NORCAL COMMUNITY BANCORP AND SUBSIDIARY
Alameda, California

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

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FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

The Shareholders and
Board of Directors
NorCal Community Bancorp
Alameda, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of NorCal Community Bancorp, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive (loss) 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 consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of NorCal Community Bancorp as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of NorCal Community Bancorp for the year ended December 31, 2010 were audited by other auditors whose report dated February 17, 2011 expressed an unqualified opinion on those statements.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
February 21, 2013

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and due from banks	$ 2,049,831	$ 1,703,234
Interest bearing deposits in other banks	30,322,816	15,900,173
Total cash and cash equivalents	32,372,647	17,603,407
Available-for-sale investment securities, at fair value (Notes 3, 4 and 9)	43,559,000	48,974,000
Held-to-maturity investment securities, at amortized cost (Notes 4 and 9)	18,618,344	15,161,609
Loans and leases, less allowance for loan and lease losses of $3,549,492 in 2012 and $4,807,173 in 2011 (Notes 3, 5, 9 and 12)	164,275,181	161,036,065
Other real estate (Notes 3 and 6)	461,319	1,844,262
Premises and equipment, net (Notes 7 and 12)	278,658	143,318
Federal Home Loan Bank stock, at cost	1,275,900	1,021,600
Cash surrender value of bank owned life insurance	3,093,947	-
Accrued interest receivable and other assets	1,798,064	2,345,089
Total assets	$ 265,733,060	$ 248,129,350
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 73,939,156	$ 64,693,779
Interest bearing (Note 8)	162,033,419	153,089,331
Total deposits	235,972,575	217,783,110
Accrued interest payable and other liabilities	1,439,388	1,149,275
Subordinated debentures (Note 10)	8,248,000	8,248,000
Total liabilities	245,659,963	227,180,385
Commitments and contingencies (Note 12)		
Shareholders' equity (Note 13):		
Preferred stock - no par value; 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock - no par value; 30,000,000 shares authorized; 10,610,716 shares issued and outstanding in 2012 and 2011	19,318,440	19,273,096
Retained earnings	540,848	1,527,511
Accumulated other comprehensive income, net of taxes (Note 4)	213,809	148,358
Total shareholders' equity	20,073,097	20,948,965
Total liabilities and shareholders' equity	$ 265,733,060	$ 248,129,350

See accompanying notes to consolidated financial statements.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
Interest income:			
Interest and fees on loans and leases	$ 8,848,404	$ 9,244,882	$ 10,530,300
Interest on deposits in other banks	62,687	78,553	86,851
Interest on investment securities:			
Taxable	1,413,349	1,112,282	495,601
Exempt from Federal income taxes	45,959	76,330	102,724
Total interest income	10,370,399	10,512,047	11,215,476
Interest expense:			
Interest on deposits (Note 8)	525,500	682,319	1,050,968
Interest on subordinated debentures (Note 10)	227,063	223,611	219,835
Total interest expense	752,563	905,930	1,270,803
Net interest income before provision for loan and lease losses	9,617,836	9,606,117	9,944,673
Provision for loan and lease losses (Note 5)	2,650,000	900,000	5,845,000
Net interest income after provision for loan and lease losses	6,967,836	8,706,117	4,099,673
Non-interest income:			
Service charges	401,804	390,301	422,872
Mortgage loan packaging fees	930,963	217,907	64,101
Gain on sale of investment securities (Note 4)	369,747	-	-
Increase in cash surrender value of bank owned life insurance	93,947	-	-
Other income	265,972	423,722	367,997
Total non-interest income	2,062,433	1,031,930	854,970
Non-interest expenses:			
Salaries and employee benefits (Notes 5 and 16)	5,690,920	4,983,503	5,060,673
Occupancy and equipment (Notes 7 and 12)	1,427,843	1,493,632	1,556,290
Other expenses (Note 15)	2,896,569	3,158,567	4,379,147
Total non-interest expenses	10,015,332	9,635,702	10,996,110
(Loss) income before provision for (benefit from) income taxes	(985,063)	102,345	(6,041,467)
Provision for (benefit from) income taxes (Note 11)	1,600	90,000	(84,000)
Net (loss) income	$ (986,663)	$ 12,345	$ (5,957,467)
Basic and diluted (loss) income per share (Note 13)	$ (0.09)	$ 0.00	$ (1.43)

See accompanying notes to consolidated financial statements.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
For the Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
Net (loss) income	$ (986,663)	$ 12,345	$ (5,957,467)
Other comprehensive income (loss):			
Unrealized holdings gains (losses) arising during the year, net of tax of $(197,079), $(102,694), and $13,972 in 2012, 2011, and 2010, respectively	283,602	147,779	(19,718)
Less reclassification adjustment for gains included in net loss, net of tax of $151,596 in 2012	(218,151)	-	-
Total other comprehensive income (loss)	65,451	147,779	(19,718)
Comprehensive (loss) income	$ (922,212)	$ 160,124	$ (5,977,185)

See accompanying notes to consolidated financial statements.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2012, 2011 and 2010

	Common Stock			Accumulated Other Comprehensive	Total
	Shares	Amount	Retained Earnings	Income (Net of Taxes)	Shareholders' Equity
Balance, January 1, 2010	3,166,755	$ 11,820,788	$ 7,472,633	$ 20,297	$ 19,313,718
Net loss	-	-	(5,957,467)	-	(5,957,467)
Net change in unrealized gain on available-for-sale investment securities	-	-	-	(19,718)	(19,718)
Common stock issuance (Note 13)	7,450,000	7,051,130	-	-	7,051,130
Stock-based compensation expense (Note 13)	-	221,484	-	-	221,484
Repurchase of common stock under equity incentive plan	(3,511)	(10,225)	-	-	(10,225)
Balance, December 31, 2010	10,613,244	19,083,177	1,515,166	579	20,598,922
Net income	-	-	12,345	-	12,345
Net change in unrealized gain on available-for-sale investment securities	-	-	-	147,779	147,779
Stock-based compensation expense (Note 13)	-	193,711	-	-	193,711
Repurchase of common stock under equity incentive plan	(2,528)	(3,792)	-	-	(3,792)
Balance, December 31, 2011	10,610,716	19,273,096	1,527,511	148,358	20,948,965
Net loss	-	-	(986,663)	-	(986,663)
Net change in unrealized gain on available-for-sale investment securities (Note 4)	-	-	-	65,451	65,451
Stock-based compensation expense (Note 13)	-	45,344	-	-	45,344
Balance, December 31, 2012	10,610,716	$ 19,318,440	$ 540,848	$ 213,809	$ 20,073,097

See accompanying notes to consolidated financial statements.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
Cash flows from operating activities:			
Net (loss) income	$ (986,663)	$ 12,345	$ (5,957,467)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Provision for loan and lease losses	2,650,000	900,000	5,845,000
Stock-based compensation expense	45,344	193,711	221,484
Depreciation, amortization and accretion, net	856,754	824,202	542,962
Loss on disposal of premises and equipment	5,443	977	-
Other real estate impairment	80,000	440,000	1,086,459
Loss (gain) on sale of other real estate	210,120	(124,378)	(21,119)
(Decrease) increase in deferred loan origination fees, net	(15,446)	65,978	(127,154)
Gain on sale of investment securities	(369,747)	-	-
Increase in cash surrender value of bank owned life insurance	(93,947)	-	-
Decrease in accrued interest receivable and other assets	501,542	470,498	2,851,782
Increase in accrued interest payable and other liabilities	290,113	280,553	203,237
Net cash provided by operating activities	3,173,513	3,063,886	4,645,184
Cash flows from investing activities:			
Available-for-sale investment securities:			
Proceeds from sales	26,043,210	-	-
Proceeds from calls	3,505,705	10,560,000	11,736,000
Proceeds from principal payments and maturities	12,990,544	5,567,383	1,830,000
Purchases	(37,263,749)	(39,916,853)	(28,763,550)
Held-to-maturity investment securities:			
Proceeds from sale	282,150	-	-
Proceeds from calls	1,425,000	255,000	145,000
Proceeds from maturities	1,965,000	1,505,000	415,000
Purchases	(7,250,617)	(6,064,152)	(5,231,279)
Federal Home Loan Bank stock (purchase) redemptions, net	(254,300)	197,800	152,400
(Increase) decrease in loans and leases, net	(5,873,670)	(4,804,574)	27,609,623
Purchase of bank owned life insurance	(3,000,000)	-	-
Purchases of premises and equipment	(255,834)	(91,398)	(24,113)
Proceeds from sale of other real estate	1,092,823	4,125,610	352,319
Net cash (used in) provided by investing activities	(6,593,738)	(28,666,184)	8,221,400

(Continued)

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
Cash flows from financing activities:			
Increase (decrease) in demand, interest bearing and savings deposits, net	$ 21,293,715	$ (3,735,293)	$ 18,945,274
Decrease in time deposits, net	(3,104,250)	(4,441,893)	(12,999,314)
Repurchase of common stock	-	(3,792)	(10,225)
Net proceeds from sale of common stock	-	-	7,051,130
Net cash provided by (used in) financing activities	18,189,465	(8,180,978)	12,986,865
Increase (decrease) in cash and cash equivalents	14,769,240	(33,783,276)	25,853,449
Cash and cash equivalents, beginning of year	17,603,407	51,386,683	25,533,234
Cash and cash equivalents, end of year	$ 32,372,647	$ 17,603,407	$ 51,386,683
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest expense	$ 528,846	$ 688,859	$ 1,136,349
Income taxes	$ 1,600	$ 90,000	$ 1,600
Non-cash investing activities:			
Transfer of loans to other real estate	$ -	$ -	$ 7,104,338

See accompanying notes to consolidated financial statements.

NOTE 1 – THE BUSINESS OF NORCAL COMMUNITY BANCORP

General: During 2001, NorCal Community Bancorp (the "Company") was incorporated as a bank holding company for the purpose of acquiring Bank of Alameda (the "Bank") and to provide the Company and the Bank greater flexibility for expansion and diversification. On September 22, 2003 and December 29, 2005, the Company formed NorCal Community Bancorp Trusts I and II, respectively, (the "Trusts"), for the sole purpose of issuing trust preferred securities.

The Bank operates six offices in its primary service area of Alameda County, two branches in the city of Alameda, two commercial banking offices located in Emeryville and Oakland and administrative offices located in Walnut Creek and Alameda. The Bank's primary business is serving the commercial banking needs of small to mid-sized businesses.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of NorCal Community Bancorp and subsidiary conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. All significant intercompany balances and transactions have been eliminated.

The Company is not considered the primary beneficiary of the Trusts (variable interest entities), therefore the Trusts are not consolidated in the Company's financial statements, but rather the subordinated debentures are shown as a liability on the Company's consolidated balance sheets. The Company's investment in the common stock of the Trusts is accounted for under the equity method and is included in accrued interest receivable and other assets on the consolidated balance sheets.

Cash and Cash Equivalents: For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits in the Federal Reserve Bank (FRB) with maturity terms of one day and Federal funds sold. Generally, Federal funds are sold for one day periods.

Investment Securities: Investments are classified into the following categories:

- Available-for-sale securities, reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of income taxes, as accumulated other comprehensive income (loss) within shareholders' equity.

- Held-to-maturity securities, which management has the positive intent and ability to hold to maturity, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

Management determines the appropriate classification of its investment securities at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gains or losses on the sale of investment securities are recorded on the trade date and computed using the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums. In addition, unrealized losses that are other-than-temporary are recognized in earnings for all investments.

An investment security is impaired when its carrying value is greater than its fair value. Investment securities that are impaired are evaluated on a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether such a decline in their fair value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, and management does not intend to sell the security or it is more likely than not that the Company will not be required to sell the security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income (loss). If management intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings.

Federal Home Loan Bank Stock: The investment in Federal Home Loan Bank (FHLB) stock is carried at cost and is redeemable at par with certain restrictions. An investment in FHLB stock is required for the Bank to participate in FHLB programs. FHLB stock is periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans and Leases: Loans and leases are reported at the principal amounts outstanding, adjusted for unearned income, deferred loan origination fees and costs, purchase premiums and discounts, write-downs and the allowance for loan and lease losses. Loan and lease origination fees, net of certain deferred origination costs, and purchase premiums and discounts are recognized as an adjustment to the yield of the related loans and leases.

Interest income is accrued on the unpaid principal balance. The accrual of interest on all classes of loans and leases is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due, which generally occurs when payments become 90 days past due. Upon such discontinuance, all unpaid accrued interest is reversed against current income unless the loan or lease is in the process of collection. Interest received on all nonaccrual loans and leases is either applied against principal or reported as interest income, according to management's judgment as to the ultimate collectibility of principal. Generally, all loans and leases are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectibility of the total contractual principal and interest is no longer in doubt. Past due status is based on the contractual terms of the loans.

Direct financing leases are carried net of unearned income. Income from leases is recognized by a method that approximates a level yield on the outstanding net investment in the lease.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loan Sales and Servicing: Included in the portfolio are Small Business Administration (SBA) guaranteed loans that may be sold in the secondary market. Loans held for sale are carried at the lower of cost or fair value. Fair value is determined by the specific identification method as of the balance sheet dates or the date that the purchasers have committed to purchase the loans. At the time the loan is sold, the related right to service the loan is recorded at fair value with the Company earning future servicing income. Gains and losses are recognized at the time of sale and are calculated based on the difference between the selling price and the fair value of servicing assets or liabilities and the allocated carrying value of the loans sold. As of December 31, 2012 and 2011, no loans were designated as held for sale.

Loans held for sale subsequently transferred to the loan portfolio are transferred at the lower of cost or fair value at the date of transfer. Any difference between the carrying amount of the loan and its outstanding principal balance is recognized as an adjustment to yield by the interest method.

Servicing rights acquired through 1) a purchase or 2) the origination of loans which are sold or securitized with servicing rights retained are recognized as separate assets or liabilities. Servicing assets or liabilities are recorded at the difference between the contractual servicing fees and adequate compensation for performing the servicing, and are subsequently amortized in proportion to and over the period of the related net servicing income or expense. Servicing assets are periodically evaluated for impairment. Servicing assets were not considered material for disclosure purposes. SBA loans with unpaid balances of approximately $3,021,000 and $2,102,000 were being serviced for others as of December 31, 2012 and 2011, respectively.

Allowance for Loan and Lease Losses: The allowance for loan and lease losses is an estimate of probable credit losses inherent in the Company's loan portfolio that have been incurred as of the balance-sheet date. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components, specific reserves related to impaired loans and general reserves for probable inherent losses related to loans that are not impaired.

The Company's process for identifying impaired loans is the same for all classes of loans. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the original agreement. Factors considered in this assessment include the borrower's historical payment performance, financial condition and global cash flows. All loans and leases determined to be impaired are individually evaluated for impairment. When a loan or lease is determined to be impaired, the Company measures impairment based on the present value of expected future cash flows discounted at the credit's effective interest rate, except that as a practical expedient, the Company may measure impairment based on an observable market price, or the fair value of the collateral if the credit is collateral dependent. A loan or lease is collateral dependent if the repayment is expected to be provided solely by the underlying collateral.

A restructuring of a loan constitutes a troubled debt restructuring if the Company grants a concession to the borrower for economic or legal reasons related to the borrower’s financial difficulties that it would not otherwise consider. Troubled debt restructurings typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans and leases that are reported as troubled debt restructurings are considered impaired and measured for impairment as described above.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The determination of the general reserve for loans and leases that are not impaired is based on estimates made by management, to include, but not limited to, consideration of historical losses by portfolio segment over the most recent three years, internal asset classifications, levels of and trends in delinquencies and impaired loans, and qualitative factors to include economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan and lease portfolio, and probable losses inherent in the portfolio taken as a whole.

The Company maintains a separate allowance for each portfolio segment. These portfolio segments include commercial, agriculture, real estate–residential, real estate–commercial, real estate–construction (including land and development loans), consumer loans and leases. The allowance for loan and lease losses attributable to each portfolio segment is combined to determine the Company's overall allowance, which is included in the consolidated balance sheets. Allocations of the allowance may be made for specific loans and leases or portfolio segments, but the entire allowance is available for any loan or lease that should be charged off.

The Company assigns a risk rating to all loans and leases and at least annually performs detailed reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Company and the Company's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing the loans and leases. These credit quality indicators are used to assign a risk rating to each individual loan and lease. The risk ratings can be grouped into five major categories, defined as follows:

Pass – A pass loan or lease is a strong credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention – A special mention loan or lease has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects or in the Company's credit position at some future date. Special Mention loans and leases are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard – A substandard loan or lease is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Loans and leases classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include inadequate cash flow or collateral support. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans or leases classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss – Loans or leases classified as loss are considered uncollectible and charged off immediately.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The general reserve component of the allowance for loan and lease losses also consists of reserve factors that are based on management's assessment of the following for each portfolio segment: (1) inherent credit risk, (2) historical losses and (3) other qualitative factors. These reserve factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment described below.

Commercial – Commercial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows. Economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Agricultural – Loans secured by crop production and farmland are especially vulnerable to two risk factors that are largely outside the control of Company and borrowers: commodity prices and weather conditions. In addition, trends in real estate values significantly impact the credit quality of these loans.

Real estate–residential – The degree of risk in residential real estate lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other classes of real estate loans. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Real estate–commercial – Real estate–commercial loans generally possess a higher inherent risk of loss than other classes of real estate loans, except land and construction loans. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flow to service debt obligations.

Real estate–construction – Real estate–construction loans generally possess a higher inherent risk of loss than other classes of real estate loans. A major risk arises from the necessity to complete projects within specified cost and time lines. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

Consumer loans and leases – Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans and leases. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the adequacy of the allowance, including consideration of the relative risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Company's primary regulators, the Federal Deposit Insurance Corporation (FDIC) and the California Department of Financial Institutions (DFI), as an integral part of their examination process, review the adequacy of the allowance. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses on Off-Balance-Sheet Credit Exposures: The Company also maintains a separate allowance for off-balance-sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for off-balance-sheet commitments is included in accrued interest payable and other liabilities on the consolidated balance sheets.

Other Real Estate: Other real estate is comprised of property acquired through foreclosure or acceptance of deeds-in-lieu of foreclosure. Other real estate properties are initially recorded at fair value less estimated costs to sell, establishing a new costs basis, and are subsequently accounted for at the lower of cost or fair value less estimated costs to sell. Losses recognized at the time of acquiring property in full or partial satisfaction of debt are charged against the allowance for loan and lease losses. Fair value of other real estate is generally based on an independent appraisal of the property. Revenues and expenses associated with other real estate, and subsequent adjustments to the fair value of the property and to the estimated costs of disposal, are realized and reported as a component of noninterest expense when incurred.

Premises and Equipment: Premises and equipment are carried at cost, less accumulated depreciation and 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 two 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 income for the period. The cost of maintenance and repairs is charged to expense as incurred. Management evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Bank Owned Life Insurance: The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Income Taxes: The Company files its income taxes on a consolidated basis with its subsidiary. The allocation of income tax expense (benefit) represents each entity's proportionate share of the consolidated provision for (benefit from) income taxes.

Income tax expense represents the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the financial statement and tax basis of existing assets and liabilities. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. A valuation allowance is recognized if, based on the weight of available evidence, management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized. On the consolidated balance sheets, net deferred tax liabilities are included in accrued interest payable and other liabilities.

The Company uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings (Loss) Per Share: Basic earnings (loss) per share (EPS) is net income (loss) divided by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Diluted EPS includes the dilutive effect of additional potential common shares issuable under stock options. Earnings per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

Comprehensive (Loss) Income: Comprehensive (loss) income consists of net (loss) income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on available-for-sale investment securities, which are also recognized as separate components of equity.

Share-Based Compensation: In 1998, the Board of Directors of the Bank adopted, and in 1999 the Bank's shareholders approved, the Bank of Alameda 1998 Stock Option Plan (1998 Plan). In January 2002, following the organization of NorCal Community Bancorp as the holding company for the Bank, the 1998 Plan was restated and adopted by the Company as the successor corporation to the Bank. In 2006 the Company's shareholders approved an amendment to the 1998 Plan and it was renamed the Amended and Restated 1998 Equity Incentive Plan. Outstanding options under the 1998 Plan are exercisable until their expiration; however, no new options will be granted under the 1998 Plan as it expired during 2008.

To replace the 1998 Plan, the Board of Directors adopted and the shareholders approved the NorCal Community Bancorp 2008 Equity Incentive Plan (Incentive Plan). The Incentive Plan provides for the following types of awards: stock options, restricted stock awards, qualified performance-based awards and stock grants. Subject to certain adjustments, the maximum aggregate number of shares of the Company's common stock which may be issued subject to awards under the Incentive Plan is 400,000.

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. Management estimates the fair value of each option award as of the date of grant using a Black-Scholes-Merton option pricing model. Expected volatility is based on the historical volatility of the Company's common stock. The expected term represents the period that the stock-based awards are expected to be outstanding. The risk free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend yield is not considered in the option pricing formula because the Company has not paid cash dividends historically and currently has no plans to do so. In addition to these assumptions, management makes estimates regarding pre-vesting forfeitures that will impact total compensation expense recognized under the Incentive Plan.

Restricted stock awards are grants of shares of common stock that are subject to forfeiture upon termination of employment, if not vested. Compensation expense is recognized over the vesting period based on the fair market value of the Company's common stock on the date of grant. During the period of restriction, participants holding restricted stock have the right to vote and the right to receive dividends. The restrictions lapse in accordance with a schedule or with other conditions determined by the Compensation Committee.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 3. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. Actual results could differ from these estimates. The allowance for loan and lease losses, deferred tax assets and a related valuation allowance, and fair values of assets and liabilities are particularly subject to change.

Reclassifications: Certain reclassifications have been made to prior years' balances to conform to classifications used in 2012. Reclassifications had no effect on prior years' net income or loss or shareholders' equity.

Subsequent Events: Management reviewed all events occurring from December 31, 2012 to February 21, 2013, the date the financial statements were available to be issued.

Adoption of New Financial Accounting Standards

In June 2011, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update (ASU) 2011-05, *Presentation of Comprehensive Income*. The amendments in this ASU increase the prominence of items reported in other comprehensive income (OCI). The ASU requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The adoption of this amendment changed the presentation of the components of comprehensive income for the Company, which was previously included as part of the consolidated statements of changes in shareholders' equity. The Company adopted this ASU for the year ended December 31, 2012 and elected the two consecutive statement presentation.

In May 2011, the FASB issued ASU 2011-04 *Fair Value Measurement*. The amendments in this ASU result in common fair value measurement and disclosure requirements in U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards. The ASU requires expanded disclosures including descriptions of unobservable inputs utilized determining certain fair values. The Company adopted this ASU for the year ended December 31, 2012. The effect of adopting this standard did not have a material effect on the Company's operating results or financial condition.

In April 2011, the FASB issued ASU 2011-02 *Troubled Debt Restructurings.* The amendments in this ASU clarify the guidance for a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. With regard to determining whether a concession has been granted, the ASU clarifies that creditors are precluded from using the effective interest method to determine whether a concession has been granted. In the absence of using the effective interest method, a creditor must now focus on other considerations such as the value of the underlying collateral, evaluation of other collateral or guarantees, the debtor's ability to access other funds at market rates, interest rate increases and whether the restructuring results in a delay in payment that is insignificant. The Company adopted this ASU for the year ended December 31, 2012. The effect of adopting this standard did not have a material effect on the Company's operating results or financial condition.

(Continued)

NOTE 3 – FAIR VALUE MEASUREMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Fair Value Hierarchy: The Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 – Quoted market prices for identical instruments traded in active exchange markets.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 – Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Company's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings.

The following tables show carrying values and estimated fair values of the Company's financial instruments as of December 31 2012 and 2011:

	2012				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 32,372,647	$ 32,372,647	$ -	$ -	$ 32,372,647
Investment securities	62,177,344	-	62,411,000	-	62,411,000
Loans and leases, net	164,275,181	-	-	171,334,000	171,334,000
FHLB stock	1,275,900	N/A	N/A	N/A	N/A
Accrued interest receivable	880,037	-	880,037	-	880,037
Financial liabilities:					
Deposits	235,972,575	-	236,463,000	-	236,463,000
Accrued interest payable	807,601	-	807,601	-	807,601
Subordinated debentures	8,248,000	-	-	4,773,000	4773,000

(Continued)

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

	2011	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 17,603,407	$ 17,603,407
Investment securities	64,135,609	64,372,000
Loans and leases, net	161,036,065	168,371,000
FHLB stock	1,021,600	N/A
Accrued interest receivable	1,060,409	1,060,409
Financial liabilities:		
Deposits	217,783,110	217,863,000
Accrued interest payable	583,884	583,884
Subordinated debentures	8,248,000	4,700,000

These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The methods and assumptions used to estimate fair values are described as follows:

Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Investment Securities

Fair values of investment securities are based on quoted market prices or quoted market prices for similar securities.

Loans

Fair values of loans are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values, resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality, resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

FHLB Stock

It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

Deposits

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount), resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits, resulting in a Level 2 classification.

Subordinated Debentures

The fair values of the Company's Subordinated Debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements, resulting in a Level 3 classification.

Accrued Interest Receivable and Payable

The carrying amounts of accrued interest approximate fair value, resulting in a Level 2 classification.

Off-balance Sheet Instruments

Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

Assets Recorded at Fair Value: The following tables show information about the Company's assets and liabilities measured at fair value as of December 31, 2012 and 2011:

Recurring Basis

The following tables show assets the Company is required or permitted to record at fair value on a recurring basis under other accounting pronouncements as of December 31, 2012 and 2011:

	2012			
Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale investment securities:				
U.S. Government sponsored entities and agencies	$ 7,377,000	$ -	$ 7,377,000	$ -
Corporate bonds	3,063,000	-	3,063,000	-
Residential mortgage-backed securities issued by U.S. Government sponsored entities and agencies	30,381,000	-	30,381,000	-
Obligations of state and political sub-divisions	2,738,000	-	2,738,000	-
Total assets measured at fair value on a recurring basis	$ 43,559,000	$ -	$ 43,559,000	$ -

(Continued)

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

	2011			
Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale investment securities:				
U.S. Government sponsored entities and agencies	$ 13,078,000	$ -	$ 13,078,000	$ -
Corporate bonds	6,129,000	-	6,129,000	-
Residential mortgage-backed securities issued by U.S. Government sponsored entities and agencies	24,888,000	-	24,888,000	-
Obligations of state and political subdivisions	4,879,000	-	4,879,000	-
Total assets measured at fair value on a recurring basis	$ 48,974,000	$ -	$ 48,974,000	$ -

Fair values for Level 2 available-for-sale investment securities are based on quoted market prices for similar securities. During the years ended December 31, 2012 and 2011, there were no transfers in or out of Levels 1 and 2. There were no liabilities required to be recorded at fair value on a recurring basis as of December 31, 2012 and 2011.

Non-recurring Basis

The following tables show assets the Company is required to record at fair value on a non-recurring basis under other accounting pronouncements as of December 31, 2012 and 2011:

	2012			
Description	Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Agricultural	$ 1,232,717	$ -	$ -	$ 1,232,717
Real estate–commercial	105,516	-	-	105,516
Real estate–construction	379,959	-	-	379,959
Other real estate:				
Land	461,319	-	-	461,319
Total assets measured at fair value on a non-recurring basis	$ 2,179,511	$ -	$ -	$ 2,179,511

(Continued)

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

	2011			
Description	Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Agricultural	$ 855,000	$ -	$ -	$ 855,000
Real estate-residential	1,266,805	-	-	1,266,805
Real estate–commercial	2,678,102	-	-	2,678,102
Real estate–construction	1,643,663	-	-	1,643,663
Other real estate:				
Land	1,844,262	-	-	1,844,262
Total assets measured at fair value on a non-recurring basis	$ 8,287,832	$ -	$ -	$ 8,287,832

There were no liabilities required to be recorded at fair value on a non-recurring basis as of December 31, 2012 and 2011.

Impaired Loans: Impaired loans carried at fair value consist of collateral dependent impaired loans with a partial charge-off of principal recognized during the year or a valuation allowance determined based on the fair value of the collateral. Impaired loans carried at fair value had a principal balance of $1,985,822 and $7,610,183 with a valuation allowance of $267,630 and $1,166,613 as of December 31, 2012 and 2011, respectively. Charge-offs of principal and increases to specific reserves resulted in additional provision for loan and lease losses of $2,143,735 and $1,390,710 for the years ended December 31, 2012 and 2011, respectively. In certain cases, the additional provision required for charge-offs of principal and increases to specific reserves was partially offset by a reduction in provision needed for loans collectively measured for impairment during the respective periods. The fair value of collateral is based on recent third party appraisals. These appraisals utilize a market, income, or cost approach or some combination of the three and typically contain unobservable market data. Therefore, such appraisals are classified as Level 3 in the fair value hierarchy. Unobservable market data contained in appraisals often includes adjustments to comparable property sales for such items as location, condition, size and quality.

Other Real Estate: The fair value of other real estate is estimated based on recent third party appraisals. Appraisals conducted on other real estate utilize a market, income, or cost approach or some combination of the three and typically contain unobservable market data. Therefore, such appraisals are classified as Level 3 in the fair value hierarchy. Unobservable market data contained in appraisals often includes adjustments to comparable property sales for such items as location, condition, size and quality. When a new appraisal indicates a decline in fair value from the property's original cost basis, a valuation allowance is established to reduce the carrying value to fair value less estimated costs to sell. The Company was not required to record a valuation allowance during the year ended December 31, 2012 on properties carried at fair value as of December 31, 2012. During the year ended December 31, 2011, the company recorded valuation allowances totaling $380,000 on properties carried at fair value as of December 31, 2011.

(Continued)

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

Appraisals for both collateral dependent impaired loans and other real estate are performed by certified appraisers whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of management reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. The Company periodically compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value. The most recent analysis performed indicated that no discount should be applied to properties with appraisals performed within 12 months of the balance sheet date. Management generally updates appraisals on an annual basis.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis as of December 31, 2012:

Description	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
Impaired loans:				
Agricultural	$ 1,232,717	Sales comparison approach	Adjustments for differences between the property and comparable sales	-31% to 69%
Real estate–commercial	105,516	Sales comparison approach	Adjustments for differences between the property and comparable sales	10% to 30%
Real estate–construction	379,959	Sales comparison approach	Adjustments for differences between the property and comparable sales	-64% to 22%
Other real estate:				
Land	461,319	Sales comparison approach	Adjustments for differences between the property and comparable sales	-47% to 21%

NOTE 4 – INVESTMENT SECURITIES

Available-for-Sale: The amortized cost and estimated fair value of available-for-sale investment securities as of December 31, 2012 and 2011 consisted of the following:

	2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government sponsored entities and agencies	$ 7,274,236	$ 102,764	$ -	$ 7,377,000
Corporate bonds	3,042,328	20,672	-	3,063,000
Residential mortgage-backed securities issued by U.S. Government sponsored entities and agencies	30,189,063	238,452	(46,515)	30,381,000
Obligations of states and political subdivisions	2,690,985	47,015	-	2,738,000
	$ 43,196,612	$ 408,903	$ (46,515)	$ 43,559,000

(Continued)

NOTE 4 – INVESTMENT SECURITIES (Continued)

	2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government sponsored entities and agencies	$ 13,074,385	$ 86,743	$ (83,128)	$ 13,078,000
Corporate bonds	6,179,939	11,197	(62,136)	6,129,000
Residential mortgage-backed securities issued by U.S. Government sponsored entities and agencies	24,625,484	281,946	(19,430)	24,888,000
Obligations of states and political subdivisions	4,842,738	38,313	(2,051)	4,879,000
	$ 48,722,546	$ 418,199	$ (166,745)	$ 48,974,000

Net unrealized gains on available-for-sale investment securities totaling $362,388 were recorded, net of $148,579 in tax expense, as accumulated other comprehensive income within shareholders' equity as of December 31, 2012. There were $29,548,915 in proceeds, $406,736 in realized gains and $40,000 in realized losses on sales and calls of available-for-sale investment securities for the year ended December 31, 2012.

Net unrealized gains on available-for-sale investment securities totaling $251,454 were recorded, net of $103,096 in tax expense, as accumulated other comprehensive income within shareholders' equity as of December 31, 2011. Proceeds from sales and calls of available-for-sale investment securities totaled $10,560,000 and $11,736,000 for the years ended December 31, 2011 and 2010, respectively. There were no realized gains or losses on sales and calls of available-for-sale investment securities for the years ended December 31, 2011 and 2010.

Held-to-Maturity: The amortized cost and estimated fair value of held-to-maturity investment securities as of December 31, 2012 and 2011 consisted of the following:

	2012			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
Debt securities:				
Obligations of states and political subdivisions	$ 18,618,344	$ 265,304	$ (31,648)	$ 18,852,000

	2011			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
Debt securities:				
Obligations of states and political subdivisions	$ 15,161,609	$ 251,460	$ (15,069)	$ 15,398,000

(Continued)

NOTE 4 – INVESTMENT SECURITIES (Continued)

There was $282,150 in proceeds and $3,011 in realized gains on the sale of one held-to-maturity investment security for the year ended December 31, 2012. The Company sold the investment security due to credit deterioration of the issuer. Proceeds from calls and maturities of held-to-maturity investment securities for the years ended December 31, 2012, 2011 and 2010 totaled $3,390,000, $1,760,000 and $560,000, respectively.

Investment securities with unrealized losses as of December 31, 2012 and 2011 are summarized and classified according to the duration of the loss period as follows:

	2012					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
Residential mortgage-backed securities issued by U.S. Government sponsored entities and agencies	$11,158,000	$ (46,515)	$ -	$ -	$11,158,000	$ (46,515)
Held-to-Maturity						
Obligations of states and political subdivisions	$ 4,648,000	$ (28,971)	$ 617,000	$ (2,677)	$ 5,265,000	$ (31,648)

	2011					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
U.S. Government sponsored entities and agencies	$ 3,086,000	$ (83,128)	$ -	$ -	$ 3,086,000	$ (83,128)
Corporate bonds	2,489,000	(62,136)	-	-	2,489,000	(62,136)
Residential mortgage-backed securities issued by U.S. Government sponsored entities and agencies	10,278,000	(19,430)	-	-	10,278,000	(19,430)
Obligations of states and political subdivisions	250,000	(2,051)	-	-	250,000	(2,051)
	$16,102,000	$ (166,745)	$ -	$ -	$16,102,000	$ (166,745)
Held-to-Maturity						
Obligations of states and political subdivisions	$ 3,787,000	$ (14,835)	$ 601,000	$ (234)	$ 4,388,000	$ (15,069)

(Continued)

NOTE 4 – INVESTMENT SECURITIES (Continued)

Residential Mortgage-Backed Securities Issued by U.S. Government Sponsored Entities and Agencies: Management believes the unrealized losses on the Company's investments in residential mortgage-backed securities issued by Fannie Mae, a U.S. Government sponsored entity, are caused by interest rate fluctuations and are not attributable to changes in credit quality. These investments were in a loss position for less than twelve months and the losses are not significant. Because the Company does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these investments to be other-than-temporarily impaired as of December 31, 2012.

Obligations of States and Political Subdivisions: Management believes the unrealized losses on the Company's investments in obligations of states and political subdivisions are caused by interest rate fluctuations and are not attributable to changes in credit quality. Additionally, the contractual cash flows of these investments are a general obligation of, or are supported by specific revenues of, a state or local municipality. Because the Company does not have the intent to sell these obligations of states and political subdivisions and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these investments to be other-than-temporarily impaired as of December 31, 2012.

The amortized cost and estimated fair value of investment securities as of December 31, 2012 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	$ 5,346,497	$ 5,370,000	$ 2,676,092	$ 2,706,000
After one year through five years	4,699,801	4,792,000	12,099,718	12,302,000
After five years through ten years	2,961,251	3,016,000	2,842,534	2,839,000
After ten years	-	-	1,000,000	1,005,000
	13,007,549	13,178,000	18,618,344	18,852,000
Investment securities not due at a single maturity date:				
Residential mortgage-backed securities issued by U.S. Government sponsored entities and agencies	30,189,063	30,381,000	-	-
	$ 43,196,612	$ 43,559,000	$ 18,618,344	$ 18,852,000

Investment securities with amortized costs of $17,736,850 and $18,719,593 and estimated fair values of $18,032,000 and $19,004,000 were pledged to secure Local Agency Deposit accounts and certain borrowing arrangements (see Note 9) as of December 31, 2012 and 2011, respectively.

(Continued)

NOTE 5 – LOANS AND LEASES

Outstanding loans and leases as of December 31, 2012 and 2011 are summarized below:

	2012	2011
Commercial	$ 16,875,547	$ 17,181,954
Agricultural	5,616,976	6,988,542
Real estate–residential	38,443,791	40,526,181
Real estate–commercial	102,273,349	88,424,547
Real estate–construction	3,254,035	11,124,355
Consumer	1,324,123	1,493,449
Leases	36,852	104,210
	167,824,673	165,843,238
Allowance for loan and lease losses	(3,549,492)	(4,807,173)
	$ 164,275,181	$ 161,036,065

Salaries and employee benefits totaling $99,400, $74,700 and $70,350 were deferred as loan origination costs during the years ended December 31, 2012, 2011 and 2010, respectively.

Certain loans have been pledged to secure borrowing arrangements (see Note 9).

Changes in the allowance for loan and lease losses were as follows:

	Year Ended December 31,		
	2012	2011	2010
Balance, beginning of year	$ 4,807,173	$ 5,819,601	$ 5,392,810
Provision for loan losses	2,650,000	900,000	5,845,000
Charge-offs to the allowance	(4,952,640)	(1,980,549)	(5,682,111)
Recoveries of loans previously charged off	1,044,959	68,121	263,902
Balance, end of year	$ 3,549,492	$ 4,807,173	$ 5,819,601

(Continued)

NOTE 5 – LOANS AND LEASES (Continued)

The following table shows the allocation of the allowance for loan and lease losses as of and for the year ended December 31, 2012 by class and by impairment methodology:

	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Consumer	Leases	Unallocated	Total
Allowance for Credit Losses									
Beginning balance	$ 510,702	$ 996,487	$ 967,113	$ 1,801,201	$ 500,055	$ 12,079	$ 391	$ 19,145	$ 4,807,173
Provision	(76,613)	389,649	(492,338)	1,829,326	1,022,281	(2,769)	(391)	(19,145)	2,650,000
Charge-offs	-	(1,083,070)	(116,845)	(1,594,089)	(2,155,042)	(3,594)	-	-	(4,952,640)
Recoveries	25,300	-	122,416	-	897,224	19	-	-	1,044,959
Ending balance	$ 459,389	$ 303,066	$ 480,346	$ 2,036,438	$ 264,518	$ 5,735	$ -	$ -	$ 3,549,492
Ending balance: individually evaluated for impairment	$ -	$ 80,883	$ -	$ 20,081	$ 166,666	$ -	$ -	$ -	$ 267,630
Ending balance: collectively evaluated for impairment	$ 459,389	$ 222,183	$ 480,346	$ 2,016,357	$ 97,852	$ 5,735	$ -	$ -	$ 3,281,862
Loans									
Ending balance	$ 16,875,547	$ 5,616,976	$ 38,443,791	$102,273,349	$ 3,254,035	$ 1,324,123	$ 36,852	$ -	$ 167,824,673
Ending balance: individually evaluated for impairment	$ -	$ 1,313,600	$ 614,698	$ 125,597	$ 546,625	$ -	$ -	$ -	$ 2,600,520
Ending balance: collectively evaluated for impairment	$ 16,875,547	$ 4,303,376	$ 37,829,093	$102,147,752	$ 2,707,410	$ 1,324,123	$ 36,852	$ -	$ 165,224,153

(Continued)

NOTE 5 – LOANS AND LEASES (Continued)

The following table shows the allocation of the allowance for loan and lease losses as of and for the year ended December 31, 2011 by class and by impairment methodology:

	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Consumer	Leases	Unallocated	Total
Allowance for Credit Losses									
Beginning Balance	$ 546,544	$ 234,187	$ 1,254,945	$ 2,568,910	$ 1,207,285	$ 7,765	$ 643	$ (678)	$ 5,819,601
Provision	28,719	727,723	550,489	(237,298)	(225,569)	36,365	(252)	19,823	900,000
Charge-offs	(67,623)	-	(842,127)	(530,411)	(508,337)	(32,051)	-	-	(1,980,549)
Recoveries	3,062	34,577	3,806	-	26,676	-	-	-	68,121
Ending balance	$ 510,702	$ 996,487	$ 967,113	$ 1,801,201	$ 500,055	$ 12,079	$ 391	$ 19,145	$ 4,807,173
Ending balance: individually evaluated for impairment	$ -	$ 756,245	$ 256,985	$ 153,383	$ -	$ -	$ -	$ -	$ 1,166,613
Ending balance: collectively evaluated for impairment	$ 510,702	$ 240,242	$ 710,128	$ 1,647,818	$ 500,055	$ 12,079	$ 391	$ 19,145	$ 3,640,560
Loans									
Ending balance	$ 17,181,954	$ 6,988,542	$ 40,526,181	$ 88,424,547	$ 11,124,355	$ 1,493,449	$ 104,210	$ -	$ 165,843,238
Ending balance: individually evaluated for impairment	$ -	$ 1,611,245	$ 1,523,790	$ 3,137,285	$ 4,021,822	$ -	$ -	$ -	$ 10,294,142
Ending balance: collectively evaluated for impairment	$ 17,181,954	$ 5,377,297	$ 39,002,391	$ 85,287,262	$ 7,102,533	$ 1,493,449	$ 104,210	$ -	$ 155,549,096

(Continued)

NOTE 5 – LOANS AND LEASES (Continued)

The following tables show the loan and lease portfolio by class allocated by management's internal risk ratings as of December 31, 2012 and 2011:

	2012							
	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Consumer	Leases	Total
Grade:								
Pass	$ 15,478,930	$ 4,303,376	$ 38,201,124	$ 98,854,415	$ 2,707,410	$ 1,324,123	$ 36,852	$ 160,906,230
Special Mention	-	-	-	-	-	-	-	-
Substandard	1,396,617	1,313,600	242,667	3,418,934	546,625	-	-	6,918,443
Total	$ 16,875,547	$ 5,616,976	$ 38,443,791	$ 102,273,349	$ 3,254,035	$ 1,324,123	$ 36,852	$ 167,824,673

	2011							
	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Consumer	Leases	Total
Grade:								
Pass	$ 14,190,804	$ 4,563,730	$ 38,887,572	$ 78,913,509	$ 4,646,082	$ 1,493,449	$ 104,210	$ 142,799,356
Special Mention	1,797,266	-	-	2,819,906	-	-	-	4,617,172
Substandard	1,193,884	2,424,812	1,638,609	6,691,132	6,478,273	-	-	18,426,710
Total	$ 17,181,954	$ 6,988,542	$ 40,526,181	$ 88,424,547	$ 11,124,355	$ 1,493,449	$ 104,210	$ 165,843,238

(Continued)

NOTE 5 – LOANS AND LEASES (Continued)

The following tables show an aging analysis of the loan and lease portfolio by class and the time past due as of December 31, 2012 and 2011:

	2012			
	Accruing Interest			
	Current	60-89 Days Past Due	Nonaccrual	Total Loans
Commercial	$ 16,875,547	$ -	$ -	$ 16,875,547
Agricultural	4,303,376	-	1,313,600	5,616,976
Real estate–residential	38,443,791	-	-	38,443,791
Real estate–commercial	102,147,752	-	125,597	102,273,349
Real estate–construction	2,707,410	-	546,625	3,254,035
Consumer	1,324,123	-	-	1,324,123
Leases	36,851	-	-	36,851
Total	$ 165,838,850	$ -	$ 1,985,822	$ 167,824,672

	2011			
	Accruing Interest			
	Current	60-89 Days Past Due	Nonaccrual	Total Loans
Commercial	$ 17,181,954	$ -	$ -	$ 17,181,954
Agricultural	5,377,297	-	1,611,245	6,988,542
Real estate–residential	39,443,347	-	1,082,834	40,526,181
Real estate–commercial	85,287,262	-	3,137,285	88,424,547
Real estate–construction	9,307,885	-	1,816,470	11,124,355
Consumer	1,493,449	-	-	1,493,449
Leases	104,210	-	-	104,210
Total	$ 158,195,404	$ -	$ 7,647,834	$ 165,843,238

Interest forgone on nonaccrual loans for the years ended December 31, 2012, 2011 and 2010 was $193,769, $327,553 and $684,214, respectively. The Company had no loans accruing interest that were over 90 days past due as of December 31, 2012, 2011 and 2010.

(Continued)

NOTE 5 – LOANS AND LEASES (Continued)

The following tables show information related to impaired loans by class as of and for the years ended December 31, 2012 and 2011:

	2012			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Real estate–residential	$ 614,698	$ 728,036	$ -	$ 25,348
Real estate–commercial	$ 20,317	$ 577,863	$ -	$ 617,176
With an allowance recorded:				
Agricultural	$ 1,313,600	$ 1,937,347	$ 80,883	$ 1,288,728
Real estate–commercial	$ 105,280	$ 513,383	$ 20,081	$ 256,668
Real estate–construction	$ 546,625	$ 2,453,338	$ 166,666	$ 1,350,923
Total:				
Agriculture	$ 1,313,600	$ 1,937,347	$ 80,883	$ 1,288,728
Real estate–residential	$ 614,698	$ 577,863	$ -	$ 25,348
Real estate–commercial	$ 125,597	$ 1,241,419	$ 20,081	$ 873,844
Real estate–construction	$ 546,625	$ 2,453,338	$ 166,666	$ 1,350,923

	2011			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Real estate–residential	$ 440,956	$ 574,408	$ -	$ 443,351
Real estate–commercial	$ 2,623,902	$ 4,211,280	$ -	$ 2,950,079
Real estate–construction	$ 4,021,822	$ 4,967,453	$ -	$ 4,663,272
With an allowance recorded:				
Agricultural	$ 1,611,245	$ 1,611,245	$ 756,245	$ 1,618,608
Real estate–residential	$ 1,082,834	$ 1,795,371	$ 256,985	$ 1,529,515
Real estate–commercial	$ 513,383	$ 513,383	$ 153,383	$ 517,924
Total:				
Agriculture	$ 1,611,245	$ 1,611,245	$ 756,245	$ 1,618,608
Real estate–residential	$ 1,523,790	$ 2,369,779	$ 256,985	$ 1,972,866
Real estate–commercial	$ 3,137,285	$ 4,724,663	$ 153,383	$ 3,468,003
Real estate–construction	$ 4,021,822	$ 4,967,453	$ -	$ 4,663,272

For purposes of this disclosure, the unpaid principle balance is not reduced for net charge-offs. The recorded investment in loans includes loan origination fees and excludes accrued interest receivable. Interest income recognized on impaired loans during the years ended December 31, 2012, 2011, and 2010 was not material.

(Continued)

NOTE 5 – LOANS AND LEASES (Continued)

Troubled Debt Restructurings: As of December 31, 2012 and 2011, the Company has a recorded investment in troubled debt restructurings of $1,161,323 and $2,923,536, respectively. The Company has allocated $166,666 and $97,428 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2012 and 2011, respectively. The Company has not committed to lend any additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ended December 31, 2012 and 2011, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan to a stated rate of interest lower than the current market rate for new debt with similar risk or an extension of the maturity date. Modifications involving a reduction of the stated interest rate of the loan or an extension of the maturity date were for periods ranging from one to five years.

The following tables present loans by class modified as troubled debt restructurings during the years ended December 31, 2012 and 2011:

	2012		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Real estate–residential	2	$ 614,698	$ 614,698

	2011		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Real estate–commercial	2	$ 2,910,525	$ 2,910,525
Real estate–construction	2	2,475,327	2,475,327
Real estate–residential	2	1,758,274	1,758,274
Total	6	$ 7,144,126	$ 7,144,126

The troubled debt restructurings described above increased the allowance for loan losses by $0 and $832,905 and resulted in charge-offs of $113,338 and $735,657 during the years ended December 31, 2012 and 2011, respectively.

(Continued)

NOTE 5 – LOANS AND LEASES (Continued)

The following tables present loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the years ended December 31, 2012 and 2011:

	2012	
	Number of Loans	Recorded Investment
Troubled debt restructurings that subsequently defaulted:		
Real estate–construction	2	$ 546,625

	2011	
	Number of Loans	Recorded Investment
Troubled debt restructurings that subsequently defaulted:		
Real estate–commercial	1	$ 265,808
Real estate–construction	1	172,807
Real estate–residential	1	545,377
Total	3	$ 983,992

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. The troubled debt restructurings that subsequently defaulted described above increased the allowance for loan losses by $166,666 and $799,161 and resulted in charge offs of $1,877,642 and $701,733 during the year ended December 31, 2012 and 2011, respectively.

The terms of certain other loans were modified during the year ended December 31, 2012 that did not meet the definition of a troubled debt restructuring. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment ranging from one to six months that was considered to be insignificant.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

(Continued)

NOTE 6 – OTHER REAL ESTATE

Activity in other real estate for the years ended December 31, 2012, 2011 and 2010 consisted of the following:

	2012	2011	2010
Balance, beginning of year	$ 1,844,262	$ 6,285,494	$ 598,815
Transfer of loans held for investment to other real estate	-	-	7,104,338
Other real estate impairment	(80,000)	(440,000)	(1,086,459)
Sales and other proceeds for other real estate	(1,302,943)	(4,001,232)	(331,200)
Balance, end of year	$ 461,319	$ 1,844,262	$ 6,285,494

NOTE 7 – PREMISES AND EQUIPMENT

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

	2012	2011
Furniture and equipment	$ 1,744,842	$ 1,876,912
Leasehold improvements	1,080,848	1,052,895
	2,825,690	2,929,807
Less accumulated depreciation and amortization	(2,547,032)	(2,786,489)
	$ 278,658	$ 143,318

Depreciation and amortization included in occupancy and equipment expense totaled $115,051, $242,225 and $302,215 for the years ended December 31, 2012, 2011 and 2010, respectively.

NOTE 8 – INTEREST-BEARING DEPOSITS

Interest-bearing deposits as of December 31, 2012 and 2011 consisted of the following:

	2012	2011
Savings	$ 9,176,369	$ 7,434,100
Money market	71,057,853	68,682,169
NOW accounts	58,765,724	50,835,339
Time, $100,000 or more	11,086,199	13,035,225
Other time	11,947,274	13,102,498
	$ 162,033,419	$ 153,089,331

(Continued)

NOTE 8 – INTEREST-BEARING DEPOSITS (Continued)

Aggregate annual maturities of time deposits are as follows:

Year Ending December 31,	
2013	$ 18,580,156
2014	3,838,874
2015	550,406
2016	64,037
	$ 23,033,473

Interest expense recognized on interest-bearing deposits for the years ended December 31, 2012, 2011 and 2010 consisted of the following:

	2012	2011	2010
Savings	$ 7,919	$ 7,068	$ 11,683
Money market	336,893	422,357	616,673
NOW accounts	39,025	51,947	61,903
Time, $100,000 or more	79,875	109,247	190,957
Other time	61,788	91,700	169,752
	$ 525,500	$ 682,319	$ 1,050,968

NOTE 9 – BORROWING ARRANGEMENTS

The Company has $12,000,000 in unsecured borrowing arrangements with two of its correspondent banks. There were no short-term borrowings outstanding under this arrangement as of December 31, 2012 and 2011.

In addition, the Company can borrow up to the market value of securities pledged to a separate correspondent bank. Investment securities with amortized costs totaling $2,054,743 and $2,791,478 and estimated fair values totaling $2,090,000 and $2,804,000 were pledged to the correspondent bank under this agreement as of December 31, 2012 and 2011, respectively. As of December 31, 2012 and 2011, the Company had no outstanding borrowings under this agreement.

Lastly, the Company can borrow from the FHLB on either a short-term or long-term basis up to approximately $68,906,000 and $54,003,000 as of December 31, 2012 and 2011, respectively, based on specified percentages of the collateral pledged. Various loans totaling approximately $121,306,000 and $110,998,000 as of December 31, 2012 and 2011, respectively, secure this borrowing arrangement. As of December 31, 2012 and 2011, the Company had no outstanding borrowings under this arrangement.

(Continued)

NOTE 10 – SUBORDINATED DEBENTURES

The following is a summary of the subordinated debentures due to the Company's grantor trusts as of December 31, 2012 and 2011:

Subordinated debentures due to NorCal Community Bancorp Trust I with interest payable quarterly, based on 3-month LIBOR plus 3.05%, repricing quarterly (3.36% as of December 31, 2012), redeemable, in whole or in part, beginning October 7, 2008, and due October 7, 2033.	$ 4,124,000
Subordinated debentures due to NorCal Community Bancorp Trust II with interest payable quarterly, based on 3-month LIBOR plus 1.40%, repricing quarterly (1.71% as of December 31, 2012), redeemable, in whole or in part, beginning March 15, 2011, and due March 15, 2036.	4,124,000
	$ 8,248,000

The Trusts have the option to defer payment of the distributions for a period of up to five years, as long as the Company is not in default on the payment of interest on the Subordinated Debentures. Beginning with interest due for the quarter ended December 31, 2009, the Company began deferring interest payments as allowed. As of December 31, 2012 and 2011, the balance of accrued interest related to subordinated debentures totaled $761,553 and $534,191, respectively, and is included in accrued interest payable and other liabilities on the consolidated balance sheets. The Trust Preferred Securities were sold and issued in private transactions pursuant to an exemption from registration under the Securities Act of 1933, as amended.

The amount of trust preferred securities that may be included in Tier 1 capital may not exceed 25% of the sum of all core capital elements, including restricted core capital elements, net of goodwill less any associated deferred tax liability. As of December 31, 2012 and 2011, $6,618,000 and $6,934,000, respectively, of the trust preferred securities qualified as Tier 1 capital.

The Company has guaranteed, on a subordinated basis, distributions and other payments due on trust preferred securities totaling $8,000,000 issued by the grantor trusts which have identical maturity, repricing and payment terms as the subordinated debentures.

(Continued)

NOTE 11 – INCOME TAXES

The provision for (benefit from) income taxes for the years ended December 31, 2012, 2011 and 2010 consisted of the following:

	Federal	State	Total
2012			
Current	$ -	$ 1,600	$ 1,600
Deferred	(344,000)	(222,000)	(566,000)
Total	(344,000)	(220,400)	(564,400)
Change in valuation allowance	344,000	222,000	566,000
Provision for income taxes	$ -	$ 1,600	$ 1,600
2011			
Current	$ -	$ 90,000	$ 90,000
Deferred	(48,000)	(25,000)	(73,000)
Total	(48,000)	65,000	17,000
Change in valuation allowance	48,000	25,000	73,000
Provision for income taxes	$ -	$ 90,000	$ 90,000
2010			
Current	$ (94,000)	$ (4,000)	$ (98,000)
Deferred	(1,931,000)	(858,000)	(2,789,000)
Total	(2,025,000)	(862,000)	(2,887,000)
Change in valuation allowance	1,945,000	858,000	2,803,000
Benefit from income taxes	$ (80,000)	$ (4,000)	$ (84,000)

(Continued)

NOTE 11 – INCOME TAXES (Continued)

Deferred tax assets (liabilities) as of December 31, 2012 and 2011 consisted of the following:

	2012	2011
Deferred tax assets:		
Operating loss carryforwards	$ 4,913,000	$ 3,167,000
Other real estate	470,000	954,000
Bank premises and equipment	339,000	303,000
Allowance for loan and lease losses	51,000	871,000
Other	274,000	189,000
Total deferred tax assets before valuation allowance	6,047,000	5,484,000
Valuation allowance	(5,947,000)	(5,381,000)
Total deferred tax assets	100,000	103,000
Deferred tax liabilities:		
Unrealized gain on available-for-sale investment securities	(149,000)	(103,000)
Deferred loan costs	(58,000)	(48,000)
FHLB dividends	(42,000)	(43,000)
Tax accounting for book accruals	-	(12,000)
Total deferred tax liabilities	(249,000)	(206,000)
Net deferred tax liabilities	$ (149,000)	$ (103,000)

The Company and its subsidiaries file income tax returns in the United States and California jurisdictions. With few exceptions, the Company is no longer subject to Federal examination for years ended before December 31, 2008 and State income tax examination by tax authorities for years ended before December 31, 2007. As of December 31, 2012, there were no unrecognized tax benefits or interest and penalties accrued by the Company.

As of December 31, 2012, the Company had federal and California net operating loss carryforwards (NOLs) of approximately $9,616,000 and $22,612,000, respectively. If not fully utilized, the federal NOL will begin to expire in 2030, and the California NOL will begin to expire in 2028.

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is "more likely than not" that all or a portion of the deferred tax assets will not be realized. "More likely than not" is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed.

(Continued)

NOTE 11 – INCOME TAXES (Continued)

Based upon an analysis of available evidence, the Company has determined that it is "more likely than not" that all of the deferred income tax assets as of December 31, 2012 and 2011 would not be fully realized and, therefore, a full valuation allowance of $5,947,000 and $5,381,000, respectively, was recorded. Prospective earnings, tax law changes or capital changes could prompt the Company to reevaluate the assumptions used to establish the valuation allowance which could result in the reversal of all or part of the valuation allowance.

The California Franchise Tax Board examined deductions claimed by the Company during prior years for interest received on Enterprise Zone loans. During the year ended December 31, 2011, a deficiency was assessed totaling $88,074, including interest of $14,000, which the Company paid during the year ended December 31, 2011.

The provision for income taxes differs from amounts computed by applying the statutory Federal income tax rate to income before income taxes. The significant items comprising these differences for the years ended December 31, 2012, 2011 and 2010 are as follows:

	2012		2011		2010	
	Amount	Rate %	Amount	Rate %	Amount	Rate %
Federal income tax (benefit) expense, at statutory rate	$ (334,921)	(34.0)	$ 34,797	34.0	$(2,054,099)	(34.0)
State franchise tax (benefit) expense, net of Federal tax effect	(70,475)	(7.2)	7,332	7.2	(533,296)	(8.8)
State Enterprise Zone tax and interest	-	-	88,074	86.1	-	-
Interest on obligations of states and political subdivisions	(52,485)	(5.3)	(51,981)	(50.8)	(74,325)	(1.2)
Other	(106,519)	(10.9)	(61,212)	(59.9)	(225,280)	(3.8)
Change in valuation allowance for deferred tax assets allocated to income tax expense	566,000	57.5	73,000	71.3	2,803,000	46.4
Total provision (benefit) for income taxes	$ 1,600	0.1	$ 90,000	87.9	$ (84,000)	(1.4)

(Continued)

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Operating Leases: The Company leases two branch offices, two commercial banking offices, an accounting department office and an administrative office under non-cancelable operating leases. The leases expire at different times through 2020, with some leases containing five year renewal options. Future minimum lease payments are as follows:

Year Ending December 31,		
2013	$	581,254
2014		407,216
2015		415,649
2016		400,168
2017		397,884
Thereafter		657,327
	$	2,859,498

Rental expense included in occupancy and equipment expense totaled $882,902, $875,129 and $877,584 for the years ended December 31, 2012, 2011 and 2010, respectively.

Financial Instruments With Off-Balance-Sheet Risk: The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and standby letters of credit as it does for loans included on the consolidated balance sheets.

The following financial instruments represent off-balance-sheet credit risk as of December 31, 2012 and 2011:

	2012	2011
Commitments to extend credit	$ 30,430,000	$ 31,389,000
Standby letters of credit	$ 1,251,000	$ 1,095,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, and deeds of trust on residential real estate and income-producing commercial and agricultural properties.

(Continued)

NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance or financial obligation of a customer to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers.

As of December 31, 2012, commercial loan commitments represent approximately 41% of total commitments and are generally secured by accounts receivable and inventory and have variable interest rates. Real estate loan commitments represent 57% of total commitments and generally have variable interest rates. Personal lines of credit represent the remaining 2% of total commitments.

Concentrations of Credit Risk: The Bank grants real estate mortgage, real estate construction, commercial, agricultural and consumer loans to customers in the Bank's geographic service area. Although management believes the Bank has a diversified loan portfolio, a substantial portion of its portfolio is secured by real estate.

As of December 31, 2012, in management's judgment, a concentration existed in loans secured by real estate. At that date, approximately 86% of the loans were real estate related, with commercial real estate loans representing 61%, residential real estate loans representing 23% and real estate construction loans representing 2% of total loans.

As of December 31, 2011, in management's judgment, a concentration existed in real estate loans. At that date, approximately 84% of the loans were real estate related, with commercial real estate loans representing 53%, residential real estate loans representing 24% and real estate construction loans representing 7% of total loans.

A substantial decline in the performance of the economy in general or a continued decline in real estate values in the Bank's primary market area, in particular, could have an adverse impact on collectibility, increase the level of real estate related nonperforming loans, or have other adverse effects which alone or in the aggregate could have a material adverse effect on the financial condition of the Bank.

Federal Reserve Requirement: Banks are required to maintain reserves with the FRB equal to a percentage of their reservable deposits. The Bank's vault cash fulfilled its reserve requirement as of December 31, 2012.

Contingencies: The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the consolidated financial position or consolidated results of operations of the Company.

(Continued)

NOTE 13 – SHAREHOLDERS' EQUITY

Dividend Restrictions: The Company's ability to pay cash dividends is dependent on dividends paid to it by the Bank and limited by California law. Under California law, the holders of common stock of the Company are entitled to receive dividends when and as declared by the Board of Directors, out of funds legally available, subject to certain restrictions. California General Corporation Law prohibits the Company from paying dividends on its common stock unless: (i) its retained earnings, immediately prior to the dividend payment, equals or exceeds the amount of the dividend or (ii) immediately after giving effect to the dividend, the sum of the Company's assets (exclusive of goodwill and deferred charges) would be at least equal to 125% of its liabilities (not including deferred taxes, deferred income and other deferred liabilities) and the current assets of the Company would be at least equal to its current liabilities, or, if the average of its earnings before taxes on income and before interest expense for the two preceding fiscal years was less than the average of its interest expense for the two preceding fiscal years, at least equal to 125% of its current liabilities. In addition, the Company's ability to pay dividends is subject to certain covenants contained in the indentures relating to the trust preferred securities issued by the grantor trusts.

Dividends from the Bank to the Company are restricted under certain federal laws and regulations governing banks. In addition, California law restricts the total dividend payments of any bank to the lesser of the bank's retained earnings or the bank's net income for the latest three fiscal years, less dividends previously paid during that period. The Company and the Bank are currently restricted from paying cash dividends without the prior written approval of their regulators.

Earnings (Loss) Per Share: The following table shows a reconciliation of the numerators and denominators of the basic and diluted earnings (loss) per share computations for the years ended December 31, 2012, 2011 and 2010:

	Net (Loss) Income	Weighted Average Number of Shares Outstanding	Per Share Amount
December 31, 2012			
Basic loss per share	$ (986,663)	10,610,716	$ (0.09)
Diluted loss per share	$ (986,663)	10,655,861	$ (0.09)
December 31, 2011			
Basic income per share	$ 12,345	10,612,713	$ 0.00
Diluted income per share	$ 12,345	10,623,048	$ 0.00
December 31, 2010			
Basic loss per share	$ (5,957,467)	4,166,327	$ (1.43)
Diluted loss per share	$ (5,957,467)	4,166,327	$ (1.43)

(Continued)

NOTE 13 – SHAREHOLDERS' EQUITY (Continued)

Stock options for 35,250, 127,433 and 137,750 shares of common stock were not considered in computing diluted earnings per common share for the years ended December 31, 2012, 2011 and 2010, respectively, because they were antidilutive.

Share-Based Compensation

Stock Options - Stock option activity for the years ended December 31, 2012, 2011 and 2010 is summarized as follows:

	2012		2011		2010	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning of year	137,750	$ 5.17	137,750	$ 5.17	159,132	$ 6.50
Options granted	-	$ -	-	$ -	50,000	$ 1.50
Options forfeited	(62,500)	$ 4.58	-	$ -	(71,382)	$ 5.57
Options outstanding, end of year	75,250	$ 5.65	137,750	$ 5.17	137,750	$ 5.17
Options exercisable, end of year	75,250	$ 5.65	137,750	$ 5.17	87,750	$ 7.25

The aggregate intrinsic value of options outstanding, in-the-money and exercisable was $14,400 as of December 31, 2012.

A summary of options outstanding as of December 31, 2012 follows:

Range of Exercise Prices	Number of Options Outstanding December 31, 2012	Weighted Average Remaining Contractual Life	Options Exercisable December 31, 2012
$ 1.50	40,000	3 years	40,000
$ 8.22	18,000	10 months	18,000
$ 12.00	1,500	1.9 years	1,500
$ 12.67	15,750	1.5 years	15,750
	75,250		75,250

(Continued)

NOTE 13 – SHAREHOLDERS' EQUITY (Continued)

The following table summarizes the assumptions utilized in the calculation of the fair value of the options granted during the year ended December 31, 2010:

Risk-free interest rate	2.0%
Expected life	5 years
Expected volatility	57%
Expected dividend yield	N/A
Weighted average grant date fair value	$0.75

Restricted Common Stock Awards - Restricted common stock activity for the years ended December 31, 2012, 2011 and 2010 is summarized as follows:

	2012		2011		2010	
	Shares	Weighted Average Grant-Date Fair Value	Shares	Weighted Average Grant-Date Fair Value	Shares	Weighted Average Grant-Date Fair Value
Unvested shares outstanding, beginning of year	-	$ -	10,088	$ 18.57	23,102	$ 18.19
Shares awarded	40,000	$ 1.70	-	$ -	-	$ -
Shares vested	-	$ -	(10,088)	$ 18.57	(13,014)	$ 17.89
Shares forfeited	-	$ -	-	$ -	-	$ -
Unvested shares outstanding, end of year	40,000	$ 1.70	-	$ -	10,088	$ 18.57

The restricted common stock awards vested in equal installments over a one, three or five year period on the anniversary dates of the awards as established by the Board of Directors. The unvested restricted common stock awards outstanding as of December 31, 2012 will vest in May 2013. The compensation expense related to these unvested awards totaled approximately $23,000 as of December 31, 2012. Participants receiving these restricted common stock awards were granted the right to dividend payments as well as voting rights on the non-vested shares.

The compensation cost that has been charged against income for restricted common stock awards was approximately $45,000, $194,000 and $221,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

Restricted common stock compensation expense is recognized on a straight-line basis over the vesting period. The intrinsic value of unvested restricted common stock outstanding was approximately $74,000 as of December 31, 2012.

Common Stock Offering: In November 2010, the Company completed a private placement common stock offering. A total of 7,450,000 shares were issued at $1 per share for total proceeds of $7,450,000. The common stock was recorded net of $398,870 in stock offering costs.

(Continued)

NOTE 13 – SHAREHOLDERS' EQUITY (Continued)

Common Stock Repurchase Program: Effective January 2008, the Board of Directors of the Company authorized a stock repurchase program. Repurchases are limited to the lesser of 120,000 shares, four percent of outstanding common stock or the number of shares with an aggregate repurchase price of $2,000,000. The repurchases are to be made from time to time as conditions allow. The Board of Directors has reserved the right to suspend, terminate, modify or cancel this repurchase program at any time for any reason. During 2012, 2011 and 2010, no shares were repurchased under this plan as the Company was not allowed to repurchase shares without regulatory approval.

NOTE 14 – REGULATORY CAPITAL MATTERS

The Bank is subject to certain regulatory capital requirements administered by the FDIC. 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, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. These quantitative measures are established by regulation and require that minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets be maintained. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. As of December 31, 2012 and 2011, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

(Continued)

NOTE 14 – REGULATORY MATTERS

	2012		2011	
	Amount	Ratio	Amount	Ratio
Leverage Ratio				
Bank of Alameda	$ 28,081,000	10.3%	$ 28,600,000	11.4%
Minimum requirement under Informal Agreements	$ 24,642,000	9.0%	$ 25,202,000	10.0%
Minimum requirement for "Well-Capitalized" institution	$ 13,690,000	5.0%	$ 12,601,000	5.0%
Minimum regulatory requirement	$ 10,952,000	4.0%	$ 10,081,000	4.0%
Tier 1 Risk-Based Capital Ratio				
Bank of Alameda	$ 28,081,000	15.8%	$ 28,600,000	16.2%
Minimum requirement for "Well-Capitalized" institution	$ 10,663,000	6.0%	$ 10,571,000	6.0%
Minimum regulatory requirement	$ 7,108,000	4.0%	$ 7,048,000	4.0%
Total Risk-Based Capital Ratio				
Bank of Alameda	$ 30,320,000	17.1%	$ 30,835,000	17.5%
Minimum requirement under Informal Agreements	$ 21,325,000	12.0%	$ 21,143,000	12.0%
Minimum requirement for "Well-Capitalized" institution	$ 17,771,000	10.0%	$ 17,619,000	10.0%
Minimum regulatory requirement	$ 14,217,000	8.0%	$ 14,095,000	8.0%

NOTE 15 – OTHER EXPENSES

Other expenses for the years ended December 31, 2012, 2011 and 2010 consisted of the following:

	2012	2011	2010
Professional fees	$ 564,163	$ 341,436	$ 939,329
Data processing	536,065	515,764	606,729
Regulatory fees and FDIC insurance	374,039	681,677	606,842
Other real estate expense, impairment and loss on sale	328,454	555,208	1,137,782
Insurance	191,972	230,973	189,752
Director fees	179,968	176,136	163,720
Advertising and promotion	56,345	37,119	40,158
Other operating expenses	665,563	620,254	694,835
	$ 2,896,569	$ 3,158,567	$ 4,379,147

(Continued)

NOTE 16 – EMPLOYEE RETIREMENT PLAN

During 1998, the Board of Directors adopted a Salary Deferral 401(k) Plan. The plan is available to employees meeting certain age and length of service requirements. Under the plan, employees can defer a selected portion of their annual compensation and the Company may match each employee contribution in an amount to be determined annually under a formula established by the Company. The Company made no contributions during the years ended December 31, 2012, 2011 and 2010.

NOTE 17 – SUBSEQUENT EVENT

Effective February 19, 2013, the informal agreement between the Bank and its regulators was terminated.

NOTE 18 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS
December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and due from banks	$ 420,178	$ 639,207
Investment in Bank subsidiary	28,301,318	28,757,862
Accrued interest receivable and other assets	342,042	335,275
Total assets	$ 29,063,538	$ 29,732,344
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued interest payable and other liabilities	$ 742,441	$ 535,379
Subordinated debentures	8,248,000	8,248,000
Total liabilities	8,990,441	8,783,379
Shareholders' equity:		
Common stock	19,318,440	19,273,096
Retained earnings	540,848	1,527,511
Accumulated other comprehensive income, net of taxes	213,809	148,358
Total shareholders' equity	20,073,097	20,948,965
Total liabilities and shareholders' equity	$ 29,063,538	$ 29,732,344

(Continued)

NOTE 18 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME
For the Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
Income:			
Earnings from investments in statutory trusts	$ 6,767	$ 6,372	$ 5,740
Expenses:			
Interest expense	227,062	223,611	219,835
Salaries and benefits	153,337	301,705	329,477
Other expenses	90,237	84,840	128,319
Total expenses	470,636	610,156	677,631
Loss before equity in undistributed (loss) income of Bank subsidiary and provision for income taxes	(463,869)	(603,784)	(671,891)
Equity in undistributed, net (loss) income of Bank subsidiary	(521,994)	618,778	(5,284,776)
(Loss) income before provision for income taxes	(985,863)	14,994	(5,956,667)
Provision for income taxes	800	2,649	800
Net (loss) income	$ (986,663)	$ 12,345	$ (5,957,467)
Comprehensive (loss) income	$ (922,212)	$ 160,124	$ (5,977,185)

(Continued)

NOTE 18 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
Cash flows from operating activities:			
Net (loss) income	$ (986,663)	$ 12,345	$ (5,957,467)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Undistributed net loss (income) of Bank subsidiary	521,994	(618,778)	5,284,776
Restricted common stock compensation expense	45,344	193,711	221,484
Decrease (increase) in intercompany receivable	-	-	728,043
Increase in other assets	(6,766)	(6,373)	(4,144)
Increase in accrued interest payable and other liabilities	207,062	223,612	220,634
Net cash (used in) provided by operating activities	(219,029)	(195,483)	493,326
Cash flows used in investing activities:			
Capital contributed to Bank subsidiary	-	-	(6,900,000)
Cash flows from financing activities:			
Proceeds from issuance of common stock, net of stock issuance costs	-	-	7,051,130
Repurchase of common stock	-	(3,792)	(10,225)
Net cash (used in) provided by financing activities	-	(3,792)	7,040,905
(Decrease) increase in cash and cash equivalents	(219,029)	(199,275)	634,231
Cash and cash equivalents, beginning of year	639,207	838,482	204,251
Cash and cash equivalents, end of year	$ 420,178	$ 639,207	$ 838,482