,000 and $9,000,000 respectively, as collateral for local agency deposits.

Litigation and Legal Claims

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

12. EMPLOYEE BENEFIT PLANS

401(k) Plan

Effective January 1, 2005, the Bank adopted a qualified 401(k) profit sharing plan (401(k) Plan) that covers substantially all full-time employees. The 401(k) Plan permits voluntary contributions by participants and provides for voluntary matching contributions by the Bank. For the years ended December 31, 2015 and 2014 the Bank made contributions to the plan of $210,300 and $67,000, respectively.

Salary Continuation Plan

In 2015, the Bank acquired a salary continuation plan for two former VCB executive officers through the VCB merger agreement. This liability was fully vested and accrued for at the acquisition date. Accordingly, there is no on-going expense related to this continuation plan.

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

The expense recognized under the 2014 salary continuation agreement totaled $216,000 and $165,000 for the years ended December 31, 2015 and 2014, respectively and are included in salaries and employee benefits expense in the income statement.

In connection with these agreements, the Bank holds single premium life insurance policies with a cash surrender value totaling $6,248,652 and $2,974,602 at December 31, 2015 and 2014, respectively. A total of $3,100,476 was acquired through the merger with VCB. Income from these policies, net of expenses, resulted in net income totaling $165,848 and net expense totaling $25,398 for the years ended December 31, 2015 and 2014, respectively, and is included in other non-interest income in the income statement.

13. EQUITY INCENTIVE PLANS

2014 Omnibus Equity Incentive Plan

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

As of December 31, 2015 and 2014, pursuant to the Plan, 109,668 and 95,796 shares, respectively, of restricted common stock were granted to officers and directors. The shares have vesting periods between three and five years. As of December 31, 2015, a total of 24,791 shares have vested. None are vested as of December 31, 2014. The following table provides the restricted stock grant activity for 2015 and 2014:

	2015		2014	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested shares at beginning of the year	95,796	$ 10.96	-	$ -
Granted	13,872	11.75	95,796	10.96
Vested	(24,791)	10.96	-	-
Forfeited/expired	-	-	-	-
Unvested shares at end of the year	84,877	$ 11.09	95,796	$ 10.96

As of December 31, 2015, unvested shares totaling 84,877 vest over a weighted average period of three years. As of December 31, 2014, 53,556 vest over five years and 42,240 vest over three years. As of December 31, 2015, the grant-date fair value of vested restricted stock was $271,709. No restricted stock was vested as of December 31, 2014.

As of December 31, 2015 and 2014, compensation related expenses totaling $304,320 and $113,215, respectively, were recorded and unrecognized compensation expenses related to non-vested stock was $795,400 and $936,700, respectively. The total tax benefit related to restrict stock grants was $125,000 and $47,000 during 2015 and 2014, respectively.

<u>2004 Stock Option Plan</u>
The 2004 Stock Option Plan (Stock Option Plan) expired in 2014. The Stock Option Plan required that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the stock must be paid for in full at the time the option is exercised. All options expire on a date determined by the Board of Directors, but not later than ten years from the date of grant. No additional stock options will be granted under the Stock Option Plan.

As of December 31, 2015, a total of 52,988 options remain outstanding pursuant to the Stock Option Plan under incentive and nonstatutory agreements. To date, options to acquire 39,794 shares of common stock have been exercised. No options were granted in 2015 or 2014.

The following table provides the stock option activity for the year ending December 31, 2015 and 2014:

	2015		2014	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Balance at beginning of the year	64,488	$ 9.40	401,688	$ 10.10
Granted	-	-	-	-
Exercised	(10,000)	7.05	(20,000)	10.00
Terminated	-	-	(148,000)	10.27
Expired	(1,500)	11.83	(169,200)	10.11
Balance at end of the year	52,988	$ 9.77	64,488	$ 9.40

The following table provides the weighted-average fair and intrinsic values, and the weighted average remaining contractual life for stock option activity as of and for the years ending December 31, 2015 and 2014:

	2015	2014
Weighted-average fair value of options granted during the year	$ -	$ -
Intrinsic value of options exercised	$ 48,000	35,000
Options exercisable at year end:	52,988	64,488
Weighted-average exercise price	$ 9.77	$ 9.40
Intrinsic value	$ 184,461	$ 161,527
Weighted-average remaining contractual life	.8 years	1.6 years
Options outstanding at year end:	52,988	64,488
Weighted-average exercise price	$ 9.77	$ 9.40
Intrinsic value	$ 184,461	$ 161,527
Weighted-average remaining contractual life	.8 years	1.6 years

As of December 31, 2015, 5,000 incentive stock options and 47,988 non-qualified stock options are outstanding. As of December 31, 2015, there is no unrecognized compensation cost related to stock options. In 2015 and 2014, options to acquire 10,000 and 20,000 shares, respectively of common stock were exercised. No tax benefits related to non-qualified stock options were recorded during 2015 and 2014.

14. REGULATORY MATTERS

Dividends

The California Financial Code restricts the total dividend payment of any state banking association in any calendar year to the lesser of the Bank's retained earnings or the Bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. At December 31, 2015, $15.3 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, 2015 and 2014, 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, Common Equity Tier 1 and Tier 1 leverage ratios as set forth below.

(Dollars in Thousands)	2015		2014	
Leverage Ratio	Dollars	Ratio	Dollars	Ratio
Bay Commercial Bank	$ 66,628	10.6%	$ 54,175	10.7%
Minimum requirement for "Well-Capitalized"	31,466	5.0%	25,389	5.0%
Minimum regulatory requirement	25,173	4.0%	20,311	4.0%
Common Equity Tier 1 Ratio				
Bay Commercial Bank	$ 66,628	13.3%	N/A	N/A
Minimum requirement for "Well-Capitalized"	32,560	6.5%	N/A	N/A
Minimum regulatory requirement	22,541	4.5%	N/A	N/A
Tier 1 Risk-Based Capital Ratio				
Bay Commercial Bank	$ 66,628	13.3%	$ 54,175	15.8%
Minimum requirement for "Well-Capitalized"	40,074	8.0%	20,604	6.0%
Minimum regulatory requirement	30,055	6.0%	13,736	4.0%
Total Risk-Based Capital Ratio				
Bay Commercial Bank	$ 70,758	14.1%	$ 56,675	16.5%
Minimum requirement for "Well-Capitalized"	50,092	10.0%	34,341	10.0%
Minimum regulatory requirement	40,074	8.0%	27,472	8.0%

On July 2, 2013, the federal banking regulators approved the final proposed rules that revise the regulatory capital ratios to incorporate certain revisions by the Basel Committee on Banking Supervision to the Basel capital framework ("BASEL III"). The phase-in period for the final rules began on January 1, 2015, with full compliance with the final rules entire requirement phase in by January 1, 2019. The final rules, among other things, include a new common equity Tier 1 capital ("CETI") to risk-weighted assets ratio, including a capital conservation buffer, which increases from 4.5% this year to 7.0% on January 1, 2019. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from currently 6.0% to 8.5% on January 1, 2019, as well as require minimum leverage ratio of 4.0%.

15. RELATED PARTY TRANSACTIONS

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

The following is a summary of the aggregate loan activity involving related party borrowers for the years ending December 31, 2015 and 2014:

	2015	2014
Balance, beginning	$ 7,415,140	$6,447,712
Disbursements	2,405,601	2,943,980
Amounts repaid	(443,107)	(1,976,552)
Balance, ending	$ 9,377,635	$7,415,140
Undisbursed commitments to related parties	$ 2,150,000	$2,200,000
Letters of credit issued for related parties	$ 501,614	$ -

At December 31, 2015 and 2014, the Bank's deposits included deposits from related parties which total approximately $15.9 million and $11.4 million, respectively.

16. OTHER EXPENSES

For the years ended December 31, 2015 and 2014, respectively, other expenses consist of the following:

	2015	2014
Professional fees	$ 782,213	$ 464,981
Stationery and supplies	378,769	223,471
Insurance including FDIC Premiums	364,020	419,725
Marketing and promotions	297,974	285,440
Write-down and net loss on OREO	249,566	490,000
Communication and postage	243,429	152,168
Director fees	174,600	138,000
Loan default related expenses	101,482	108,675
Bank service charges	88,127	90,661
Courier expense	74,627	50,656
Other	496,429	222,178
Total other expenses	$ 3,251,236	$ 2,645,955

The Bank expenses marketing and promotions costs as they are incurred. Advertising expense, included in marketing and promotions, total $99,000 and $121,900 for the years ended December 31, 2015 and 2014, respectively.

17. 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, 2015 and 2014, 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. Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with our quarterly valuation process. There were no transfers between levels during 2015 or 2014.

The following assets are measured at fair value on a recurring basis:

	As of December 31, 2015			
	Total	Level 1	Level 2	Level 3
Description of Financial Instruments:				
Municipal securities	$ 5,159,750	$ -	$ 5,159,750	$ -
Mortgage-backed securities	2,228,527	-	2,228,527	-
Collateralized mortgage obligations	2,824,465	-	2,824,465	-
U.S. Government Agencies	12,372,396	-	12,372,396	-
U.S. Treasury	1,029,378	-	1,029,378	-
Total at fair value	$ 23,614,515	$ -	$23,614,515	$ -

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

There were no assets measured at fair value on a non-recurring basis as of December 31, 2015.

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

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

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. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Management also incorporates assumptions regarding market trends or other relevant factors and selling and commission costs ranging from 5% to 7%. Such adjustments and assumptions are typically significant and result in a Level 3 classification of the inputs for determining fair value.

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

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

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

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

Other equity securities – The carrying value of the FHLB and FRB stock approximates the fair value because the stock is redeemable at par.

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

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

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

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

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

The carrying amounts and fair values of the Bank's financial instruments at December 31, 2015 and 2014 are presented below.

2015	Carrying	Fair	Fair value measurements		
	Amount	value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	$ 108,171,768	$ 108,171,768	$ 108,171,768	$ -	$ -
Interest bearing deposits in banks	3,219,000	3,219,000	3,219,000	-	-
Investment securities	23,614,514	23,614,514	-	23,614,514	-
Other equity securities	3,845,900	3,845,900	-	3,845,900	-
Loans, net	460,207,614	460,780,462	-	-	460,780,462
Accrued interest receivable	1,502,290	1,502,290	-	1,502,290	-
Financial Liabilities:					
Accrued interest payable	69,012	69,012	-	69,012	-
Deposits	543,303,834	543,907,580	416,534,719	127,372,861	-
Off-balance sheet liabilities:					
Undisbursed loan commitments	-	280,000	-	-	280,000

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