Bank of Commerce Holdings
Form 10-Q/A
February 09, 2010

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A
(Amendment No. 1)

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THESECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________to__________

Commission file number 0-25135

Bank of Commerce Holdings

California	94-2823865
(State or jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1901 Churn Creek Road Redding, California	96002
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (530) 722-3955

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act: Common Stock, no par value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes o No þ

Outstanding shares of Common Stock, no par value, as of December 31, 2009: 8,711,495

Table of Contents

EXPLANATORY NOTE

We are filing this Amendment No. 1 on Form 10-Q/A to our Quarterly Report on form 10-Q for the period ended June 30, 2009 (the Original filing) to correct the Statement of Cash Flows (page 7) to include Gross originations and proceeds from sales of loans held for sale within net cash from operating activities. We are also correcting the presentation of net income on the statement of cash flows to include the net income of the consolidated entity. We are also correcting the recorded amount of goodwill generated as a result of the business combination with Simonich Corporation. Goodwill was increased, with a corresponding decrease in other assets, due to additional information being made available regarding the assets acquired and liabilities assumed as part of the business combination.

In addition we have corrected our certifications (Exhibit 31.1 and 31.2) Item 4 to read as follows:

The registrants other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d- 15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f)) for the registrant . As amended, the certifications include the appropriate language of internal control over financial reporting . In connection with this Amendment No.1, we are providing new certificates as required pursuant to Rule 12b-15.

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Index to Form 10-Q

		PAGE NUMBER
PART I	**FINANCIAL INFORMATION**	
Item 1	Financial Statements	
	Condensed Consolidated Balance Sheets June 30, 2009, December 31, 2008 and June 30, 2008	3
	Condensed Consolidated Statements of Income Three and Six Months Ended June 30, 2009 and 2008	4
	Condensed Consolidated Statement of Stockholders Equity	5
	Condensed Consolidated Statements of Cash Flows Six Months Ended June 30, 2009 and 2008	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2	Management s Discussion and Analysis Of Financial Condition and Results of Operations	26
	Company Overview	26
	Risk Factors	28
	Economic Conditions and Geographic Concentration	28
	Current Financial and Credit Market Conditions May Persist or Worsen	29
	Valuation of Investments and Impairment of Securities	29
	Changes in Interest Rates Could Reduce the Company s Net Interest Income and Earnings	29
	Lending Risks Associated with Commercial Banking and Construction Activities	30
	Adequacy of Allowance for Loan and Lease Losses (ALLL)	30
	Potential Volatility of Deposits	30
	Dividends	31
	Participation in the Treasury Departments Capital Purchase Program Restricts Our Ability to Raise the Common Stock Dividend and May Result in Dilution of Common Stockholders	31
	Changes in Accounting Policies or Accounting Standards Could Materially Affect How the Company Reports its Financial Results and Condition	31
	Government Regulation and Legislation	32
	Certain Ownership Restrictions under California and Federal Law	33
	Negative Publicity could Damage our Reputation	33
	Environmental Risks	33
	Shares Eligible for Future Sale	33
	Technology and Computer Systems	34
	Company Stock Price May Be Volatile Due to Other Factors	34
	Executive Overview	35
	Sources of Income	35
	Financial Highlights Results of Operations	36
	Net Interest Income and Net Interest Margin	38
	Liquidity	38
	Capital Management	38
	Short and Long Term Borrowings	39
	Provision for Loan and Lease Losses	39

	Factors That May Affect Future Results	40
	Critical Accounting Policies	41
	Average Balances, Interest Income/Expense and Yields/Rates Paid	44
	Analysis of Changes in Net Interest Income and Interest Expense	45
	Noninterest Income	46
	Noninterest Expense	46
	Income Taxes	47
	Asset Quality	48
	Mortgages held for sale	48
	Allowance for Loan and Lease Losses (ALLL)	49
	Quarterly Income Statement	51
Item 3	Quantitative and Qualitative Disclosure about Market Risk	52
Item 4T	Controls and Procedures	54
PART II.	**OTHER INFORMATION**	
Item 1	Legal Proceedings	54
Item 1a	Risk Factors	54
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	55
Item 3	Defaults Upon Senior Securities	55
Item 4	Submission of Matters to a Vote of Security Holders	55
Item 5	Other Information	55
Item 6	Exhibits	55
	SIGNATURES	56

EX-31.1
EX-31.2
EX-31.3
EX-31.4
EX-32

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Unaudited)

Dollars in thousands	June 30, 2009 (Restated)	Dec. 31, 2008	June 30, 2008
ASSETS			
Cash and due from banks, non interest bearing	$ 36,352	$ 10,216	$ 16,660
Interest bearing due from banks	27,512	23,500	0
Federal funds sold and securities purchased under agreements to resell	15,140	51,475	11,585
Cash and cash equivalents	79,004	85,191	28,245
Securities available-for-sale, at fair value (including pledged collateral of $60,678 at June 30, 2009, $68,735 at December 31, 2008 and $68,165 at June 30, 2008)	75,480	131,687	66,728
Securities held-to-maturity, at cost (estimated fair value of $0 at June 30, 2009, $0 at December 31, 2008 and $10,285 at June 30, 2008)			10,385
Portfolio Loans, net of the allowance for loan losses of $8,496 at June 30, 2009, $8,429 at December 31, 2008 and $5,017 at June 30, 2008 (includes estimated fair value of ITIN loans of $80,671 at June 30, 2009, $0 at December 31, 2008 and $0 at June 30, 2008)	587,637	518,946	507,651
Mortgages held for sale	20,225		
Bank premises and equipment, net	10,586	10,672	11,068
Goodwill	3,727		
Other real estate owned	3,229	2,934	
Other assets	27,231	24,784	22,531
TOTAL ASSETS	$ 807,119	$ 774,214	$ 646,608
LIABILITIES AND STOCKHOLDERS EQUITY			
Demand noninterest bearing	69,957	$ 79,988	$ 68,625
Demand interest bearing	142,210	143,871	128,994
Savings accounts	59,432	67,136	52,453
Certificates of deposit	295,508	264,287	218,303
Total deposits	567,107	555,282	468,375
Securities sold under agreements to repurchase	10,843	13,853	14,343

Federal Home Loan Bank and Federal Reserve Bank borrowings		120,000		120,000		95,000
Mortgage warehouse lines of credit		17,512				
Other liabilities		9,344		7,036		7,396
Junior subordinated debt payable to unconsolidated subsidiary grantor trust		15,465		15,465		15,465
Total Liabilities		740,271		711,636		600,579
Commitments and contingencies						
Stockholders Equity:						
Preferred stock (liquidation preference of $1,000 per share; issued 2008) 2,000,000 authorized; 17,000 shares issued and outstanding in 2009, and December 31, 2008, none outstanding at June 30, 2008		16,596		16,551		
Common stock , no par value, 50,000,000 shares authorized; 8,711,495 shares issued and outstanding at June 30, 2009, December 31, 2008 and at June 30, 2008		9,688		9,650		9,590
Common Stock Warrant		449		449		
Retained earnings		37,922		36,009		37,344
Accumulated other comprehensive income (loss), net of tax		30		(81)		(905)
Total Equity Bank of Commerce Holdings		64,685		62,578		46,029
Non controlling interest in subsidiary		2,163				
Total stockholders equity		66,848		62,578		46,029
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	807,119	$	774,214	$	646,608

See accompanying notes to condensed consolidated financial statements.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Condensed Consolidated Statements of Income (Unaudited)
Three and Six Months Ended June 30, 2009 and June 30, 2008

	For Three Months Ended:		**For Six Months Ended:**	
Amounts in thousands, except for per share data	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Interest income:				
Interest and fees on loans	$ 9,272	$ 8,171	$ 17,321	$ 17,302
Interest on tax-exempt securities	279	302	575	576
Interest on U.S. government securities	954	533	2,146	1,014
Interest on federal funds sold and securities purchased under agreements to resell	5	90	30	148
Interest on other securities	131	23	248	45
Total interest income	10,641	9,119	20,320	19,085
Interest expense:				
Interest on demand deposits	239	498	546	1,248
Interest on savings deposits	238	360	519	650
Interest on certificates of deposit	1,900	2,238	3,781	4,614
Securities sold under agreements to repurchase	11	35	25	119
Interest on FHLB and other borrowings	539	781	1,120	1,512
Interest on junior subordinated debt payable to unconsolidated subsidiary grantor trust	216	161	431	476
Total interest expense	3,143	4,073	6,422	8,619
Net interest income	7,498	5,046	13,898	10,466
Provision for loan and lease losses	3,056	1,000	4,481	1,600
Net interest income after provision for loan losses	4,442	4,046	9,417	8,866
Noninterest income:				
Service charges on deposit accounts	96	50	188	112
Payroll and benefit processing fees	104	99	238	228
Earnings on cash surrender value - Bank owned life insurance	117	85	203	168
Net gain on sale of securities available-for-sale	1,074	194	1,478	436
Net gain on transfer of financial assets	340		340	
Net loss on sale of derivative swap transaction				(225)
Merchant credit card service income, net	75	97	149	180
Mortgage brokerage fee income	1,302	5	1,302	15
Other income	87	187	162	368
Total noninterest income	3,195	717	4,060	1,282

Noninterest expense:				
Salaries and related benefits	2,644	1,892	4,771	3,841
Occupancy and equipment expense	730	640	1,302	1,284
FDIC insurance premium	301	113	574	171
Data processing fees	68	65	179	143
Professional service fees	295	133	454	251
Payroll and benefit fees	27	27	61	60
Deferred compensation expense	123	113	242	224
Stationery and supplies	26	80	79	142
Postage	76	38	157	72
Directors expense	120	94	157	142
Other expenses	483	418	877	847
Total noninterest expense	4,893	3,613	8,853	7,177
Income before provision for income taxes	2,744	1,150	4,624	2,971
Provision for income taxes	1,027	244	1,637	835
Net Income	1,717	906	2,987	2,136
Less: Net income attributable to non-controlling interest	101		101	
Net Income attributable to Bank of Commerce Holdings	$ 1,616	$ 906	$ 2,886	$ 2,136
Less: preferred dividend and accretion on preferred stock	235		472	
Income available to common shareholders	$ 1,381	$ 906	$ 2,414	$ 2,136
Basic earnings per share	$ 0.16	$ 0.10	$ 0.28	$ 0.25
Weighted average shares basic	8,711	8,748	8,711	8,714
Diluted earnings per share	$ 0.16	$ 0.10	$ 0.28	$ 0.24
Weighted average shares diluted	8,712	8,751	8,712	8,732
Cash Dividends declared	$ 0.00	$ 0.08	$ 0.06	$ 0.16

See accompanying notes to condensed consolidated financial statements.

4

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Condensed Consolidated Statements of Stockholders Equity
Three and Six Months Ended June 30, 2009

Thousands	Comprehensive Income	Preferred Amount	Warrant	Common Shares	Stock Amount	Retained Earnings	Accumulated Other Comp-Income (Loss), net of tax	Subtotal Bank of Commerce Holdings	Non Controlling Interest in Subsidiary	
1, 2008		$ 16,551,268	$ 448,732	8,711,495	$ 9,649,672	$ 36,008,866	($80,897)	$ 62,577,641	$ 0	$ 6
sive										
	1,270,015					1,270,015		1,270,015		
prehensive										
gains on et of ion	473,885									
sification for gains net of tax	(237,796)									
prehensive										
prehensive	1,506,104						236,089	236,089		
n Preferred		22,437						22,437		
sh 60.06 per						(522,690)		(522,690)		
ock						(214,861)		(214,861)		
on ociated ptions					28,902			28,902		
March 31,		$ 16,573,705	$ 448,732	8,711,495	$ 9,678,574	$ 36,541,330	$ 155,192	$ 63,397,533	$ 0	$ 6
	1,717,020					1,615,771		1,615,771	101,249	

sive										
prehensive										
gains on et of ion	506,451									
sification for gains net of tax	(631,627)									
sive	1,591,844									
sive ling	(101,249)									
prehensive OCH	1,490,595						(125,176)	(125,176)		
n Preferred		22,437				(22,437)				
ock						(212,500)		(212,500)		
on ociated ptions					9,434			9,434		
ution to ling									2,061,812	
June 30,		$ 16,596,142	$ 448,732	8,711,495	$ 9,688,008	$ 37,922,164	$ 30,016	$ 64,685,062	$ 2,163,061	$ 6

See accompanying notes to condensed consolidated financial statements.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)
Six Months Ended June 30, 2009 and 2008

Dollars in thousands	June 30, 2009 (Restated)	June 30, 2008
Cash flows from operating activities:		
Net income attributable to consolidated entity	$ 2,987	$ 2,136
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	4,481	1,600
Provision for depreciation and amortization	592	598
Compensation expense associated with stock options	38	57
Gain on transfer of financial assets	(340)	
Gross proceeds from sales of loans held for sale	115,836	
Gross originations of loans held for sale	(125,096)	
Gain on sale of securities available-for-sale	(1,478)	(436)
Amortization of investment premiums and accretion of discounts, net	(61)	18
Loss on sale of derivative swap transaction		225
Loss (Gain) on sale of fixed assets	1	(5)
Deferred income taxes	(809)	(707)
Increase in cash surrender value of bank owned life policies	(1,379)	(141)
Effect of changes in:		
Other assets	(778)	(860)
Deferred compensation	216	219
Deferred loan fees	167	(31)
Other liabilities	(1,652)	(378)
Net cash from operating activities	(7,275)	2,295
Cash flows from investing activities:		
Proceeds from maturities and payments of available-for-sale securities	19,734	4,071
Proceeds from sales of available-for-sale securities	54,427	26,616
(Purchases) of available-for-sale securities	(16,004)	
Purchases of ITIN loan portfolio	(66,696)	
Investment in bank owned life policies		(30,052)
Loan origination, net of principal repayments	(5,267)	(22,938)
Purchases of Bank premises and equipment, net	(326)	(697)
Cash acquired in merger, net of cash consideration paid	265	
Net cash used from investing activities	(13,867)	(23,000)
Cash flows from financing activities:		
Net increase (decrease) in deposits	11,802	(5,255)
Net (decrease) in securities sold under agreement to repurchase	(3,009)	(1,170)
Net change in FHLB advances	(20,000)	35,000

Net change in other short term borrowings		27,809		
Cash dividends paid on common stock		(1,220)		(1,396)
Cash dividends paid on preferred stock		(427)		
Proceeds from stock options exercised				41
Common stock repurchased				(504)
Net cash from financing activities		14,955		26,716
Net (decrease) increase in cash and cash equivalents		(6,187)		6,011
Cash and cash equivalents, beginning of period		85,191		22,234
Cash and cash equivalents, end of period	$	79,004	$	28,245
Supplemental disclosures:				
Cash paid during the period for:				
Income taxes	$	1,132	$	
Interest	$	6,474		8,970
Transfer of loans to other real estate owned	$	3,229		

See accompanying notes to condensed consolidated financial statements.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

1. Consolidation and Basis of Presentation

Bank of Commerce Holdings is a financial services company providing banking, investments and mortgage banking through branch locations, the internet and other distribution channels. The unaudited condensed consolidated financial statements include the accounts of Bank of Commerce Holdings (the Holding Company) and its wholly owned subsidiaries Redding Bank of Commerce and Roseville Bank of Commerce (BOC or the Bank) and its majority owned subsidiary, Bank of Commerce Mortgage (collectively the Company). All significant inter-company balances and transactions have been eliminated. The condensed consolidated balance sheet as of December 31, 2008, which has been derived from audited financial statements audited by Moss Adams, LLP, a registered public accounting firm, as indicated in their report not included herein, and the unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. The financial information contained in this report reflects all adjustments that in the opinion of management are necessary for a fair presentation of the results of the interim periods. All such adjustments are of a normal recurring nature. Certain reclassifications have been made to the prior period condensed consolidated financial statements to conform to the current financial statement presentation with no effect on previously reported equity and net income.

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and general practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in Bank of Commerce Holdings 2008 Annual Report on Form 10-K. The results of operations and cash flows for the 2009 interim periods shown in this report are not necessarily indicative of the results for any future interim period or the entire fiscal year. For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and repurchase agreements. Generally, federal funds are sold for a one-day period and securities purchased under agreements to resell are for no more than a 90-day period. Balances held in federal funds sold may exceed FDIC insurance limits.

Restatement of Financial Results

In the course of preparing our consolidated financial statements for the year ended December 31, 2009, we identified an error in the accounting for the stock purchase agreement with Simonich Corporation d.b.a. BWC Mortgage Services to acquire 51% of the capital stock of Simonich Corporation that occurred in the second quarter 2009. The error understated the goodwill investment on the balance sheet $800,000. In addition, the Statements of Cash Flows has been restated to include the gross cash flows from originations and sales of mortgage loans held for sale in cash flows from operating activities. In order to correct these errors, we have restated our condensed consolidated balance sheets and condensed consolidated statements of cash flows for the six months ended June 30, 2009.

Effects of the Restatement on the Condensed Consolidated Financial Statements

The following table presents the impact of the financial statement adjustments on the previously reported condensed consolidated balance sheet at June 30, 2009:

Dollars in thousands	(As Previously	
CONSOLIDATED BALANCE SHEET	Reported)	(As Restated)
Goodwill	$ 2,927	$ 3,727
Other assets	$ 28,031	$ 27,231

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

The following table presents the impact of the financial statement adjustments on the previously reported condensed consolidated statements of cash flows for the six months ended June 30, 2009:

Dollars in thousands	June 30, 2009 (As Previously Reported)	June 30, 2009 (As Restated)
Cash flows from operating activities:		
Net income attributable to consolidated entity	$ 2,886	$ 2,987
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	4,481	4,481
Provision for depreciation and amortization	592	592
Compensation expense associated with stock options	38	38
Gain on transfer of financial assets	(340)	(340)
Gross proceeds from sales of loans held for sale		115,836
Gross originations of loans held for sale		(125,096)
Gain on sale of securities available-for-sale	(1,478)	(1,478)
Amortization of investment premiums and accretion of discounts, net	(61)	(61)
Loss on sale of derivative swap transaction		
Loss (Gain) on sale of fixed assets	1	1
Deferred income taxes	(809)	(809)
Increase in cash surrender value of bank owned life policies	(1,379)	(1,379)
Effect of changes in:		
Other assets	(1,578)	(778)
Deferred compensation	216	216
Deferred loan fees	167	167
Other liabilities	(1,546)	(1,652)
Net cash from operating activities	1,190	(7,275)
Cash flows from investing activities:		
Proceeds from maturities and payments of available-for-sale securities	19,734	19,734
Proceeds from sales of available-for-sale securities	54,427	54,427
(Purchases) of available-for-sale securities	(16,004)	(16,004)
Purchases of ITIN loan portfolio	(66,696)	(66,696)
Loan origination, net of principal repayments	(18,292)	(5,267)
Purchases of Bank premises and equipment, net	(326)	(326)
Cash acquired in merger, net of cash consideration paid	4,825	265
Net cash used from investing activities	(22,332)	(13,867)
Cash flows from financing activities:		
Net increase (decrease) in deposits	11,802	11,802
Net (decrease) in securities sold under agreement to repurchase	(3,009)	(3,009)
Net change in FHLB advances	(20,000)	(20,000)

Net change in other short term borrowings		27,809		27,809
Cash dividends paid on common stock		(1,220)		(1,220)
Cash dividends paid on preferred stock		(427)		(427)
Net cash from financing activities		14,955		14,955
Net (decrease) increase in cash and cash equivalents		(6,187)		(6,187)
Cash and cash equivalents, beginning of period		85,191		85,191
Cash and cash equivalents, end of period	$	79,004	$	79,004
Supplemental disclosures:				
Cash paid during the period for:				
Income taxes	$	1,132	$	1,132
Interest	$	6,474	$	6,474
Transfer of loans to other real estate owned	$	3,229	$	3,229

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

2. Business Combinations

A business combination occurs when an entity acquires net assets that constitute a business, or acquires equity interests in one or more other entities that are businesses and obtains control over those entities. Business combinations may be effected through the transfer of consideration such as cash, other financial or non-financial assets, debt, or common or preferred shares. The assets and liabilities of an acquired entity or business are recorded at their respective fair values as of the closing date of the transaction. The results of operations of an acquired entity are included in our consolidated results from the closing date of the transaction, and prior periods are not restated. All business combinations are accounted for using the acquisition method.

The Company will regularly explore opportunities to acquire financial services companies and businesses. Public announcements about an acquisition opportunity are not made until a definitive agreement has been signed. In the second quarter 2009, the Company entered into a stock purchase agreement with Simonich Corporation d.b.a. BWC Mortgage Services to acquire 51% of the capital stock of Simonich Corporation. Simonich Corporation d.b.a. BWC Mortgage Services is a successful state of the art mortgage broker of residential real estate loans with ten offices in three different states and licenses in California, Oregon, Idaho and Nevada. The business was formed in 1993 and the corporate offices are located in San Ramon, California. The business funds over $1.0 billion of first mortgages per year. The Corporate offices are located in San Ramon, California.

The agreement was dated May 15, 2009. The total consideration paid by the Company was $2.5 million, with $1.5 million paid at closing and the additional $1.0 million to be earned-out over a period of three years based upon delivering an established level of profits. The Company has accounted for the business combination using the acquisition method. Fair value estimates include the tangible and intangible assets of the business including the quality of the management team, the customer referral network, the current set of leases, infrastructure, market research and other intangibles. The Company s acquisition of 51% majority ownership interest was measured at fair value based on the total consideration transferred. The fair value of the non-controlling interest was estimated through a valuation of the acquired company.

Two approaches were used to value the business, the market and income approaches. The total estimated fair value of the acquired company was $4.2 million. This value represents the following change in control transaction multiples: 13.27 times trailing twelve months earnings, 29.21% price to trailing twelve months gross revenues and 436.70% of total shareholders equity. The estimated fair value of the non-controlling interest was estimated at $2.06 million.

The agreement allows the Company to penetrate into the Mortgage Brokerage Services market through our retail outlets and to share in the income on transactions produced from other locations. Effective July 1, 2009 the Company changed its name to Bank of Commerce Mortgage . At June 30, 2009 the Company had no pending business combinations.

Purchase Price and Goodwill

The following table summarizes the purchase and resulting goodwill:

(In thousands)	
Cash paid at fair value	$ 1,500
Earn out payable at fair value	965
Fair value of non-controlling interest	2,062
Total Consideration at fair value	$ 4,527
Net acquisition date fair value of assets acquired	($800)
Goodwill	$ 3,727

No assets or liabilities arose out of contingencies. Goodwill totaling $3.7 million is not being amortized for book purposes under current accounting guidelines. Goodwill is not deductible for tax purposes. No other intangible assets were identified or recorded as a result of the business combination.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

The following balance sheet summarizes the amount assigned for each major asset category of Simonich Corporation d.b.a. BWC Mortgage Services at the date of acquisition, May 15, 2009. The carrying amount of the acquired assets and liabilities approximated fair value. Accordingly, no fair value adjustments to the acquired assets and liabilities were recorded.

Cash and Cash Equivalents	$ 1,764,691
Accounts Receivable	10,447
Other Receivables	436,533
Loans held for sale, net of deferred income	12,005,417
Prepaid Expenses	57,430
Notes Receivable	414,294
Total Current Assets:	14,688,812
Fixed Assets	155,148
Other Assets	13,310
TOTAL ASSETS	14,857,270
Accounts Payable	98,697
Accrued Expenses	232,378
Branch Payables	191,117
Total Payables:	522,192
Current portion Capital Lease	39,276
Impounds payable	66,644
Mortgage warehouse lines of credit	11,810,238
Total Other Current Liabilities:	11,916,158
Total Current Liabilities:	12,438,350
Long Term Capital Lease Payable	14,888
Due to stockholder	224,032
Notes Payable	1,380,000
Total Long Term Liabilities:	1,618,920
TOTAL LIABILITIES	14,057,270
Net Assets	$ 800,000

The following table represents the pro-forma income statement as if the acquisition had occurred on January 1, 2009:

	Six Months Ended June 30, 2009				
Pro-Forma Income Statement	**Bank**	**Mortgage**	**Parent**	**Intercompany**	**Consolidated**
Interest income:					
Total interest income	20,165		182	(27)	20,320
Interest expense:					
Total interest expense	6,015	3	431	(27)	6,422
Net interest income	14,150	(3)	(249)		13,898

Provision for loan and lease losses	4,475	6			4,481
Net interest income after provision for loan losses	9,675	(9)	(249)		9,417
Noninterest income:					
Mortgage brokerage fee income	8	3,939			3,947
Other noninterest income	2,758				2,758
Total noninterest income	2,766	3,930	(249)	(27)	6,705
Noninterest expense:					
Salaries and related benefits	4,148	1,959	65		6,172
Occupancy and equipment expense	1,215	449			1,664
Other noninterest expense	2,420	699	98		3,217
Total noninterest expense	7,783	3,107	163		11,053
Income before provision for income taxes	4,658	823	(412)		5,069
Provision for income taxes	1,466	173			1,639
Net Income	3,192	650	(412)		3,430
Less: Net income attributable to non-controlling interest		(319)			(319)
Net Income attributable to Bank of Commerce Holdings	$ 3,192	$ 331	$ (412)		$ 3,111
Less: Preferred dividend and accretion on preferred stock			(472)		(472)
Income available to common shareholders	$ 3,192	$ 331	$ (884)	=	$ 2,639
Basic earnings per share					$ 0.30
Diluted earnings per share					$ 0.30

10

	Six Months Ended June 30, 2008				
Pro-Forma Income Statement	**Bank**	**Mortgage**	**Parent**	**Intercompany**	**Consolidated**
Interest income:					
Total interest income	18,959		146	(20)	19,085
Interest expense:					
Total interest expense	8,173		466	(20)	8,619
Net interest income	10,786		(320)		10,466
Provision for loan and lease losses	1,600				1,600
Net interest income after provision for loan losses	9,186		(320)		8,866
Noninterest income:					
Mortgage brokerage fee income	15	2,861			2,876
Other noninterest income	1,267				1,267
Total noninterest income	1,282	2,861			4,149
Noninterest expense:					
Salaries and related benefits	3,776	1,401	65		5,242
Occupancy and equipment expense	1,284	587			1,871
Other noninterest expense	1,942	1,062	110		3,114
Total noninterest expense	7,002	3,050	175		10,227
Income before provision for income taxes	3,466	(189)	(495)		2,782
Provision for income taxes	835				835
Net Income	2,631	(189)	(495)		1,947
Less: Net income attributable to non-controlling interest		(92)			(92)
Net Income attributable to Bank of Commerce Holdings	$ 2,631	$ (97)	$ (495)		$ 2,039
Less: Preferred dividend and accretion on preferred stock					
Income available to common shareholders	$ 2,631	$ (97)	$ (495)	=	$ 2,039
Basic earnings per share					$ 0.23
Diluted earnings per share					$ 0.23

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
3. Recent Accounting pronouncements

In June 2009, SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Principles, a Replacement of FASB Statement No. 162 was issued and established the FASB Accounting Standards Codification (Codification) as the source of authoritative U. S. generally accepted accounting principles recognized by the FASB to be applied by nongovernmental entities. Rules and interpretative releases of the SEC under authority of federal securities laws are also sources of authoritative guidance for SEC registrants. All non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative. The pronouncement and the Codification will be effective in the period ending September 30, 2009 and is not expected to have a significant impact on the Company s financial statements.

On May 28, 2009, the FASB issued FAS 165, *Subsequent Events***.** FAS 165 establishes general standards of accounting for the disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. FAS 165 specifically outlines the period, circumstances, and disclosures that should be evaluated and recognized after the balance sheet date. The pronouncement is effective date for interim or annual financial periods ending after June 15, 2009 with prospective application. The adoption of FAS 165 did not have a material impact on our consolidated financial statements.

On October 10, 2008, the FASB issued FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*. FAS 157-3 is a FASB Staff Position that clarifies the application of FASB Statement No. 157, *Fair Value Measurements,* for a non-active market and provides an illustrative example of key considerations in determining the fair value of financial assets under such conditions. The adoption of FAS 157-3 did not have a material impact on our consolidated financial statements.

SFAS No. 160 requires that non-controlling interests (previously referred to as minority interests) be reported as a component of equity in the balance sheet. Prior to adoption of FAS 160, they were to be classified outside of equity. This new standard also changes the way a non-controlling interest is presented in the income statement such that a parent s consolidated income statement includes amounts attributable to both the parent s interest and the non-controlling interest. SFAS No. 160 requires a parent to recognize a gain or loss when a subsidiary is deconsolidated. The remaining interest is initially recorded at fair value. Other changes in ownership interest where the parent continues to have a majority ownership interest in the subsidiary are accounted for as capital transactions. SFAS No. 160 was effective for the Company on January 1, 2009.

Our Company holds a controlling interest in Bank of Commerce Mortgage . Simonich Corporation holds the non-controlling interest. In connection with the adoption of SFAS No. 160 on January 1, 2009, Simonich Corporation s non-controlling interest is classified in the consolidated statement of stockholders equity.

In April 2009, the FASB issued the following three FSPs intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities:

FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,* provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have decreased significantly. FSP FAS 157-4 also provides guidance on identifying circumstances that indicate a transaction is not orderly. The provisions of FSP FAS 157-4 are effective for the Company s interim period ending on June 30, 2009. The adoption of FAS 157-4 did not have a material impact on our consolidated financial statements.

FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments,* requires disclosures about fair value of financial instruments in interim reporting periods of publicly traded companies that were previously only required to be disclosed in annual financial statements. The provisions of FSP FAS 107-1 and APB 28-1 are effective for the Company s interim period ending on June 30, 2009. As FSP FAS 107-1 and APB 28-1 amends only the disclosure requirements about fair value of financial instruments in interim periods, the adoption of FSP FAS 107-1 and APB 28-1 did not affect the Company s statements of income and condition.

FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments,* amends current other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more

operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The provisions of FSP FAS 115-2 and FAS 124-2 are effective for the Company s interim period ending on June 30, 2009. The adoption of FSP FAS 115-2 and FAS 124-2 did not have a material impact on our consolidated financial statements.

12

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
4. Earnings per Share

Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that subsequently shared in the earnings of the entity. Net income available to common stockholders is based on the net income attributable to Bank of Commerce Holdings adjusted for dividend payments and accretion associated with Preferred Stock. The following table displays the computation of earnings per share for the three and six months ended June 30, 2009 and 2008.
(Amounts in thousands, except per share data)

	Three Months Ended		Six Months Ended	
Earnings Per Share	**June 30, 2009**	**June 30, 2008**	**June 30, 2009**	**June 30, 2008**
Basic EPS Calculation:				
Net Income attributable to Bank of Commerce Holdings	$ 1,616	$ 906	$ 2,886	$ 2,136
Less: dividend on Preferred Stock	213		427	
Less: accretion on Preferred Stock	22		45	
Numerator: Earnings available to common stockholders	$ 1,381	$ 906	$ 2,414	$ 2,136
Denominator (average common shares outstanding)	8,711	8,748	8,711	8,714
Basic earnings per Share	$ 0.16	$ 0.10	$ 0.28	$ 0.25
Diluted EPS Calculation:				
Net Income attributable to Bank of Commerce Holdings	$ 1,616	$ 906	$ 2,886	$ 2,136
Less: dividend on Preferred Stock	213		427	
Less: accretion on Preferred Stock	22		45	
Numerator: Earnings available to common stockholders	$ 1,381	$ 906	$ 2,414	$ 2,136
Denominator:				
Average common shares outstanding	8,711	8,748	8711	8,714
Plus incremental shares from assumed conversions				
Stock Options	1	3	1	18
Warrants				
	8,712	8,751	8,712	8,732

Diluted earnings per Share	$ 0.16	$ 0.10	$ 0.28	$ 0.24
Anti-dilutive options not included in EPS Calculation	188,400	146,167	188,400	146,167
Anti-dilutive warrants not included in EPS Calculation	405,405		405,405	

Vested stock options totaling 609,305 at an average exercise price of $7.01 were outstanding as of June 30, 2009.

5. Stock Option Plans

For the first six months of 2009, stock option compensation expense charged against income was $38,336 compared to $56,799 at June 30, 2008. At June 30, 2009, there was $209,984 of total unrecognized compensation costs related to non-vested share based payments which is expected to be recognized over a period of 3.6 years. One option of 4,000 shares was granted during the first six months of 2009 and no options were granted during the first six months of 2008. The fair value of the option granted during 2009 is $1.91, on the date of the grant using a Black-Sholes option pricing model with the following assumptions: daily volatility of 0.6760%, risk-free interest rate of 2.07%, expected dividends of $0.24 per share per year, assumed forfeiture rate of zero and an expected life of seven years.

During the six months ended June 30, 2009 and 2008 the Company received cash of $0 and $41,506 respectively, upon exercise of stock-based compensation arrangements.

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
6. Securities Portfolio

The Company s available-for-sale securities consists of both debt and marketable equity securities. The portfolio is comprised of U.S. Treasury securities, U.S. Agency securities, mortgage-backed securities, and obligations of states and political subdivisions. Securities classified as available-for-sale are recorded at fair value. Unrealized gains and losses, after applicable income taxes, are reported in cumulative other comprehensive income. The Company uses the most current market quotations to estimate the fair value of these securities.

The Company does not include federal funds sold as securities. These investments are included in cash and cash equivalents. Debt securities in the securities available-for-sale portfolio provide asset liquidity, in addition to the immediately liquid resources of cash and due from banks and federal funds sold.

Total available-for-sale securities decreased $56.2 million or 42.7% at June 30, 2009 compared to December 31, 2008. As of June 30, 2009, the Company has pledged a total of $60.7 million of securities for treasury, tax and loan accounts; public funds collateral; collateralized repurchase agreements and Federal Home Loan Bank borrowings.

The following table summarizes the amortized cost of the Company s available-for-sale securities at:

(Dollars in thousands)	As of June 30, 2009			
Available for sale securities	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government & agencies	$ 25,269	$ 657	$ (45)	$ 25,881
Obligations of state and political subdivisions	28,381	113	(836)	27,658
Mortgage backed securities	19,332	286	(31)	19,587
Asset backed securities	2,463		(109)	2,354
Total	$ 75,445	$ 1,056	$ (1,021)	$ 75,480

(Dollars in thousands)	As of December 31, 2008			
Available for sale securities	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government & agencies	$ 16,006	$ 70	$	$ 16,076
Obligations of state and political subdivisions	32,178	146	(1,303)	31,021
Mortgage backed securities	83,657	1,278	(345)	84,590
Asset backed securities				
Total	$ 131,841	$ 1,493	$ (1,648)	$ 131,687

The amortized cost and estimated fair value of available-for-sale securities at June 30, 2009 are shown below.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 1,005	$ 1,015
Due after one year through five years	1,806	1,813
Due after five years through ten years	6,388	6,308
Due after ten years	66,246	66,344

Total	75,445	75,480

An investment is impaired if the fair value of the investment is less than its cost adjusted for accretion, amortization and Other Than Temporarily Impaired (OTTI), otherwise defined as an unrealized loss. When an investment is impaired, we assess whether to sell the security, or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses. For debt securities, that are considered other than temporarily impaired and that we do not intend to sell and will not be required to sell prior to recovery of our amortized cost basis, we separate the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is calculated as the difference between the investment s amortized cost basis and the present value of its expected future cash flows. The remaining difference between the investment s fair value and the present value of future expected cash flows is deemed to be due to factors that are not credit related and is recognized in other comprehensive income. Significant judgment is required in the determination of whether an OTTI has occurred for an investment.
The Company follows a consistent and systematic process for determining and recording an OTTI loss. The Company has designated the ALCO Committee responsible for the OTTI process. The ALCO Committee s assessment of whether an OTTI loss should be recognized incorporates both quantitative and qualitative information.

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

The ALCO Committee considers a number of factors including, but not limited to: (a) the length of time and the extent to which the fair value has been less than amortized cost, (b) the financial condition and near term prospects of the issuer, (c) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for an anticipated recovery in value, (d) whether the debtor is current on interest and principal payments and (e) general market conditions and industry or sector specific outlook. Management has evaluated all securities at June 30, 2009 and has determined that no securities are other than temporarily impaired.

We do not have the intent to sell the investments that are temporarily impaired, and it is more than likely than not that we will not have to sell those investments before recovery of the cost basis. Additionally, we have evaluated the credit ratings of our investment securities and their issuers and or insurers, if applicable. Based upon our evaluation, management has determined that no investment security in our portfolio is other than temporarily impaired.

The following table presents the current fair value and associated unrealized losses on investments with unrealized losses at June 30, 2009. The table represents 27 securities compared with 40 securities at December 31, 2008. The table also discloses whether these securities have had unrealized losses for less than 12 months or for 12 months or longer. The unrealized losses are primarily driven by changes in interest rates and not due to credit quality.

	As of June 30, 2009					
	Less than 12 months		**12 months or more**		**Total**	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government & agencies	$ 2,954,365	$ (45,635)	$	$	$ 2,954,365	$ (45,635)
Obligations of state and political subdivisions	12,359,048	(488,747)	4,688,605	(346,733)	17,047,653	(835,480)
Mortgage backed securities	2,748,884	(3,133)	2,142,523	(27,953)	4,891,407	(31,086)
Asset backed securities	2,354,076	(109,283)			2,354,076	(109,283)
Total temporarily impaired securities	$20,416,373	$(646,798)	$6,831,128	$(374,686)	$27,247,501	$(1,021,484)

	As of December 31, 2008					
	Less than 12 months		**12 months or more**		**Total**	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and Obligations of U. S. Agencies	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Obligations of state and political subdivisions	$ 21,125,047	$ (1,140,217)	$ 843,658	$ (162,412)	$ 21,968,705	$ (1,302,628)
Mortgage-backed securities	$ 16,666,493	$ (105,783)	$ 5,375,203	$ (239,463)	$ 22,041,696	$ (345,247)
Total temporarily impaired securities	$ 37,791,540	$ (1,246,000)	$ 6,218,861	$ (401,875)	$ 44,010,401	$ (1,647,875)

7. Mortgages held for sale

Bank of Commerce Mortgage originates residential mortgage loans within Bank of Commerce s footprint and on a nationwide basis. Mortgage loans generally represent loans collateralized by one-to-four family residential real estate and are made to borrowers in good credit standing. These loans are typically sold to primary mortgage market aggregators (Fannie Mae, Freddie Mac, and Ginnie Mae) and to third party investors including the servicing rights. Mortgages held for sale are carried at the lower of cost or fair value on an individual loan basis. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of a loan.

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

8. Goodwill

Goodwill is recorded in business combinations under the acquisition method of accounting when the purchase price is higher than the fair value of net assets, including identifiable intangible assets. The Company will assess goodwill for impairment annually, and more frequently in certain circumstances. Impairment exists when the carrying amount of the goodwill exceeds its implied fair value. The Company will recognize impairment losses as a charge to noninterest expense (unless related to discontinued operations) and an adjustment to the carrying value of the goodwill asset. Subsequent reversals of goodwill impairment are prohibited.

As a result of the stock purchase agreement and acquisition of 51% of the capital stock of Simonich Corporation, d.b.a. BWC Mortgage Services, the Company has recorded goodwill. (See note 2)

9. Junior Subordinated Debt Payable to Unconsolidated Subsidiary Grantor Trust

During the first quarter 2003, Bank of Commerce Holdings formed a wholly-owned Delaware statutory business trust, Bank of Commerce Holdings Trust (the grantor trust), which issued $5.0 million of guaranteed preferred beneficial interests in Bank of Commerce Holdings junior subordinated debentures (the trust notes) to the public and $155,000 common securities to the Company. These debentures qualify as Tier 1 capital under Federal Reserve Board guidelines.

The proceeds from the issuance of the trust notes were transferred from the grantor trust to the Holding Company and from the Holding Company to the Bank as surplus capital. The trust notes accrue and pay distributions on a quarterly basis at 3 month London Interbank Offered Rate (LIBOR) plus 3.30%. The rate at June 30, 2009 was 4.43%. The rate increase is capped at 2.75% annually and the lifetime cap is 12.5%. The final maturity on the trust note is March 18, 2033, and the debt allows for prepayment after five years on the quarterly payment date.

On July 29, 2005, Bank of Commerce Holdings (the Company) participated in a private placement to an institutional investor of $10 million of fixed rate trust preferred securities (the Trust Preferred Securities); through a newly formed Delaware trust affiliate, Bank of Commerce Holdings Trust II (the Trust). The Trust Preferred Securities mature on September 15, 2035, and are redeemable at the Company s option on any March 15, June 15, September 15 or December 15 on or after September 15, 2010.

In addition, the Trust Preferred Securities require quarterly distributions by the Trust to the holder of the Trust Preferred Securities at a rate of 6.12%, until September 10, 2010 after which the rate will reset quarterly to equal 3-Month LIBOR plus 1.58%. The Trust simultaneously issued $310,000 of the Trust s common securities of beneficial interest to the Company.

The proceeds from the sale of the Trust Preferred Securities were used by the Trust to purchase from the Company the aggregate principal amount of $10,310,000 of the Company s floating rate junior subordinate notes (the Notes). The net proceeds to the Company from the sale of the Notes to the Trust will be used by the Company for general corporate purposes, including funding the growth of the Company s various financial services. During September 2008, $1,200,000 in proceeds from the issuance of the trust notes was transferred from the Holding Company to the Bank as surplus capital.

The Notes were issued pursuant to a Junior Subordinated Indenture (the Indenture), dated July 29, 2005, by and between the Company and J.P. Morgan Chase Bank, National Association, as trustee. Like the Trust Preferred Securities, the Notes bear interest at a floating rate, at 6.12% until September 10, 2010, after which the rate will reset on a quarterly basis to equal 3-Month LIBOR plus 1.58%. The interest payments by the Company will be used to pay the quarterly distributions payable by the Trust to the holder of the Trust Preferred Securities.

However, so long as no event of default, as described below, has occurred under the Notes, the Company may, at any time and from time to time, defer interest payments on the Notes (in which case the Trust will be entitled to defer distributions otherwise due on the Trust Preferred Securities) for up to twenty (20) consecutive quarters.

The Notes are subordinated to the prior payment of other indebtedness of the Company that, by its terms, is not similarly subordinated. Although the Notes will be recorded as a long term liability on the Company s balance sheet, for regulatory purposes, the Notes are expected to be treated as Tier 1 or Tier 2 capital under rulings of the Federal Reserve Board, the Company s primary federal regulatory agency.

The Notes mature on September 15, 2035, but may be redeemed at the Company s option at any time on or after September 15, 2010, or at any time upon certain events, such as a change in the regulatory capital treatment of the Notes, the Trust being deemed to be an investment company or the occurrence of certain adverse tax events. In each case, the Company may redeem the Notes for their aggregate principal amount, plus accrued interest.

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
10. Preferred Stock and Warrants

The Company is authorized to issue two million shares of preferred stock. Preferred shares outstanding rank senior to common shares both as to dividends and liquidation preference but have no voting rights. Pursuant to a Letter Agreement dated November 14, 2008, and the Securities Purchase Agreement Standard Terms the Company issued to the United States Department of the Treasury (Treasury Department) 17,000 shares of Bank of Commerce Holdings Series A Fixed Rate Perpetual Preferred Stock, without par value (the Series A Preferred Stock), having a liquidation amount per share equal to $1,000 for a total price of $17 million. The Series A Preferred Stock pays cumulative dividends at a rate of 5% per year for the first five years and thereafter at a rate of 9% per year. The Company may not redeem the Series A Preferred Stock during the first three years except with the proceeds from a qualified equity offering (as defined in the Certificate of Determination described in Item 5.03). After three years, the Company may, at our option, redeem the Series A Preferred Stock at par value plus accrued and unpaid dividends. The Series A Preferred Stock is generally non-voting. Prior to November 14, 2011, unless the Company has redeemed the Series A Preferred Stock or the Treasury Department has transferred the Series A Preferred Stock to a third party, the consent of the Treasury Department will be required for the Company to increase our common stock dividend or repurchase our common stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the Securities Purchase Agreement. A consequence of the Series A Preferred Stock purchase includes certain restrictions on executive compensation that could limit the tax deductibility of compensation we pay to executive management.

As part of its purchase of the Series A Preferred Stock, the Treasury Department received a warrant (the Warrant) to purchase 405,405 shares of the Company s common stock at an initial per share exercise price of $6.29. The Warrant provides for the adjustment of the exercise price and the number of shares of our common stock issuable upon exercise pursuant to customary anti-dilution provisions, such as upon stock splits or distributions of securities or other assets to holders of our common stock, and upon certain issuances of our common stock at or below a specified price relative to the initial exercise price. The Warrant expires ten years from the issuance date. If, on or prior to December 31, 2009, the Company receives aggregate gross cash proceeds of not less than $17 million from qualified equity offerings announced after November 14, 2008, the number of shares of common stock issuable pursuant to the Treasury Department s exercise of the Warrant will be reduced by one-half of the original number of shares, taking into account all adjustments, underlying the Warrant. Pursuant to the Securities Purchase Agreement, the Treasury Department has agreed not to exercise voting power with respect to any shares of common stock issued upon exercise of the Warrant.

Both the Series A Preferred Stock and Warrant will be accounted for as components of Tier 1 capital. The Series A Preferred Stock and the Warrant were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. Upon the request of the Treasury Department at any time, we have agreed to promptly enter into a deposit arrangement pursuant to which the Series A Preferred Stock may be deposited and depositary shares (Depositary Shares) may be issued. Neither the Series A Preferred Stock nor the Warrant will be subject to any contractual restrictions on transfer, except that the Treasury Department may only transfer or exercise an aggregate of one-half of the Warrant Shares prior to the earlier of the redemption of 100% of the shares of Series A Preferred Stock and December 31, 2009.

In the Securities Purchase Agreement, the Company agreed that, until such time as the Treasury Department ceases to own any securities acquired from us pursuant to the Securities Purchase Agreement, the Company will take all necessary action to ensure that our benefit plans with respect to our senior executive officers comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 (EESA) as implemented by any guidance or regulation under Section 111(b) of EESA that has been issued and is in effect as of the date of issuance of the Series A Preferred Stock and the Warrant and not adopt any benefit plans with respect to, or which cover, our senior executive officers that do not comply with EESA. The applicable executives have consented to the foregoing.

Prior to November 14, 2011, unless the Company has redeemed the Series A Preferred Stock or the Treasury Department has transferred the Series A Preferred Stock to a third party, the consent of the Treasury Department will

be required for us to (1) declare or pay any dividend or make any distribution on our common stock (other than regular quarterly cash dividends of not more than $0.08 per share of common stock) or (2) redeem, purchase or acquire any shares of the Company s common stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the Securities Purchase Agreement.
The proceeds from Treasury were allocated based on the relative fair value of the warrants as compared with the fair value of the preferred stock. The fair value of the warrants was determined using a valuation model which incorporates assumptions including the Company s common stock price, dividend yield, stock price volatility and the risk-free interest rate. The fair value of the preferred stock is determined based on assumptions regarding the discount rate (market rate) on the preferred stock which was estimated to be approximately 9% at the date of issuance. The discount on the preferred stock will be accreted to par value over a five-year term, which is the expected life of the preferred stock. Capital Purchase Plan participants may opt out by repaying the capital without raising additional capital subject to consultation with the appropriate Federal regulator.

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
11. Commitments and contingent liabilities

Lease Commitments The Company leases certain facilities at which it conducts its operations. Future minimum lease commitments under all non-cancelable operating leases as of June 30, 2009 are below:

(Dollars in thousands)

Operating Leases	
2009	$ 266
2010	524
2011	454
2012	279
2013	155
Thereafter	606
Total	$ 2,284

Legal Proceedings The Company is involved in various pending and threatened legal actions arising in the ordinary course of business. The Company maintains reserves for losses from legal actions, which are both probable and estimable. In the opinion of management, the disposition of claims, currently pending will not have a material adverse affect on the Company s financial position or results of operations.

FHLB Advances The Company has advances from the Federal Home Loan Bank of San Francisco (FHLB) totaling $100,000,000 as of June 30, 2009 and $95,000,000 as of June 30, 2008. The FHLB advances bear fixed interest rates ranging from 0.32% to 3.97%. Interest is payable monthly and semiannually. The following table illustrates borrowings outstanding at the end of the period:

Advance Amount	Interest Rate	Maturity
$ 50,000,000	0.32%	08/31/2009
$ 15,000,000	3.41%	04/29/2011
$ 35,000,000	3.97%	11/23/2009
$100,000,000		

These borrowings are secured by an investment in FHLB stock and certain real estate mortgage loans which have been specifically pledged to the FHLB pursuant to their collateral requirements. Based upon the level of FHLB advances, the Company was required to hold a minimum investment in FHLB stock of $6,110,000 and to pledge $98,099,579 of its real estate mortgage loans and $40,414,740 of its securities portfolio to the FHLB as collateral as of June 30, 2009. At June, 2009, the Bank had available borrowing lines at the FHLB of $38,514,319 and additional federal fund borrowing lines at a correspondent bank totaling $10,000,000.

FRB TAF Advances The Company has an advance from the Federal Reserve Bank of San Francisco (FRB) totaling $20,000,000 as of June 30, 2009 and $0 as of June 30, 2008. The advance is under FRB s Term Auction Facility (TAF) and was originated on June 17, 2009, matures on September 10, 2009, and bears a fixed rate of 0.25%. The FRB s TAF credit facility is an auction based borrowing with terms limited to 28 and 84 day maturities. The Company has pledged $74,215,075 in commercial and industrial loans as collateral as of June 30, 2009, and had available borrowing lines at the FRB of $48,220,472.

Off-Balance Sheet Financial Instruments - In the ordinary course of business, the Company enters various types of transactions, which involve financial instruments with off-balance sheet risk. These instruments include commitments

to extend credit and standby letters of credit, which are not reflected in the accompanying consolidated balance sheets. These transactions may involve, to varying degrees, credit and interest rate risk more than the amount, if any recognized in the consolidated balance sheets. Commitments to extend credit are agreements to lend to customers. These commitments have specified interest rates and generally have fixed expiration dates but may be terminated by the Company if certain conditions of the contract are violated. Although currently subject to draw down, many of the commitments do not necessarily represent future cash requirements. Collateral held relating to these commitments varies, but generally includes real estate, securities and cash. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Credit risk arises in these transactions from the possibility that a customer may not be able to repay the Bank upon default of performance.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

Collateral held for standby letters of credit is based on an individual evaluation of each customer s creditworthiness, but may include cash and securities. Commitments to extend credit and standby letters of credit bear similar credit risk characteristics as outstanding loans.

The Company s commitments to extend credit are illustrated below:

Credit Commitments	June 30, 2009	June 30, 2008
Unfunded loan commitments	$144,214,872	$150,784,540
Standby letters of credit	5,732,853	6,074,834
Guaranteed commitments outstanding	1,324,799	1,357,724
	$151,272,524	$158,217,098

12. Accounting for Income Tax Uncertainties (FIN 48)

In June 2006, the FASB issued Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48), an interpretation of FASB Statement No. 109, Accounting for Income Taxes. FIN 48 clarifies the accounting and reporting for income taxes where interpretation of the law is uncertain. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted this Statement on January 1, 2007. As a result of the implementation of Interpretation 48, it was not necessary for the Company to recognize any increase in the liability for unrecognized tax benefits. Additionally, there were no unrecognized tax liabilities or benefits as of June 30, 2009.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and California state jurisdiction and the Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense.

13. Fair Value Measurement

SFAS No. 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurement. Effective January 1, 2008 the Company adopted SFAS No. 157, which enhances the disclosures about financial instruments carried at fair value.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. The following table presents information about the Company s assets and liabilities measured at fair value on a recurring basis as of June 30, 2009, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
(Dollars in thousands)
Recurring Basis

		Fair Value Measurements At June 30, 2009		
Description	Fair Value June 30, 2009	Quoted Prices in Active Markets For Identical Assets Level (1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	$ 75,480	$ 0	$ 75,480	$ 0
Mortgages held for sale	$ 20,225	$ 20,225	$ 0	$ 0
Total assets measured at fair value	$ 95,705	$ 20,225	$ 75,480	$ 0
Total liabilities measured at fair value	$		$	

The following methods were used to estimate the fair value of each class of financial instrument above:
Securities available-for-sale - Securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions among other things.
Mortgages held for sale Mortgages held for sale represent new prime residential originations, for which an active secondary market and readily available market prices existed to reliably support fair value pricing models used for these loans. Valuation is based upon quoted prices for identical instruments traded in active markets.
Assets and Liabilities Recorded at Fair Value on a Non Recurring Basis
The Company may be required, from time to time, to measure certain assets at fair value on a non recurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a non recurring basis are included in the table below.
(Dollars in thousands)
Non Recurring Basis

Fair Value Measurements At June 30, 2009			
Quoted Prices in Active Markets	Significant Other Observable	Significant Unobservable	Gains

Description	Fair Value June 30, 2009	For Identical Assets Level (1)	Inputs (Level 2)	Inputs (Level 3)	(Losses) During period
Impaired Loans	$ 7,680	$ 0	$ 0	$ 7,680	($1,715)
Total assets measured at fair value	$ 7,680	$ 0	$ 0	$ 7,680	($1,715)
Liabilities	$	$	$	$	$
Total liabilities measured at fair value	$	$	$	$	$

20

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

Impaired loans When available, we use observable market data, including pricing on recent closed market transactions, to value loans. The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with SFAS 114, *Accounting by Creditors for Impairment of a Loan, (*SFAS 114).

The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At June 30, 2009, substantially all of the total impaired loans were collateral dependent and were evaluated based on the fair value of the collateral.

In accordance with SFAS 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Method for determining fair values

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents - The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents are a reasonable estimate of fair value.

Securities - Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Securities available-for-sale are carried at their aggregate fair value, while securities held-to-maturity are carried at amortized cost.

Portfolio loans - For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for fixed rate loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of accrued interest receivable approximates its fair value.

Mortgages held for sale Mortgages held for sale represent new prime residential originations, for which an active secondary market and readily available market prices existed to reliably support fair value pricing models used for these loans. Valuation is based upon quoted prices for identical instruments traded in active markets.

Commitments to extend credit and standby letters of credit - The fair value of commitments is generally only the loan fee.

Federal Home Loan Bank borrowings- The fair value of borrowed funds is based on carrying amounts due to the short term nature of the borrowing.

Junior subordinated debt payable to unconsolidated subsidiary grantor trust The fair value of variable rate junior subordinated debt payable to subsidiary grantor trust is based on carrying amounts.

Deposit liabilities - The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. For variable-rate certificates of deposit that reprice frequently, fair values are based on carrying values. The carrying amount of accrued interest payable approximates its fair value.

Securities sold under agreements to repurchase The fair value of securities purchased under agreements to resell is estimated by discounting the contractual cash flows under outstanding borrowings at rates prevailing in the marketplace today for similar borrowings, rates and collateral.

Limitations - Fair value estimates are made at a specific point in time, based on relevant market information and other information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company s entire holdings of a particular financial instrument.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

Because no market exists for a significant portion of the Company s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors.

These estimates are subjective in nature, involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on current on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial assets or liabilities include deferred tax assets and liabilities, and property, plant and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

The estimated fair values of the Company s financial instruments are approximately as follows:

		June 30, 2009	
	Contract Amount	Carrying Amount	Fair Value
Financial Assets:			
Cash and cash equivalents		$ 79,003	$ 79,003
Securities		75,480	75,480
Portfolio Loans, net		587,637	595,454
Mortgages held for sale		20,225	20,225
Accrued interest on loans		2,527	2,527
Accrued interest on securities		603	603
Financial Liabilities:			
Demand and savings		$ 271,599	$271,599
Fixed rate certificates		292,144	294,179
Variable certificates		3,364	3,364
Accrued interest payable		491	491
Securities sold under agreements to repurchase		10,843	10,843
Federal Home Loan Borrowings		120,000	120,000
Junior subordinated debt payable to unconsolidated subsidiary grantor trust		15,465	15,465
Off balance sheet financial instruments:			
Commitments to extend credit	$144,215		$
Standby letters of credit	5,733		57
Guaranteed commitments outstanding	1,325		13

14. Transfer of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. On April 17, 2009, the Company completed a loan swap transaction accounted for as a transfer of financial assets, which included the purchase of a pool of Individual Tax Identification Number (ITIN) residential mortgage loans with an estimated fair value of $80,671,104. The ITIN portfolio (portfolio) was purchased from a private equity firm in exchange for a combination of approximately $14.0 million in carrying value of certain non-performing loans and cash of approximately $67.0 million. The

non-performing loans were transferred without recourse and were carried at fair value, in accordance with SFAS 114. The transaction was completed under SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Under SFAS 140, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred as proceeds of the transfer, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. SFAS 140 furthers requires that the transferee (the Company) to initially recognize all assets obtained and any liabilities incurred at fair value.

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

The difference between the fair value and carrying value of the assets received is amortized or accreted over the life of the asset as an adjustment to the yield. Additionally, the transferee is to recognize a gain or loss from the transfer in the statement of income as a result of this transfer of financial assets. The Company recorded a gain of $340,000, which is included as a component of non-interest income.

The fair value of the ITIN loan portfolio obtained in the loan swap was determined under SFAS 157, Fair Value Measurements. The current market for ITIN loans is illiquid. Given the lack of level 1 and 2 fair value indications, a level 3 valuation approach was adopted. The Company engaged an independent third party to conduct the level 3 valuation of the portfolio utilizing observable market rates and credit characteristics for similar instruments. In its analysis, the Company used characteristics market participants generally considered factors specific to (a) the asset, (b) the principal (or most advantageous) market for the asset, and (c) market participants with whom the Company would transact in that market. The net estimated discount rate utilized in the discounted cash flow was 7.39% in conjunction with a constant prepayment rate (CPR) of 6.0%. The non-recurring fair value of the portfolio was determined to be 100.37% of par or $80.7 million as of April 17, 2009.

15. Segment Reporting

The Company has two reportable segments: Commercial banking and mortgage brokerage services. The Company conducts a general commercial banking business in the counties of El Dorado, Placer, Shasta, Tehama and Sacramento, California. The principal commercial banking activities include a full array of deposit accounts and related services and commercial lending for businesses, professionals and their interests.

Mortgage brokerage services are performed by Bank of Commerce Mortgage subsidiary. Mortgage brokerage services offers residential real estate loans with ten offices in three different states and licenses in California, Oregon, Idaho and Nevada. Mortgages that are originated are sold, servicing included, in the secondary market or directly to correspondent financial institutions.

The following table represents financial information about the Company s reportable segments:

Income Statement	**Bank**	**Mortgage**	**Parent**	**Intercompany**	**Consolidated**
Interest income:					
Interest and fees on loans	$ 17,166		$ 155		$ 17,321
Interest on tax-exempt securities	576				576
Interest on U.S. government securities	2,146				2,146
Interest on federal funds sold and securities purchased under agreements to resale	30				30
Interest on other securities	248		27	(27)	248
Total interest income	20,165		182	(27)	20,320
Interest expense:					
Interest on demand deposits	546				546
Interest on savings deposits	519				519
Interest on certificates of deposit	3,808			(27)	3,781
Securities sold under agreements to repurchase	25				25
Interest on FHLB and other borrowings	1,117	3			1,120
Interest on junior subordinated debt payable to unconsolidated subsidiary grantor trust			431		431
Total interest expense	6,015	3	431	(27)	6,422

Net interest income	14,150	(3)	(249)	13,898
Provision for loan and lease losses	4,475	6		4,481
Net interest income after provision for loan losses	9,675	(9)	(249)	9,417
Noninterest income:				
Service charges on deposit accounts	188			188
Payroll and benefit processing fees	238			238
Earnings on cash surrender value - Bank owned life insurance	203			203

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

Income Statement (continued)	Bank	Mortgage	Parent	Intercompany	Consolidated
Net gain on sale of loans	340				340
Merchant credit card service income, net	149				149
Mortgage brokerage fee income	8	1,294			1,302
Other income	162				162
Total noninterest income	2,766	1,294			4,060
Noninterest expense:					
Salaries and related benefits	4,148	558	65		4,771
Occupancy and equipment expense	1,215	87			1,302
FDIC insurance premium	574				574
Data processing fees	179				179
Professional service fees	347	43	64		454
Payroll and benefit fees	61				61
Deferred compensation expense	242				242
Stationery and supplies	75	4			79
Postage	67	5			72
Directors expense	140		17		157
Other expenses	735	210	17		664
Total noninterest expense	7,783	907	163		8,853
Income before provision for income taxes	4,658	378	(412)		4,624
Provision for income taxes	1,466	171			1,637
Net Income	3,192	207	(412)		2,987
Less: Net income attributable to non-controlling interest		(101)			(101)
Net Income attributable to Bank of Commerce Holdings	$ 3,192	$ 106	$ (412)		$ 2,886

Dollars in thousands

	Bank	Mortgage	Parent	Intercompany	Consolidated
ASSETS					
Cash and due from banks, non interest bearing	$ 34,515	$ 1,819	$ 372	$ (353)	$ 36,352
Interest bearing due from banks	27,512				27,512
Federal funds sold and securities purchased under agreements to resell	15,140				15,140
Cash and cash equivalents	77,167	1,819	372	(353)	79,004
	75,480				75,480

Securities available-for-sale at fair value (including pledged collateral of $60,678 at June 30, 2009)					
Portfolio loans	596,530		2,903	(3,300)	596,133
Allowance for loan and lease losses	(8,451)	(6)	(39)		(8,496)
Portfolio loans net of allowance	588,079	(6)	2,864	(3,300)	587,637
Mortgages held for sale		20,225			20,225
Bank premises and equipment, net	10,357	229			10,586
Investment in Bank of Commerce Mortgage			2,572	(2,572)	
Investment in Trust			465	(465)	
Investment in Bank			74,862	(74,862)	
Goodwill		3,727			3,727
Other real estate owned	3,229				3,229
Other assets	27,398	168	86	(423)	27,231
TOTAL ASSETS	$ 781,710	$ 26,161	$ 81,221	(81,973)	$ 807,119

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

	Bank	Mortgage	Parent	Intercompany	Consolidated
LIABILITIES AND STOCKHOLDERS EQUITY					
Demand noninterest bearing	71,111			(1,154)	69,957
Demand interest bearing	142,210				142,210
Savings accounts	59,432				59,432
Certificates of deposit	295,508				295,508
Total deposits	568,261			(1,154)	567,107
Securities sold under agreements to repurchase	10,843				10,843
Federal Home Loan Bank and Federal Reserve Bank borrowings	120,000				120,000
Mortgage warehouse lines of credit		20,812		(3,300)	17,512
Other liabilities	7,744	615	1,071	(86)	9,344
Junior subordinated debt payable to unconsolidated subsidiary grantor trust			15,465		15,465
Total Liabilities	706,848	21,427	16,513	(4,540)	740,271
Commitments and contingencies					
Stockholders Equity:					
Preferred stock (liquidation preference of $1,000 per share; issued 2008) 2,000,000 authorized; 17,000 shares issued and outstanding in 2009, and December 31, 2008, none outstanding at June 30, 2008	13,000		16,596	(13,000)	16,596
Common stock , no par value, 50,000,000 shares authorized; 8,711,495 shares issued and outstanding at June 30, 2009	2,341		9,688	(2,341)	9,688
Common Stock Warrant			449		449
Retained earnings	59,491	2,571	37,922	(62,062)	37,922
Accumulated other comprehensive income, net of tax	30		30	(30)	30
Total Equity Bank of Commerce Holdings	74,862	2,571	64,708	(77,433)	64,685
Non controlling interest in subsidiary		2,163			2,163
Total stockholders equity	74,862	4,734	64,708	(77,433)	66,848
	$ 781,710	$ 26,161	$ 81,221	$ (81,973)	$ 807,119

TOTAL LIABILITIES AND
STOCKHOLDERS EQUITY

16. Subsequent Events

The Company has evaluated subsequent events through August 14, 2009, the date the financial statements were issued, and has determined that there were no recognized or non-recognized subsequent events that require recognition or disclosure.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements and Risk Factors

An investment in the Company has risk. The discussion below and elsewhere in this Report and in other documents the Company files with the SEC incorporates various risk factors that could cause the Company s financial results and condition to vary significantly from period to period. Information in the accompanying financial statements contains certain forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. We caution the investor that such statements are subject to risks and uncertainties that could cause actual results to differ materially from those stated. These risks and uncertainties include the Company s ability to maintain or expand its market share and net interest margins, or to implement its marketing and growth strategies. Further, actual results may be affected by the Company s ability to compete on price and other factors with other financial institutions; customer acceptance of new products and services; and general trends in the banking and the regulatory environment, as they relate to the Company s cost of funds and return on assets. The reader is advised that this list of risks is not exhaustive and should not be construed as any prediction by the Company as to which risks would cause actual results to differ materially from those indicated by the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements.

For additional information concerning risks and uncertainties related to the Company and its operations please refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2008 under the heading Risk factors that may affect results. *Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.*

The following sections discuss significant changes and trends in the financial condition, capital resources and liquidity of the Company from December 31, 2008 to June 30, 2009. Also discussed are significant trends and changes in the Company s results of operations for the three and six months ended June 30, 2009, compared to the same period in 2008. The consolidated financial statements and related notes appearing elsewhere in this report are condensed and unaudited. The following discussion and analysis is intended to provide greater detail of the Company s financial condition and results.

Company Overview

Bank of Commerce Holdings (the Holding Company) is a corporation organized under the laws of California and a financial holding company (FHC) registered under the Bank Holding Company Act of 1956, as amended (BHC Act). The Holding Company s principal business is to serve as a holding company for Redding Bank of Commerce , Roseville Bank of Commerce , and Bank of Commerce Mortgage , and for other banking or banking-related subsidiaries which the Holding Company may establish or acquire (collectively the Company). The Holding Company also has two unconsolidated subsidiaries, Bank of Commerce Holdings Trust and Bank of Commerce Holdings Trust II. The Company is listed on the NASDAQ National Market under the trading symbol BOCH (Bank of Commerce Holdings).

The Bank was incorporated as a California banking corporation on November 25, 1981, and received its certificate of authority to begin banking operations on October 22, 1982. The Bank operates four full service facilities in three diverse markets in Northern California. Bank of Commerce is proud of its reputation as Northern California s premier bank for business. During 2007, the Company re-branded Bank of Commerce| *Bank of Choice* reflecting a renewed commitment to making Bank of Commerce the *bank of choice* for local businesses with a fresh focus on family and personal finances.

The Company will regularly explore opportunities to acquire financial services companies and businesses. Public announcements about an acquisition opportunity are not made until a definitive agreement has been signed. In the second quarter 2009, the Company entered into a stock purchase agreement with Simonich Corporation d.b.a. BWC Mortgage Services to acquire 51% of the capital stock of Simonich Corporation. Simonich Corporation d.b.a. BWC Mortgage Services is a successful state of the art mortgage broker of residential real estate loans with ten offices in three different states and licenses in California, Oregon, Idaho and Nevada. The business was formed in 1993 and the

corporate offices are located in San Ramon, California. The business funds over $1.0 billion of first mortgages per year. The Corporate offices are located in San Ramon, California.

The agreement allows the Company to penetrate into the Mortgage Brokerage Services market at our current retail locations and to share in the income on mortgage transactions nationwide. On July 1, 2009 the company changed its name to Bank of Commerce Mortgage.

26

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The Company will provide free of charge upon request, or through links to publicly available filings accessed through its Internet website, the Company s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, if any, as soon as reasonably practical after such reports have been filed with the Securities and Exchange Commission. The Internet addresses of the Company are www.bankofcommerceholdings.com, www.reddingbankofcommerce.com, www.rosevillebankofcommerce.com, and www.bankofcommercemortgage.com. Reports may also be obtained through the Securities and Exchange Commission s website at www.sec.gov.

The Holding Company s principal source of income is dividends from its subsidiaries. The Holding Company conducts its corporate business operations at the administrative office of the Bank located at 1901 Churn Creek Road, Redding, California. The Company conducts its business operations in two geographic market areas, Redding and Roseville, California. The Company considers Northern California to be the major market area of the Bank.

The Bank is principally supervised and regulated by the California Department of Financial Institutions (DFI) and the Federal Deposit Insurance Corporation (FDIC), and conducts a general commercial banking business in the counties of El Dorado, Placer, Shasta, and Sacramento, California. Through the Bank and mortgage subsidiaries, the Company provides a wide range of financial services and products for business and consumer banking. The services offered by the Bank include those traditionally offered by banks of similar size and character in California. Products such as free checking, interest-bearing checking (NOW) and savings accounts, money market deposit accounts, sweep arrangements, commercial, construction, term loans, travelers checks, safe deposit boxes, collection services and electronic banking activities. The Bank is an affiliate of LPL Financial and offers wealth management services through the affiliation.

The services offered by the Mortgage Company include brokerage mortgages for single and multi-family residential new financing, refinancing and equity lines of credit which are then sold, servicing included, on the secondary market or to correspondent relationships.

Most of the Bank s customers are small to medium sized businesses, professionals and other individuals with medium to high net worth, and most of the Bank s deposits are obtained from such customers. The primary business strategy of the Bank is to focus on its lending activities. The Bank s principal lines of lending are (i) commercial, (ii) real estate construction and (iii) commercial real estate.

The majority of the loans of the Bank are direct loans made to individuals and small businesses in the major market area of the Bank. The Mortgage Company provides residential real estate new financing, refinancing and equity lines of credit, 100% sold in the secondary market. A relatively small portion of the loan portfolio of the Bank consists of loans to individuals for personal, family or household purposes. The Bank accepts the following as collateral for loans: real estate, listed and unlisted securities, savings and time deposits, automobiles, machinery and equipment and other general business assets such as accounts receivable and inventory.

The commercial loan portfolio of the Bank consists of a mix of revolving credit facilities and intermediate term loans. The loans are generally made for working capital, asset acquisition, business-expansion purposes, and are generally secured by a lien on the borrowers assets. The Bank also makes unsecured loans to borrowers who meet the Bank s underwriting criteria for such loans. The Bank manages its commercial loan portfolio by monitoring its borrowers payment performance and their respective financial condition, and makes periodic and appropriate adjustments, if necessary, to the risk grade assigned to each loan in the portfolio. The primary sources of repayment of the commercial loans of the Bank are the borrower s conversion of short-term assets to cash and operating cash flow. The net assets of the borrower or guarantor and/or the liquidation of collateral are usually identified as a secondary source of repayment.

On April 17, 2009, the Company completed a Loan Swap transaction which included the purchase of a portfolio of Individual Tax Identification Number (ITIN) residential mortgage loans with a fair value of $80.6 million. The mortgage loan industry has long been able to adapt to changing market conditions. As immigrants begin to comprise a larger and larger portion of our population, the lending industry has begun to introduce loans that are tailored to an immigrant population that may not have solid credit histories or social security numbers. ITIN loans are offered to

immigrants that do not have a social security number. The process of obtaining an ITIN is somewhat more complicated than that of applying for a conventional mortgage. As a result, the usual underwriting required in issuing such a loan is more complicated and more time consuming than a conventional mortgage. For this reason, fees and interest rates tend to be higher than for other types of conventional mortgage loans.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The ITIN portfolio was purchased from a private equity firm in exchange for a combination of approximately $14.0 million in non-performing loans and cash of approximately $67.0 million. The non-performing loans were carried at fair value and were transferred without recourse. At the settlement date, the mortgage loan pool contained 859 single family residential mortgages with an average principle balance of approximately $96,596, a weighted average credit score of 647, a weighted average loan to value ratio of 89%, a weighted average yield of 7.44% and all loans were full documentation. The ITIN mortgage pool is geographically disbursed through out the United States.

The principal factors affecting the Bank s risk of loss from commercial lending include each borrower s ability to manage its business affairs and cash flows, local and general economic conditions and real estate values on a national level. The Bank manages risk through its underwriting criteria, which includes strategies to match the borrower s cash flow to loan repayment terms, and periodic evaluations of the borrower s operations. The Bank s evaluations of its borrowers are facilitated by management s knowledge of local market conditions and periodic reviews by a consultant of the credit administration policies of the Bank.

The real estate construction loan portfolio of the Bank consists of a mix of commercial and residential construction loans, which are principally secured by the underlying projects. The real estate construction loans of the Bank are predominately made for projects, which are intended to be owner occupied. The Bank also makes real estate construction loans for speculative projects. The principal sources of repayment of the Bank s construction loans are sale of the underlying collateral or permanent financing provided by the Bank or another lending source. The principal risks associated with real estate construction lending include project cost overruns that absorb the borrower s equity in the project and deterioration of real estate values as a result of various factors, including competitive pressures and economic downturns.

The Bank manages its credit risk associated with real estate construction lending by establishing maximum loan-to-value ratios on projects on an as-completed basis, inspecting project status in advance of controlled disbursements and matching maturities with expected completion dates. Generally, the Bank requires a loan-to-value ratio of no more than 80% on single-family residential construction loans.

The commercial and construction loan portfolio of the Bank consists of loans secured by a variety of commercial and residential real property. The Mortgage Company makes real estate mortgage loans for both owner-occupied properties and investor properties. The Mortgage Company brokers and sells the residential real estate loans directly in the secondary market, servicing included. The Bank does not provide for warehouse funding.

The specific underwriting standards of the Bank and methods for each of its principal lines of lending include industry-accepted analysis and modeling, and certain proprietary techniques. The Bank s underwriting criteria is designed to comply with applicable regulatory guidelines, including required loan-to-value ratios. The credit administration policies of the Bank contain mandatory lien position and debt service coverage requirements, and the Bank generally requires a guarantee from the owners of its private corporate borrowers.

The Company continuously searches for expansion possibilities, through internal growth, strategic alliances, acquisitions or new office and product opportunities. Systematically, the Company will reevaluate the short and long-term profitability of all lines of business, and will not hesitate to reduce or eliminate unprofitable locations or lines of business. The Company remains a viable, independent bank by enhancing stockholder value. This has been realized by proactive management and commitment to staff, customers, and the markets served.

Risk Factors

Economic Conditions and Geographic Concentration

An economic slowdown could reduce demand for the Company s products and services and lead to lower revenues and lower earnings. A change in the national economic and business conditions may adversely affect the ability of our borrowers to repay their loans, causing us to incur higher credit losses. The Company earns revenue from interest and fees charged on loans and financial services. When the economy slows, the demand for these products and services may fall, reducing our interest and fee income, and our earnings. In addition, during periods of economic slowdown or recession, the Bank may experience a decline in collateral values and an increase in delinquencies and defaults due to the borrower s ability to repay their loans. Several factors could cause the economy to slow down or even recede,

including higher energy costs, higher interest rates, reduced consumer or corporate spending, a slowdown in housing, natural disasters, terrorist activities, military conflicts, and the normal cyclical nature of the economy.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The Company s primary lending focus has historically been commercial real estate, commercial lending and, to a lesser extent, construction lending. At June 30, 2009, all of the Company s real estate mortgage, real estate construction loans, and commercial real estate loans, were secured fully or in part by deeds of trust on underlying real estate. The Company s dependence on real estate increases the risk of loss in the loan portfolio of the Company and its holdings of other real estate owned if economic conditions in the nation deteriorate in the future. Deterioration of the national real estate market has had an adverse effect on the Company s business, financial condition and results of operations.

Current financial and credit market conditions may persist or worsen, making it more difficult to access capital markets on favorable terms

Over the last year financial and credit markets have experienced unprecedented disruption and volatility. These conditions may continue or even worsen, affecting the Company s ability to access capital markets on favorable terms. We may raise additional capital through the issuance of common stock, which could dilute existing stockholders, or reduce or eliminate our common stock dividend to preserve capital or in order to raise additional capital.

Valuation of Investments and Impairment of Securities

Invested assets are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain invested assets and the level of uncertainty related to changes in the fair value of these assets, it is possible that changes in risks in the near term could have an adverse material impact on our results of operations or equity.

Our investment portfolio is subject to market declines below amortized cost that may be other-than-temporary. A significant judgment in the valuation of investments is the determination of when an other-than-temporary impairment has occurred. The ALCO Committee reviews the investment portfolio on at least a quarterly basis, with ongoing analysis as new information becomes available. Any decline that is determined to be other-than-temporary is recorded as an other-than-temporary impairment (OTTI).

When an investment is impaired, we assess whether to sell the security, or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses. For debt securities, that are considered other than temporarily impaired and that we do not intend to sell and will not be required to sell prior to recovery of our amortized cost basis, we separate the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is calculated as the difference between the investment s amortized cost basis and the present value of its expected future cash flows. The remaining difference between the investment s fair value and the present value of future expected cash flows is deemed to be due to factors that are not credit related and is recognized in other comprehensive income. Significant judgment is required in the determination of whether an OTTI has occurred for an investment. The Company follows a consistent and systematic process for determining and recording an OTTI loss. The Company has designated the ALCO Committee responsible for the OTTI process. The ALCO Committee s assessment of whether an OTTI loss should be recognized incorporates both quantitative and qualitative information.

Significant judgment is required in the determination of whether an OTTI has occurred for an investment. The Company follows a consistent and systematic process for determining and recording an OTTI loss. The Company has designated the ALCO Committee responsible for the OTTI process.

The ALCO Committee s assessment of whether an OTTI loss should be recognized incorporates both quantitative and qualitative information. The ALCO Committee considers a number of factors including, but not limited to: (a) the length of time and the extent to which the fair value has been less than amortized cost, (b) the financial condition and near term prospects of the issuer, (c) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for an anticipated recovery in value, (d) whether the debtor is current on interest and principal payments and (e) general market conditions and industry or sector specific outlook.

Changes in Interest Rates could reduce the Company s Net Interest Income and Earnings

The Company s net interest income is the interest earned on loans, debt securities and other assets less the interest paid on deposits, long-term and short-term debt and other liabilities. Net interest income reflects both our net interest margin the difference between the yield on earning assets and the interest paid on deposits and other sources of funding and the amount (volume) of earning assets we hold. As a result, changes in either the net interest margin or the volume of earning assets could adversely affect our net interest income and earnings.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Changes in interest rates, up or down, could adversely affect the net interest margin. The yield we earn on our deposits and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other (timing differences). A significant portion of the Company s assets are tied to variable rate pricing and the Company is considered to be asset sensitive. As a result, the Company is generally adversely affected by declining interest rates. In addition, changes in monetary policy, including changes in interest rates, influence the origination of loans, the purchase of investments and the generation of deposits, thereby affecting the rates received on loans and securities and paid on deposits, which could have a material adverse effect on the Company s business, financial condition and results of operations. See Quantitative and Qualitative Disclosure about Market Risk.

Changes in the slope of the yield-curve , or the spread between short-term and long-term interest rates could also reduce our net interest margin. Normally, the yield curve is upward sloping, meaning that short-term rates are lower than long-term rates. Because our liabilities tend to be shorter in duration than our assets, when the yield curve flattens or even inverts, the Company will experience pressure on the net interest margin as the cost of funds increases relative to the yield that can be earned on assets.

The Company assesses interest rate risk by estimating the effect on earnings in various scenarios that differ based on assumptions about the direction, magnitude and speed of interest rate changes and the slope of the yield curve. The Company may hedge some interest rate risk with interest rate derivatives. The Company does not hedge all of its interest rate risk. There is risk that changes in interest rates could reduce our net interest income and earnings in material amounts, especially if actual conditions turn out to be materially different that the assumptions used in the model. One example: If interest rates rise or fall faster than assumed or the slope of the yield curve changes, the Company may incur losses on debt securities held as investments.

To reduce the interest rate risk, the Company may choose to rebalance the investment and loan portfolio, refinance debt outstanding or take other strategic actions. The Company may incur losses or expenses when taking such actions.

Lending Risks Associated with Commercial Banking and Construction Activities

The business strategy of the Company is to focus on commercial, single family and multi-family real estate loans, construction loans and commercial business loans. Loans secured by commercial real estate are generally larger and involve a greater degree of credit and transaction risk than residential mortgage (one-to-four family) loans. Because payments on loans secured by commercial and multi-family real estate properties are often dependent on successful operation or management of the underlying properties, repayment of such loans may be subject to a greater extent to the then prevailing conditions in the real estate market or the economy. Moreover, real estate construction financing is generally considered to involve a higher degree of credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property s value at completion of construction or development compared to the estimated cost (including interest) of construction. If the estimate of value proves to be inaccurate, the Company may be confronted with a project which, when completed, has a value which is insufficient to assure full repayment of the construction loan. Although the Company manages lending risks through its underwriting and credit administration policies, no assurance can be given that such risks would not materialize, in which event the Company s financial condition, results of operations, cash flows and business prospects could be materially adversely affected.

Adequacy of Allowance for Loan and Lease Losses (ALLL)

Higher credit losses could require the Company to increase the allowance for loan and lease losses through a charge to earnings. When the Company loans money or commits to loan money it incurs credit risk or the risk of losses if our borrowers do not repay their loans. The Company provides a reserve for credit risk by establishing an allowance through a charge to earnings. The amount of the allowance is based on an assessment of credit losses inherent in the loan portfolio (including unfunded credit commitments). The process for determining the amount of the allowance is critical to our financial results and condition. It requires difficult, subjective and complex judgments about the future, including forecasts of economic or market conditions that might impair our borrower s ability to repay their loans. The Company might increase the allowance because of changing economic conditions or unexpected events. The Company s allowance for loan and lease losses was approximately $8.5 million, or 1.43% of total portfolio loans at

June 30, 2009.

Potential Volatility of Deposits

The Bank s depositors could choose to take their money out of the bank and put it into alternative investments, causing an increase in funding costs and reducing net interest income. Checking, savings and money market account balances can decrease when customers perceive that alternative investments, such as the stock market, as providing a better risk/return tradeoff. When customers move funds out of bank deposits into other investments, the Bank will lose a relatively low cost source of funds, increasing funding costs.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

At June 30, 2009, time certificates of deposit in excess of $100,000 represented approximately 30% of the dollar value of the total deposits of the Company. As such, these deposits are considered volatile and could be subject to withdrawal. Withdrawal of a material amount of such deposits could adversely affect the liquidity of the Company, profitability, business prospects, results of operations and cash flows. The Company monitors activity of volatile liability deposits on a quarterly basis.

Dividends

Bank of Commerce Holdings, the parent holding company, is a separate and distinct legal entity from its subsidiaries. The Company conducts no other significant activity than the management of its investment in the Bank and Mortgage Company and as such, the Company is dependent on these subsidiaries for income. The ability of the Bank and Mortgage Company to pay cash dividends in the future depends on the profitability, growth and capital needs of the Bank and Mortgage Company.

Prior to November 14, 2011, unless the Company has redeemed the Series A Preferred Stock or the Treasury Department has transferred the Series A Preferred Stock to a third party, the consent of the Treasury Department will be required for the Company to (1) declare or pay any dividend or make any distribution on our common stock (other than regular quarterly cash dividends of not more than $0.08 per share of common stock) or (2) redeem, purchase or acquire any shares of the Company s common stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the Securities Purchase Agreement.

Dividends paid from the Bank and the Mortgage Company are used to pay dividends on common stock and interest and principal on debt. In addition, the California Financial Code restricts the ability of the Bank to pay dividends. No assurance can be given that the Company or the Bank will pay any dividends in the future or, if paid, such dividends will not be discontinued. Dividends from the Bank to the Holding Company are restricted under California law to the lesser of the Bank s retained earnings or the Bank s net income for the latest three fiscal years, less dividends previously declared during that period, or, with the approval of California Superintendent of Banks, to the greater of the retained earnings of the Bank, the net income of the Bank for its last fiscal year, or the net income of the Bank for its current fiscal year.

Participation in the Treasury Department s Capital Purchase Program restricts our ability to raise the common stock dividend and may result in dilution of common stockholders

The U.S. government has taken action to restore liquidity and stability to financial and credit markets, including the enactment of the Emergency Economic Stabilization Act of 2008 (EESA) and the Troubled Asset Relief Program (TARP). As part of TARP, the Treasury Department implemented the Capital Purchase Program (CPP) to purchase senior preferred stock from qualifying financial institutions including Bank of Commerce Holdings. On November 14, 2008, we issued preferred securities and a common stock purchase warrant to the Treasury Department under the CPP. Prior to November 14, 2011, unless the Company has redeemed the preferred securities or the Treasury Department has transferred the securities to a third party, the Treasury Department s consent will be required for us to increase our common stock dividend or repurchase our common stock other than in connection with benefit plans consistent with past practice.

Under the anti-dilution provisions included in the terms of the department s CPP investment, the per share exercise price of the warrant and the number of shares of our common stock issuable upon exercise of the warrant will be adjusted upon certain issuances of our common stock at or below a specified price relative to the initial exercise price. The exercise of the common stock purchase warrant could result in material dilution to existing common stockholders. As a condition to an additional CPP investment, the Company could be required to eliminate our common stock dividend.

As a participant in the CPP our business activities and corporate governance may be subject to additional restrictions and requirements, including requirements for lending activities and restrictions on compensation, some possibly with retroactive application, adopted by Congress, the Treasury Department or government agencies.

Changes in Accounting Policies or Accounting Standards, and Changes in How Accounting Standards are interpreted or applied, Could Materially Affect How the Company Reports its Financial Results and Condition

The Company s accounting policies are fundamental to understanding our financial results and condition. Some of these policies require use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Three of our accounting policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amount would be reported under different conditions or using different assumptions (refer to *Critical Accounting Policies).*

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

From time to time the Financial Accounting Standards Board (FASB) and the SEC change the financial accounting and reporting standards that govern the preparation of financial statements. In addition, accounting standard setters and those who interpret the accounting standards (such as the FASB, SEC, banking regulators and outside auditors) may change or even reverse their previous interpretations or positions on how these standards should be applied. Changes in financial accounting and reporting standards and changes in current interpretations may be beyond the Company s control, can be hard to predict and could materially impact how we report our financial results and condition. The Company could be required to apply a new or revised standard retroactively or apply an existing standard differently, also retroactively, in each case resulting in restating prior period financial statements.

Government Regulation and Legislation

The Company and the Bank are subject to extensive state and federal regulation, supervision and legislation, which govern almost all aspects of the operations of the Company and the Bank. The business of the Company is particularly susceptible to being affected by the enactment of federal and state legislation which may have the effect of increasing or decreasing the cost of doing business, modifying permissible activities or enhancing the competitive position of other financial institutions. Such laws are subject to change from time to time and are primarily intended for the protection of consumers, depositors and the deposit insurance funds and not for the protection of shareholders of the Company. The Company cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on the business and prospects of the Company, but it could be material and adverse.

Recent high-profile events have resulted in additional regulations. For example, Sarbanes-Oxley limits the types of non-audit services our outside auditors may provide to the Company in order to preserve the independence of our auditors. If our auditors were found not to be independent under SEC rules, we could be required to engage new auditors and file new financial statements and audit reports with the SEC.

The Patriot Act which was enacted in the wake of the September 2001 terrorist attacks, requires the Company to implement new or revised policies and procedures related to anti-money laundering, compliance, suspicious activities, currency transaction reports and due diligence on customers. The Patriot Act also requires federal bank regulators to evaluate the effectiveness of an applicant in combating money laundering in determining whether to approve a proposed bank acquisition.

The American Recovery and Reinvestment Act of 2009 includes extensive new restrictions on the Company s ability to pay retention awards, bonuses and other incentive compensation during the period in which the Company has any outstanding obligation arising from financial assistance provided to the Company under the TARP. Many of the restrictions are not limited to senior executives and cover other employees whose contributions to revenue and performance can be significant. The limitations may adversely affect the Company s ability to recruit and retain key employees.

As long as the preferred stock issued to the U.S. Treasury is outstanding, dividend payments and repurchases or redemptions relating to our common stock are prohibited until all accrued and unpaid dividends are paid on that preferred stock, subject to certain exceptions. In addition, until the U.S. Treasury ceases to own any of our securities sold under the TARP Capital Purchase Program, the compensation arrangements for the Company s senior executive officers must comply with the U.S. Emergency Economic Stabilization Act of 2008 (EESA) and the rules and regulations thereunder. EESA requires the following provisions with respect to our Chief Executive Officer: limits on compensation to exclude incentives to take unnecessary and excessive risks; a claw-back with respect to incentive compensation based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; and a prohibition on golden parachute payments. EESA also limits the deductibility of compensation earned by our senior executive officers to $500,000 per year.

The American Recovery and Reinvestment Act of 2009 (Stimulus Act), which was signed into law on February 17, 2009, imposes extensive new restrictions on participants in the TARP Capital Purchase Program. The new restrictions include additional limits on executive compensation such as prohibiting the payment or accrual of any bonus, retention award or incentive compensation to the Company s Chief Executive Officer except for the payment of

long-term restricted stock; prohibiting any compensation plan that would encourage the manipulation of earnings; and extending the claw-back required by EESA to the top 5 most highly compensated employees. The Stimulus Act also requires compliance with new corporate governance standards including an annual say on pay shareholder vote, the adoption of policies regarding excessive or luxury expenditures, and a certification by our Chief Executive Officer and Chief Financial Officer that we have complied with the standards in the Stimulus Act. The full impact of the Stimulus Act is not yet certain because it calls for additional regulatory action. The Company will continue to monitor the effect of the Stimulus Act and the anticipated regulations.

From time to time, Congress considers legislation that could significantly change our regulatory environment, potentially increasing the cost of doing business, limiting activities or affecting the competitive balance among banks, savings associations, credit unions and other financial institutions.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Certain Ownership Restrictions under California and Federal Law

Federal law prohibits a person or group of persons acting in concert from acquiring control of a bank holding company unless the FRB has been given 60 days prior written notice of such proposed acquisition and within that time period the FRB has not issued a notice disapproving the proposed acquisition or extending for up to another 30 days, the period during which such a disapproval may be issued. An acquisition may be made before the expiration of the disapproval period if the FRB issues written notice of its intent not to disapprove the action.

Under a rebuttal presumption established by the FRB, the acquisition of more than 10% of a class of voting stock of a bank with a class of securities registered under Section 12 of the Exchange Act (such as the common stock), would, under the circumstances set forth in the presumption, constitute the acquisition of control. In addition, any company would be required to obtain the approval of the FRB under the BHCA, before acquiring 25% (5% in the case of an acquirer that is, or is deemed to be, a bank holding company) or more of the outstanding shares of the Company s common stock, or such lesser number of shares as constitute control. See Regulation and Supervision of Bank Holding Companies in the Company s 2008 Annual Report on Form 10-K.

Under the California Financial Code, no person shall, directly or indirectly, acquire control of a California licensed bank or a bank holding company unless the Commissioner has approved such acquisition of control. A person would be deemed to have acquired control of the Company and the Bank under this state law if such person, directly or indirectly, has the power (i) to vote 25% or more of the voting power of the Company or (ii) to direct or cause the direction of the management and policies of the Company. For purposes of this law, a person who directly or indirectly owns or controls 10% or more of the common stock would be presumed to direct or cause the direction of the management and policies of the Company and thereby control the Company.

Negative Publicity could Damage our Reputation

Reputation risk, or the risk to the Company s earnings and capital from negative public opinion, is inherent in the financial services business. Negative public opinion could adversely affect our ability to keep and attract customers and expose us to adverse legal and regulatory consequences. Negative public opinion could result from actual or alleged conduct in any number of activities, including lending practices, corporate governance, acquisitions, and from actions taken by government regulators and community organizations in response to that conduct.

Environmental Risks

The Company, in its ordinary course of business, acquires real property securing loans that are in default, and there is a risk that hazardous substance or waste, contaminants or pollutants could exist on such properties. The Company may be required to remove or remediate such substances from the affected properties at its expense, and the cost of such removal or remediation may substantially exceed the value of the affected properties or the loans secured by such properties. Furthermore, the Company may not have adequate remedies against the prior owners or other responsible parties to recover its costs. Finally, the Company may find it difficult or impossible to sell the affected properties either before or following any such removal. In addition, the Company may be considered liable for environmental liabilities concerning its borrowers properties, if, among other things, it participates in the management of its borrowers operations. The occurrence of such an event could have a material adverse effect on the Company s business, financial condition, results of operations and cash flows.

Shares Eligible for Future Sale

As of June 30, 2009, the Company had 8,711,495 shares of Common Stock outstanding, of which 6,409,494 shares are eligible for sale in the public market without restriction and 2,302,001 shares are eligible for sale in the public market pursuant to Rule 144 under the Securities Act of 1933, as amended (the Securities Act). Future sales of substantial amounts of the Company s common stock, or the perception that such sales could occur, could have a material adverse effect on the market price of the common stock. In addition, options to acquire 687,485 shares of the issued and outstanding shares of common stock at exercise prices ranging from $5.00 to $11.59 have been issued to directors and certain employees of the Company under the Company s 1998 Stock Option Plan. No prediction can be made as to the effect, if any, that future sales of shares, or the availability of shares for future sale, will have on the market price of the Company s common stock.

33

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Technology and Computer Systems

Advances and changes in technology can significantly affect the business and operations of the Company. The Company faces many challenges including the increased demand for providing computer access to bank accounts and the systems to perform banking transactions electronically. The Company s ability to compete depends on its ability to continue to adapt its technology on a timely and cost-effective basis to meet these requirements. In addition, the Company s business and operations are susceptible to negative impacts from computer system failures, communication and energy disruption and unethical individuals with the technological ability to cause disruptions or failures of the Company s data processing systems.

Company Stock Price may be volatile due to Other Factors

The Company s stock price can fluctuate widely in response to a variety of factors, in addition to those described above, including:

General business and economic conditions;

Recommendations by securities analysts;

New technologies introduced or services offered by our competitors;

News reports relating to trends, concerns and other issues in the financial services industry;

Natural disasters; and

Geopolitical conditions, such as acts or threats of terrorism or military conflicts.

Mortgage banking interest rate and market risk

Changes in interest rates greatly affect the mortgage banking business. Our mortgage subsidiary originates, funds and services mortgage loans, which subjects the Company to various risks, including credit, liquidity and interest rate risks. Based on market conditions and other factors, the Company reduces unwanted credit and liquidity risks by selling some or all of the long-term fixed-rate mortgage loans and adjustable rate mortgages originated. Notwithstanding the continued downturn in the housing sector, and the continued lack of liquidity in the nonconforming secondary markets, the subsidiary mortgage banking revenue continued to be positive. Interest rate and market risk can be substantial in the mortgage business. Changes in interest rates may potentially impact total origination fees.

Interest rates impact the amount and timing of origination because consumer demand for new mortgages and the level of refinancing activity are sensitive to changes in mortgage interest rates. Typically, a decline in mortgage interest rates will lead to an increase in mortgage originations and fees. Given the time it takes for consumer behavior to fully react to interest rate changes, as well as the time required for processing a new application, providing the commitment, and selling the loan, interest rate changes will impact origination fees with a lag. The amount and timing of the impact on origination fees will depend on the magnitude, speed and duration of the change in interest rates. A decline in interest rates generally increases the propensity for refinancing.

As part of subsidiary mortgage banking activities, we enter into commitments to fund residential mortgage loans at specified times in the future. A mortgage loan commitment is an interest rate lock that binds us to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock. Outstanding loan commitments expose the Company to the risk that the price of the mortgage loans underlying the commitments might decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan.

Mortgage banking revenue can be volatile from quarter to quarter

The Company earns revenue from fees for originating mortgage loans. When rates rise, the demand for mortgage loans tends to fall, reducing the revenue from loan originations. It is also possible that, because of the recession and

deteriorating housing market, even if interest rates were to fall, mortgage originations may also fall.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Executive Overview

Bank of Commerce Holdings is a financial services company providing banking, investments, mortgage banking, consumer banking, the internet and other distribution channels to our markets. Our Company was established to make a profitable return while serving the financial needs of the communities of our markets. We are in the financial services business, and no line of financial services is beyond our charter as long as it serves the needs of businesses and professionals in our communities. The mission of our Company is to provide its stockholders with a safe, profitable return on their investment, over the long term. Management will attempt to minimize risk to our stockholders by making prudent business decisions, will maintain adequate levels of capital and reserves, and will maintain effective communications with stockholders. Our Company s most valuable asset is its customers. We will consider their needs first when we design our products and services. The *high-quality* customer experience is an important mission of our Company, and how well we accomplish this mission will have a direct influence on our profitability.

Our vision is to embrace changes in the industry and develop profitable business strategies that allow us to maintain our customer relationships and build new ones. Our competitors are no longer just banks. We must compete with financial powerhouses that want our core business. The flexibility provided by the Financial Holding Company Act will become increasingly important. We have developed strategic plans that evaluate additional financial services and products that can be delivered to our customers efficiently and profitably. Producing quality returns is, as always, a top priority.

The Company s long term success rests on the shoulders of the leadership team to effectively work to enhance the performance of the Company. As a financial services company, we are in the business of taking risk. Whether we are successful depends largely upon whether we take the right risks and get paid appropriately for the risks we take. Our governance structure enables us to manage all major aspects of the Company s business effectively through an integrated process that includes financial, strategic, risk and leadership planning.

We define risks to include not only credit, market and liquidity risk the traditional concerns for financial institutions but also operational risks, including risks related to systems, processes or external events, as well as legal, regulatory and reputation risks.

Our management processes, structures and policies help to ensure compliance with laws and regulations and provide clear lines for decision-making and accountability. Results are important, but equally important is how we achieve those results. Our core values and commitment to high ethical standards is material to sustaining public trust and confidence in our Company. For additional information concerning risks and uncertainties related to the Company and its operations please refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2008, under the heading Risk Management .

Sources of Income

The Company has two reportable segments: Commercial banking and mortgage brokerage services. The Company conducts a general commercial banking business in the counties of El Dorado, Placer, Shasta, Tehama and Sacramento, California. The principal commercial banking activities include a full array of deposit accounts and related services and commercial lending for businesses, professionals and their interests.

The Company derives its commercial banking income from two principal sources: (i) net interest income, which is the difference between the interest income it receives on interest-earning assets and the interest expense it pays on interest-bearing liabilities, and (ii) fee income, which includes fees earned on deposit services, income from SBA lending, electronic-based cash management services, mortgage brokerage fee income and merchant credit card processing services. The income of the Bank depends to a great extent on net interest income. These interest rate factors are highly sensitive to many factors, which are beyond the Company s control, including general economic conditions, inflation, recession, and the policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board. Because of the Bank s predisposition to variable rate pricing and non-interest bearing demand deposit accounts, the Bank is considered asset sensitive. As a result, the Company is adversely affected by declining interest rates.

Mortgage brokerage services are performed by Bank of Commerce Mortgage subsidiary. Mortgage brokerage services offers residential real estate loans with ten offices in three different states and licenses in California, Oregon, Idaho and Nevada. Mortgages that are originated are sold, servicing included, in the secondary market or directly to correspondent financial institutions. The Company derives fee income from its mortgage brokerage services.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Key Performance Ratios	June 30, 2009	June 30, 2008
Profitability Ratios		
Net Interest Income to Average Assets	3.53%	3.22%
Net Income to Average Equity	8.85%	9.05%
Efficiency Ratio[1]	49.30%	61.09%
Capital Ratios		
Leverage Ratio	9.71%	8.81%
Risk Based Capital	$ 82,943,177	$ 62,725,450
Tier 1 Capital	11.57%	9.75%
Total Capital	12.82%	10.67%
Per Common Share Data		
Dividend Payout Ratio	16.33%	65.40%
Book Value	$ 7.67	$ 5.28
Market Price	$ 5.70	$ 6.96
High	$ 6.00	$ 11.64
Low	$ 5.53	$ 6.00

Financial Highlights Results of Operations

Balance Sheet

Our Company believes that 2009 and beyond may be redefining the financial services industry. During 2009 and 2008, the focus of the Company has been on strengthening the balance sheet, by providing appropriate reserves, strong capital, and significant liquidity. Our strength and security continue to compare favorably with our industry peers.

Our balance sheet increased by $32.9 million or 4.3% over the year end 2008, and $160.5 million or 24.8% over the same period a year ago. During the second quarter 2009, the Company entered into a stock purchase agreement with Simonich Corporation d.b.a. BWC Mortgage Services to acquire 51% of the capital stock of Simonich Corporation. Simonich Corporation d.b.a. BWC Mortgage Services is a successful state of the art mortgage broker of residential real estate loans with ten offices in three different states and licenses in California, Oregon, Idaho and Nevada. The business was formed in 1993 and the corporate offices are located in San Ramon, California. The business funds over $1.0 billion of first mortgages per year. The Corporate offices are located in San Ramon, California.

The agreement was dated May 15, 2009. The total consideration paid by the Company was $2.5 million, with $1.5 million paid at closing and the additional $1.0 million to be earned-out over a period of three years based upon delivering an established level of profits. In return for consideration paid, the Company recorded assets of $14.8 million and goodwill of $3.7 million. The agreement allows the Company to enter into Mortgage Brokerage Services through our retail outlets and to share in the income on transactions produced from other locations. Effective July 1, 2009 the Company changed its name to Bank of Commerce Mortgage . At June 30, 2009 the Company had no pending business combinations.

The loan portfolio, the single largest asset class of the Company grew by $72.0 million over year-end 2008 and $83.2 million over the same period a year ago. On April 17, 2009, the Company completed a Loan Swap transaction which included the purchase of a portfolio of Individual Tax Identification Number (ITIN) residential mortgage loans with a fair value of $80.6 million. The mortgage loan industry has long been able to adapt to changing market conditions. As immigrants begin to comprise a larger and larger portion of our population, the lending industry has begun to introduce loans that are tailored to an immigrant population that may not have solid credit histories or social security numbers. ITIN loans are offered to immigrants that do not have a social security number. The process of

obtaining an ITIN is somewhat more complicated than that of applying for a conventional mortgage. As a result, the usual underwriting required in issuing such a loan is more complicated and more time consuming than a conventional mortgage. For this reason, fees and interest rates tend to be higher than for other types of conventional mortgage loans.

[1] The efficiency ratio is calculated by dividing non-interest expense by the sum of net interest income and noninterest income. The efficiency ratio measures how the Company spends in order to generate each dollar of net revenue.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The ITIN portfolio was purchased from a private equity firm in exchange for a combination of approximately $14.0 million in non-performing loans and cash of approximately $67.0 million. The non-performing loans were carried at fair value and were transferred without recourse. At the settlement date, the mortgage loan pool contained 859 single family residential mortgages with an average principle balance of approximately $96,596, a weighted average credit score of 647, a weighted average loan to value ratio of 89%, a weighted average yield of 7.44% and all loans were full documentation. The ITIN mortgage pool is geographically disbursed through out the United States.

The Company s primary funding source, deposits, reflected increases of $11.8 million from year-end 2008 and $98.7 million year-over-year. The deposit growth was centered in time deposits; time deposits increased by $31.2 million or 12% since year-end 2008 and $77.2 million or 35% year-over-year. Management primarily attributes deposit growth to the current economic environment and our customers concern with alternative investments such as stocks and bonds. Therefore, it is possible that with an economic recovery, our customers could migrate back into these other asset classes.

Management has taken aggressive actions in provisioning for loan losses, charging down impairments and keeping an attentive eye on expenses. As long as the U.S. economy remains weak, losses in the loan portfolio may increase. Our Company continues to take actions to enable us to navigate through this current economic and credit cycle.

The Commercial and Industrial portfolio is performing well given the current market conditions while real estate development properties and construction related lending remains under stress. Our loan portfolio will likely continue to be influenced by weakness in real estate values, the effects of higher energy prices and higher unemployment levels. Net charge offs were $4.6 million at June 30, 2009 compared to net charge offs of $3.0 million for the same period a year ago. The charge-offs were centered in commercial and real estate development loans. One development property was taken into other real estate owned (OREO) during 2008 and one mortgage loan was added in the second quarter 2009. OREO was $3.2 million at June 30, 2009 and zero for the same period a year ago. The second OREO property of approximately $300,000 was sold and settled on July 22, 2009 with no loss recorded. We are committed to working with our customers to find potential solutions when our customers experience financial difficulties.

Elevated provisions are associated with an aggressive and conservative reclassification of loans and management s aggressive stance in recognizing impaired loans. Our Company has provided $4.5 million in provisions for loan and lease losses for the six months ended June 30, 2009 compared to $1.6 million for the same period a year ago. The Company s allowance for loan losses was 1.43% of total portfolio loans at June 30, 2009 compared to 0.98% of total loans for the same period a year ago.

Our Company continues to maintain a relatively low-risk, liquid and valuable available-for-sale investment portfolio. This resource is utilized as a source of liquidity as opportunities to reposition the balance sheet present themselves. During the six months ended June 30, 2009, the Company has recorded $1.5 million in gains on sales of securities. Proceeds from the sales were used to fund loan growth.

The capital ratios of Bank of Commerce continue to be above well-capitalized guidelines established by regulatory agencies. With our strong capital position, we find significantly more opportunities now for acquisitions, portfolio purchases and attractive loan and asset purchases.

On October 14, 2008, the FDIC expanded deposit insurance coverage with the new Transaction Account Guarantee Program under its Temporary Liquidity Guarantee Program. The new program provides customers of financial institutions that choose to participate in it full FDIC insurance for all deposit balances in noninterest-bearing transaction deposit accounts through December 31, 2009. Bank of Commerce has opted to participate in this program to provide an additional level of security to our customers.

Income Statement

Net income attributable to the Company for the second quarter of 2009 totaled $1,616,000 an increase of 78.2% from the $906,000 reported for the same quarterly period of 2008. On the same basis diluted earnings per common share for the second quarter of 2009 was $0.16, compared to $0.10 for the same period of 2008. Return on average assets (ROA) and return on average equity (ROE) for the second quarter of 2009 were 0.84% and 10.89%, respectively, compared with 0.56% and 7.71%, respectively, for the second quarter of 2008.

Net income attributable to the Company for the six-month period ended June 30, 2009 totaled $2,886,000, an increase of 35.1% over net income of $2,136,000 reported for the same six-month period ended June 30, 2008.
On the same basis, diluted earnings per common share for the six-months ended June 30, 2009 was $0.28, compared to $0.24 for the same six-month period in 2008. ROA was 0.73% and ROE was 8.85% for the first six-months of 2009 compared with 0.66% and 9.05%, respectively, for the same six-month period of 2008.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Net Interest Income and Net Interest Margin

Net interest income is the primary source of the Company s income. Net interest income represents the excess of interest and fees earned on interest-earning assets (loans, securities and Federal Funds sold) over the interest paid on deposits and borrowed funds. Net interest margin is net interest income expressed as a percentage of average earning assets. Net interest income for the quarter ended June 30, 2009 was $7.5 million compared with $5.0 million for the same period in 2008, an increase of 48.6%. Net interest income for the six-months ended June 30, 2009 was $13.9 million compared with $10.5 million for the same six-month period in 2008, an increase of 32.8%.

Average earning assets for the six-months ended June 30, 2009 increased $124.5 million or 20.5% compared with the same period in the prior year. Average loans, the largest component of average earning assets, increased $57.3 million or 11.1% on average compared with the prior year period. Average loan yields dropped by 65 basis points to 6.04% during the period. The decrease in average earning asset yields is primarily due to multiple interest rate drops on the loan portfolio during the period.

Average deposits and borrowings increased by $111.7 million over the same period a year ago. The yield on funding costs decreased to 2.00% compared with 3.25% for the same period a year ago. Federal Home Loan Bank borrowings have seen a significant drop in costs as the Treasury continues to provide liquidity to the financial services industries. Increases in the volume of earning assets contributed $2.9 million partially offset by the decrease in yields of $1.6 million for the same period, resulting in an increase in the margin of $1.2 million. Increases in the source of funding reduced the margin by $1.6 million while reductions in deposit and borrowing costs contributed $3.4 million to the margin. The net result is an increase to the net interest margin of $3.4 million over the prior year.

Liquidity

The objective of liquidity management is to ensure that the Company can efficiently meet the borrowing needs of our customers, withdrawals of our depositors and other cash commitments under both normal operating conditions and under unforeseen and unpredictable circumstances of industry or market stress.

The Asset Liability Management Committee (ALCO) establishes and monitors liquidity guidelines that require sufficient asset-based liquidity to cover potential funding requirements and to avoid over-dependence on volatile, less reliable funding markets. In addition to the immediately liquid resources of cash and due from banks and federal funds sold, asset liquidity is supported by debt securities in the available for sale security portfolio and wholesale lines of credit with the Federal Home Loan Bank and borrowing lines with other financial institutions. Customer core deposits have historically provided the Company with a source of relatively stable and low-cost funds.

The Company s consolidated liquidity position remains adequate to meet short-term and long-term future contingencies. At June 30, 2009, the Company had overnight investments of $79.0 million, available lines of credit at the Federal Home Loan bank of approximately $30.0 million, and two federal funds borrowing line with correspondent banks of $25.0 million.

Capital Management

The Company has an active program for managing stockholder capital. Capital is used to fund organic growth, acquisitions, pay dividends and repurchase shares. The objective of effective capital management is to produce above market long-term returns by using capital when returns are perceived to be high and issuing capital when costs are perceived to be low.

Periodically, the Board of Directors authorizes the Company to repurchase shares. Share repurchase announcements are published in press releases and SEC 8-K filings. Typically we do not give any public notice before repurchasing shares. Various factors determine the amount and timing of our share repurchases, including our capital requirements, market conditions and legal considerations. These factors can change at any time and there can be no assurance as to the number of shares repurchased or the timing of the repurchases.

Our policy has been to repurchase shares under the safe harbor conditions of Rule 10b-18 of the Exchange Act including a limitation on the daily volume of repurchases. The Company s potential sources of capital include retained earnings, common and preferred stock issuance and issuance of subordinated debt and trust notes.

The Company and bank are subject to various regulatory capital adequacy requirements as prescribed by the Federal Reserve Bank. Risk-based capital guidelines establish a risk-adjusted ratio relating capital to difference categories of assets and off-balance sheet exposures.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

As of June 30, 2009, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank s category.

June 30, 2009	Capital	Actual Ratio	Well Capitalized Requirement	Minimum Capital Requirement
The Company				
Leverage	$ 81,807,014	10.55%	n/a	4.0%
Tier 1 Risk-Based	81,807,014	12.65%	n/a	4.0%
Total Risk-Based	85,873,434	13.27%	n/a	8.0%
Redding Bank of Commerce				
Leverage	$ 74,831,883	9.71%	5.0%	4.0%
Tier 1 Risk-Based	74,831,883	11.57%	6.0%	4.0%
Total Risk-Based	82,943,177	12.82%	10.00%	8.0%

Short and Long Term Borrowings

The Company actively uses Federal Home Loan Bank (FHLB) advances as a source of wholesale funding to support growth strategies as well as to provide liquidity. At June 30, 2009, the Company s FHLB advances were of fixed term borrowings without call or put option features.

The Company also has an advance from the Federal Reserve Bank of San Francisco (FRB) totaling $20,000,000 as of June 30, 2009 and $0 as of June 30, 2008. The advance is under FRB s Term Auction Facility (TAF) and was originated on June 17, 2009, matures on September 10, 2009, and bears a fixed rate of 0.25%. The FRB s TAF credit facility is an auction based borrowing with terms limited to 28 and 84 day maturities. The Company has pledged $74,215,075 in commercial and industrial loans as collateral as of June 30, 2009, and had available borrowing lines at the FRB of $48,220,472.

At June 30, 2009, the Bank had $120 million in FHLB and FRB term advances outstanding at an average rate of 0.90% compared to $95 million at an average rate of 3.50% at June 30, 2008.

Provision for Loan and Lease Losses

The Allowance for Loan and Lease Losses, which consists of the allowance for loan losses, is management s estimate of credit losses inherent in the loan portfolio at the balance sheet date. The Company has established a process using several analytical tools and benchmarks, to calculate a range of probable outcomes and determine the adequacy of the allowance. No single statistic or measurement determines the adequacy of the allowance. Loan recoveries and the provision for credit losses increase the allowance, while loan charge-offs decrease the allowance.

The Company concentrates its lending activities primarily within Shasta, El Dorado, Placer, Sacramento and Tehama counties, in California, and the location of the four full service offices of the Bank. In addition the Company purchased an ITIN loan portfolio from a private equity firm in exchange for a combination of approximately $14.0 million in non-performing loans and cash of approximately $67.0 million. The non-performing loans were carried at fair value and were transferred without recourse. At the settlement date, the mortgage loan pool contained 859 single family residential mortgages with an average principle balance of approximately $96,596, a weighted average credit score of 647, a weighted average loan to value ratio of 89%, a weighted average yield of 7.44% and all loans were full documentation. The ITIN loan portfolio is geographically disbursed through out the United States. Although the Company has a diversified loan portfolio, a significant portion of its customers ability to repay the loans is dependent upon the professional services and investor commercial real estate sectors. Generally, the loans are

secured by real estate or other assets and are expected to be repaid from cash flows of the borrower s business or cash flows from real estate investments.

The Company s exposure to credit loss, if any, is the difference between the fair value of the collateral, and the outstanding balance of the loan. At June 30, 2009 and December 31, 2008, the Company had pledged $34,537,244 and $96,721,113, respectively, in loans as available collateral for Federal Home Loan Bank borrowings. In the ordinary course of business, the Company enters various types of transactions, which involve financial instruments with off-balance sheet risk.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

These instruments include commitments to extend credit and stand-by letters of credit, which are not reflected in the consolidated balance sheets. These transactions may involve, to varying degrees, credit and interest rate risk more than the amount, if any recognized in the consolidated balance sheets. Commitments to extend credit and standby letters of credit bear similar credit risk characteristics as outstanding loans. An allowance for unfunded loan commitments and letters of credit is determined using estimates of the probability of funding. This reserve is carried as a liability on the consolidated balance sheet.

The allowance for loan and lease losses is the Company s *most significant* management accounting estimate. The Company follows a methodology for calculating the appropriate level for the allowance for loan and lease losses as discussed under Asset Quality and Allowance for Loan and Lease Losses (ALLL) in this document. The entire allowance is used to absorb credit losses inherent in the loan portfolio.

The allowance includes an amount for imprecision or uncertainty to incorporate a range of probable outcomes inherent in estimates used for the allowance, which may change from period to period. This portion of the total allowance is the results of the Company s judgment of risks inherent in the portfolio, economic uncertainties, historical loss experience and other subjective factors, including industry trends. The methodology used is refined to calculate a portion of the allowance for each portfolio type to reflect our view of the risk in these portfolios.

Changes in the estimate of the allowance for loan and lease losses and the related provision expense can materially affect net income. Determining the allowance for loan and lease losses requires management to make forecasts of losses that are highly uncertain and require a high degree of judgment.

Provision for loan and lease losses of $4,481,000 were provided for the six-months ended June 30, 2009 compared with $1,600,000 for the six-months ended June 30, 2008. The Company s allowance for loan and lease losses was 1.43% of total loans at June 30, 2009, 1.60% at December 31, 2008 and 0.98% at June 30, 2008, while its ratio of non-performing assets to total assets was 1.20% at June 30, 2009, 2.98% at December 31, 2008, and 2.88% at June 30, 2008.

Factors that may affect future results

As a financial services company, our earnings are significantly affected by general business and economic conditions. These conditions include short-term and long-term interest rates, inflation, monetary supply, fluctuations in both debt and equity capital markets, and the strength of the United States economy and local economies in which we operate. For example, an economic downturn, increase in unemployment, or other events that negatively impact household and/or corporate incomes could decrease the demand for the Company s loan and non-loan products and services and increase the number of customers who fail to pay interest or principal on their loans. Geopolitical conditions can also affect our earnings. Acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and our military conflicts including the aftermath of the war with Iraq, could impact business conditions in the United States.

The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the United States. Its policies determine in large part our cost of funds for lending and investing and the return we earn on those loans and investments, both of which impact our net interest margin, and can materially affect the value of financial instruments we hold. Its policies can also affect our borrowers, potentially increasing the risk of failure to repay their loans. Changes in Federal Reserve Board policies are beyond our control and hard to predict or anticipate.

We operate in a highly competitive industry that could become even more competitive because of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can now merge creating a financial holding company that can offer virtually any type of financial service, including banking, securities underwriting, insurance (agency and underwriting) and merchant banking. Technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of our competitors have fewer regulatory constraints and some have lower cost structures.

The holding company, subsidiary bank and non-bank subsidiary are heavily regulated at the federal and state levels. This regulation is to protect depositors, federal deposit insurance funds and the banking system as a whole, not

investors. Congress and state legislatures and federal and state regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies including changes in interpretation and implementation could affect us in substantial and unpredictable ways including limiting the types of financial services and products we may offer. Our failure to comply with the laws, regulations or policies could result in sanctions by regulatory agencies and damage our reputation. For more information, refer to the Supervision and Regulation section in the Company s 2008 Annual Report on Form 10-K.

40

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

There is increasing pressure on financial services companies to provide products and services at lower prices. Our success depends, in part, on our ability to adapt our products and services to evolving industry standards. This can reduce our net interest margin and revenues from fee-based products and services. In addition, the widespread adoption of new technologies, including internet-based services, could require us to make substantial expenditures to modify or adapt our existing products and services. Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people can be intense.

The holding company is a separate and distinct legal entity from its subsidiaries. It receives substantially all of its revenues from dividends from its subsidiaries. These dividends are the principal source of funds to pay dividends on the holding company s common stock and interest and principal on its debt. Various federal and state laws and regulations limit the amount of dividends that our bank may pay to the holding company. For more information, refer to Dividends and Other Distributions in the Company s 2008 Annual Report on Form 10-K.

Critical Accounting Policies

The Securities and Exchange Commission (SEC) issued disclosure guidance for critical accounting policies. The SEC defines critical accounting policies as those that require application of management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in future periods.

Our accounting policies are integral to understanding the results reported. Accounting policies are described in detail in Note 2 of the NOTES TO CONSOLIDATED FINANCIAL STATEMENTS in the Company s 2008 Annual Report on Form 10-K. Not all of the significant accounting policies presented in Note 2 to the Consolidated Financial Statements contained in the Company s 2008 Annual Report on Form 10-K require management to make difficult, subjective or complex judgments or estimates.

Preparation of financial statements

The preparation of these financial statements requires management to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates the estimates used. Estimates are based upon historical experience, current economic conditions and other factors that management considers reasonable under the circumstances.

Use of estimates

These estimates result in judgments regarding the carrying values of assets and liabilities when these values are not readily available from other sources, as well as assessing and identifying the accounting treatments of contingencies and commitments. Actual results may differ from these estimates under different assumptions or conditions.

Accounting Principles Generally Accepted in the United States of America

The Company s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Company s significant accounting policies are presented in Note 2 to the Consolidated Financial Statements contained in the Company s 2008 Annual Report on Form 10-K.

The Company follows accounting policies typical to the commercial banking industry and in compliance with various regulations and guidelines as established by the Financial Accounting Standards Board (FASB), the American Institute of Certified Public Accountants (AICPA) and the Bank s primary federal regulator, the Federal Deposit Insurance Corporation (FDIC). The following is a brief description of the Company s current accounting policies involving significant management judgments.

Valuation of Investments and Impairment of Securities

Invested assets are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain invested assets and the level of uncertainty related to changes in the fair value of these assets, it is possible that changes in risks in the near term could have an adverse material impact on our results of operations or equity.

Our investment portfolio is subject to market declines below amortized cost that may be other-than-temporary. A significant judgment in the valuation of investments is the determination of when an other-than-temporary impairment has occurred. The ALCO Committee reviews the investment portfolio on at least a quarterly basis, with ongoing

analysis as new information becomes available.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

An investment is impaired if the fair value of the investment is less than its cost adjusted for accretion, amortization and Other Than Temporarily Impaired (OTTI), otherwise defined as an unrealized loss. When an investment is impaired, we assess whether to sell the security, or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses. For debt securities, that are considered other than temporarily impaired and that we do not intend to sell and will not be required to sell prior to recovery of our amortized cost basis, we separate the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is calculated as the difference between the investment s amortized cost basis and the present value of its expected future cash flows. The remaining difference between the investment s fair value and the present value of future expected cash flows is deemed to be due to factors that are not credit related and is recognized in other comprehensive income. Significant judgment is required in the determination of whether an OTTI has occurred for an investment.

The Company follows a consistent and systematic process for determining and recording an OTTI loss. The Company has designated the ALCO Committee responsible for the OTTI process. The ALCO Committee s assessment of whether an OTTI loss should be recognized incorporates both quantitative and qualitative information.

The ALCO Committee considers a number of factors including, but not limited to: (a) the length of time and the extent to which the fair value has been less than amortized cost, (b) the financial condition and near term prospects of the issuer, (c) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for an anticipated recovery in value, (d) whether the debtor is current on interest and principal payments and (e) general market conditions and industry or sector specific outlook. Management has evaluated all securities at June 30, 2009 and has determined that no securities are other than temporarily impaired.

We do not have the intent to sell the investments that are temporarily impaired, and it is more likely than not that we will not have to sell those investments before recovery of the cost basis. Additionally, we have evaluated the credit ratings of our investment securities and their issuers and or insurers, if applicable. Based upon our evaluation, management has determined that no investment security in our portfolio is other than temporarily impaired.

Allowance for Loan and Lease Losses (ALLL)

The allowance for loan and lease losses is the Company s *most significant* management accounting estimate. The allowance for loan and lease losses is management s best estimate of the probable losses that may be sustained in our loan portfolio. The allowance is based on two basic principles of accounting. (1) SFAS No.5 which requires that losses be accrued when they are probable of occurring and estimable and (2) SFAS No. 114, which requires that losses on impaired loans be accrued based on the differences between that value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

The Company s allowance for loan and lease losses is the accumulation of various components that are calculated based upon independent methodologies. All components of the allowance for loan losses represent an estimation performed pursuant to Statement of Financial Accounting Standards (SFAS) Statement No. 5, *Accounting for Contingencies* or SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*. Management s estimate of each SFAS No. 5 component is based on certain observable data that management believes is the most reflective of the underlying credit losses being estimated. Changes in the amount of each component of the allowance for loan losses are directionally consistent with changes in the observable data, taking into account the interaction of the SFAS No. 5 components over time.

An essential element of the methodology for determining the allowance for loan and lease losses is the Company s credit risk evaluation process, which includes credit risk grading individual, commercial, construction, commercial real estate, and consumer loans. Loans are assigned credit risk grades based on the Company s assessment of conditions that affect the borrower s ability to meet its contractual obligations under the loan agreement.

That process includes reviewing borrower s current financial information, historical payment experience, credit documentation, public information, and other information specific to each individual borrower. Loans are reviewed on an annual or rotational basis and/or as management become aware of information affecting the borrower s ability to fulfill its obligations. Credit risk grades carry a dollar weighted risk percentage.

For individually impaired loans, SFAS No. 114 provides guidance on the acceptable methods to measure impairment. Specifically, SFAS No. 114 states that when a loan is impaired, we measure impairment based on the present value of expected future principal and interest cash flows discounted at the loan s effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan s observable market price or the fair value of collateral, if the loan is collateral dependent. When developing the estimate of future cash flows for a loan, we consider all available information reflecting past events and current conditions, including the effect of existing environmental factors. In addition to the ALLL, an allowance for unfunded loan commitments and letters of credit is determined using estimates of the probability of funding. This reserve is carried as a liability on the consolidated balance sheet.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Revenue recognition

The Company s primary source of revenue is interest income. Interest income is recorded on an accrual basis. Note 2 to the Consolidated Financial Statements contained in the Company s 2008 Annual Report on Form 10-K offers an explanation of the process for determining when the accrual of interest income is discontinued on an impaired loan.

Income Taxes

The Company files a consolidated federal and state income tax return. The Company accounts for income taxes under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using currently enacted tax rates applied to such taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. If future income should prove non-existent or less than the amount of deferred tax assets within the tax years to which they may be applied, the asset may not be realized and our net income will be reduced. The Company s deferred tax assets are described further in Note 13 of the Notes to Consolidated Financial Statements in the Company s 2008 Annual Report on Form 10-K.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The following table presents the Company s daily average balance sheet information together with interest income and yields earned on average interest-bearing assets and interest expense and rates paid on average interest-bearing liabilities. Average balances are average daily balances.

Table 1. Average Balances, Interest Income/Expense and Yields/Rates Paid (Unaudited, Dollars in thousands)

	Six Months Ended June 30, 2009			Six Months Ended June 30, 2008		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Earning Assets						
Portfolio Loans[2]	$ 574,206	$ 17,321	6.04%	$ 516,938	$ 17,302	6.69%
Tax-exempt Securities[3]	28,245	575	4.07%	30,402	576	3.79%
US Government Securities	8,624	192	4.45%	14,601	264	3.62%
Mortgage backed Securities	69,253	1,954	5.64%	30,960	750	4.84%
Federal Funds Sold	25,771	30	0.23%	17,561	148	1.69%
Other Securities	31,905	248	1.55%	2,000	45	4.50%
Average Earning Assets	$ 738,004	$ 20,320	5.51%	$ 612,462	$ 19,085	6.23%
Cash & Due From Banks	$ 19,388			$ 13,252		
Bank Premises	13,480			11,264		
Allowance for Loan Losses	(8,638)			(5,946)		
Other Assets	25,971			17,745		
Average Total Assets	$ 788,205			$ 648,777		
Interest Bearing Liabilities						
Demand Interest Bearing	$ 137,938	$ 546	0.79%	$ 132,543	$ 1,248	1.88%
Savings Deposits	63,499	519	1.63%	48,987	650	2.65%
Certificates of Deposit	289,925	3,781	2.61%	229,245	4,614	4.03%
Repurchase Agreements	11,523	25	0.43%	12,925	119	1.84%
FHLB Borrowings	124,393	1,120	1.80%	91,869	1,512	3.29%
Trust Preferred Borrowings	15,000	431	5.75%	15,000	476	6.35%
	642,278	$ 6,422	2.00%	530,569	$ 8,619	3.25%
Noninterest bearing demand	72,009			66,606		
Other Liabilities	8,674			4,391		
Stockholders Equity	65,244			47,211		
Average Liabilities and Stockholders Equity	$ 788,205			$ 648,777		
Net Interest Income and Net Interest Margin		$ 13,898	3.77%		$ 10,466	3.42%

Interest income on loans includes fee (expense) income of approximately ($72,828), and $10,610 for the period ended June 30, 2009 and 2008, respectively.

[2] Average non-performing loans of $14.2 million are included

[3] The yield on tax-exempt securities has not been adjusted to a tax-equivalent yield basis.

44

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The following tables set forth changes in interest income and expense for each major category of earning assets and interest-bearing liabilities, and the amount of change attributable to volume and rate changes for the periods indicated. Changes attributable to rate/volume have been allocated to volume changes.

Table 2 Analysis of Changes in Net Interest Income and Interest Expense (Unaudited)

(Dollars in thousands)	June 30, 2009 Volume	Over Rate	June 30, 2008 Total
Increase(Decrease) In Interest Income			
Portfolio Loans	$ 1,727	$ (1,708)	19
Tax-exempt Securities	(44)	43	(1)
US Government Securities	(133)	61	(72)
Mortgage Back Securities	1,080	124	1,204
Federal Funds Sold	10	(128)	(118)
Other Securities	232	(29)	203
Total Increase (Decrease)	$ 2,872	$ (1,637)	$ 1,235
Increase(Decrease) In Interest Expense			
Interest Bearing Demand	$ 21	$ (723)	$ (702)
Savings Deposits	119	(250)	(131)
Certificates of Deposit	791	(1,624)	(833)
Repurchase Agreements	(3)	(91)	(94)
FHLB Borrowings	293	(685)	(392)
Trust Preferred Borrowings	0	(45)	(45)
Total Increase (Decrease)	$ 1,221	$ (3,418)	$ (2,197)
Net Increase	$ 1,651	$ 1,781	$ 3,432

Average earning assets for the six-months ended June 30, 2009 increased $125.5 million or 20.5% compared with the same period in the prior year. Average loans, the largest component of average earning assets, increased $57.3 million or 11.1% year-over-year. During the second quarter 2009, the Company purchased an $80.4 million pool of ITIN residential mortgage loans; the purchase was funded through the combination of the sale of securities, deposit growth, and liquidation of cash equivalents.

Average securities including federal funds sold increased $68.3 million year-over-year. The yield on earning assets decreased to 5.51% for the six-month period ended June 30, 2009 compared to 6.23% for the same period a year ago. The decrease in the average yield on earning assets is primarily due to a general decline in interest rates and the consequential re-pricing of the loan portfolio, and federal funds sold and cash equivalents during the period.

Average deposits and borrowings increased by $111.7 million year-over-year. The yield on funding costs decreased to 2.00% compared with 3.25% for the same period a year ago. The Company s re-pricing time deposits and Federal Home Loan Bank borrowings have seen a significant drop in costs as interest rates have declined as the Federal

Reserve Board of Governors and United States Treasury Department continues to provide liquidity to the financial services industries.

Increases in the volume of earning assets contributed $2.9 million partially offset by the decrease in yields of $1.6 million for the same period, resulting in an increase in the margin of $1.2 million. Increases in the source of funding reduced the margin by $1.6 million while reductions in deposit and borrowing costs contributed $3.4 million to the margin. The net result is an increase to the net interest margin of $3.4 million over the prior year.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The Company s non-interest income consists of service charges on deposit accounts, other fee income, processing fees for credit card payments and gains or losses on security sales. The following table sets forth a summary of noninterest income for the periods indicated.

Noninterest income

	Three Months Ended		Six Months Ended	
(Dollars in thousands)	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Service charges on deposit accounts	$ 96	$ 50	$ 188	$ 112
Payroll and benefit processing fees	104	99	238	228
Earnings on cash surrender value - Bank owned insurance	117	85	203	168
Net gain on sale of securities available-for-sale	1,074	194	1,478	436
Net loss on sale of derivative swap transaction				(225)
Net gain on sale of loans	340		340	
Merchant credit card service income, net	75	97	149	180
Mortgage brokerage fee income	1,302	5	1,302	15
Other Income	87	187	162	368
Total Noninterest income	$ 3,195	$ 717	$ 4,060	$ 1,282

Quarter-to-date noninterest income increased $2.5 million and is attributed to increases in the gain on sales of securities available-for-sale that provided a significant source of liquidity to fund loan growth and the business combination of Bank of Commerce Mortgage . Additionally, mortgage brokerage fee income increased by $1.3 million as a result of the business acquisition.

Year-to-date noninterest income increased $2.8 million for the same reasons as above. Prior year to date a loss was recorded on the sale of a derivative swap transaction.

Noninterest Expense

	Three Months Ended		Six Months Ended	
(Dollars in Thousands)	June 30, 2009	June 30, 2008	June 30, 2008	June 30, 2008
Salaries and related benefits	$ 2,644	$ 1,892	$ 4,771	$ 3,841
Occupancy and equipment expense	730	640	1,302	1,284
FDIC insurance premium	301	113	574	171
Data processing fees	68	65	179	143
Professional service fees	295	133	454	251
Payroll and Benefit fees	27	27	61	60
Deferred compensation expense	123	113	242	224
Stationery and Supplies	26	80	79	142
Postage	76	38	157	72
Directors expense	120	94	157	142
Other expenses	483	418	877	847

Total Noninterest expense	$ 4,893	$ 3,613	$ 8,853	$ 7,177

Quarter-to-date noninterest expense increased $1.3 million and is partially attributed to the increase in salaries and employee benefits due to the business combination of Bank of Commerce Mortgage . $558,000 or 21%of the quarterly increase is attributed to the business combination of the mortgage company. Secondly, the provision for FDIC insurance premiums has increased by $188,000 to accommodate the one time assessment due in September 2009. Year-to-date noninterest expense increased $1.7 million for the same reasons as above. FDIC insurance premiums have increased by $403,000 over the prior period in 2008, to accommodate the one time assessment due in September 2009. Professional service fees have increased by $203,000 as a result of the business combination and fair valuations during the period.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Income Taxes

The Company accounts for income taxes under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using currently enacted tax rates applied to such taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company s effective tax rate varies with changes in the relative amounts of its non-taxable income and non-deductible expenses. The decrease in the Company s tax provision is attributable to increases in non-taxable income related to increases in the municipal security portfolio, classification of enterprise zone qualified credits and California Affordable Housing project which affords federal and state tax credits. The principal difference between statutory tax rates and the Company s effective tax rate is the benefit derived from key life proceeds, investing in tax-exempt securities and preferential state tax treatment for qualified enterprise zone loans.

The following table reflects the Company s tax provision and the related effective tax rate for the periods indicated.

(Dollars in thousands)	Three Months Ended		Six Months Ended	
Income Taxes	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Tax provision	$ 1,027	$ 244	$ 1,637	$ 835
Effective tax rate	37.43%	21.20%	35.40%	28.11%

The Company s provision for income taxes includes both federal and state income taxes and reflects the application of federal and state statutory rates to the Company s net income before taxes. Increases and decreases in the provision for taxes reflect changes in the Company s net income before tax, and takes into consideration strategies to increase tax exempt income and tax credits.

The Company had a net deferred tax asset of $5.7 million at June 30, 2009. The Company does not reasonably estimate that the deferred tax asset will change significantly within the next twelve months. Deferred tax assets are recognized subject to management judgment that realization is more likely than not. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense.

The Company files a consolidated federal and state income tax return. The Company determines deferred income tax assets and liabilities using the balance sheet method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between book and tax basis of assets and liabilities, and recognizes enacted changes in tax rates and laws.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 2009 consist of the following:

Deferred Tax Assets	June 30, 2009	June 30, 2008
Deferred compensation	$ 2,249,218	$ 2,078,634
Loan loss reserves	4,577,887	2,284,938
Other Comprehensive Income	(20,997)	633,449
Other	24,768	(37,979)
Total Deferred Tax Assets	6,830,876	4,959,042

State Franchise taxes	$ (83,382)	$ (87,095)
Depreciation	(84,559)	(132,760)
Deferred loan origination costs	(426,715)	(466,348)
Deferred state taxes	(516,580)	(316,661)
Other	(55,992)	
Total Deferred Tax Liabilities	(1,167,228)	(1,002,864)
Total Net Deferred Tax Asset	$ 5,663,648	$ 3,956,178

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Asset Quality

The Company concentrates its lending activities primarily within El Dorado, Placer, Sacramento, Shasta, and Tehama counties, California, and the location of the Bank s four full services branches, specifically identified as Northern California. The Company manages its credit risk through diversification of its loan portfolio and the application of underwriting policies and procedures and credit monitoring practices. In addition the Company purchased an ITIN loan portfolio from a private equity firm in exchange for a combination of approximately $14.0 million in non-performing loans and cash of approximately $67.0 million. The non-performing loans were carried at fair value and were transferred without recourse. At the settlement date, the mortgage loan pool contained 859 single family residential mortgages with an average principle balance of approximately $96,596, a weighted average credit score of 647, a weighted average loan to value ratio of 89%, a weighted average yield of 7.44% and all loans were full documentation. The ITIN loan portfolio is geographically disbursed through out the United States.

Although the Company has a diversified loan portfolio, a significant portion of its borrowers ability to repay the loans is dependent upon the professional services, commercial real estate market and the residential real estate development industry sectors. Generally, the loans are secured by real estate or other assets located in California and are expected to be repaid from cash flows of the borrower or proceeds from the sale of collateral. The Company s dependence on real estate increases the risk of loss in the loan portfolio of the Company and its holdings of other real estate owned as economic conditions in California continue to deteriorate in the future. Deterioration of the real estate market in California has had an adverse effect on the Company s business, financial condition and results of operations. The recent slowdown in residential development and construction markets has led to an increase in nonperforming loans which has made it prudent to strengthen our reserve position at this time. Management has taken cautious steps to ensure the proper funding of loan reserves. Credit quality, expense control and the bottom line remain top focus.

The following table sets forth the amounts of loans outstanding by category as of the dates indicated:

(Dollars in thousands)

Portfolio Loans	June 30, 2009	December 31, 2008
Commercial and financial loans	$ 148,081	$ 164,083
Real estate-construction loans	73,379	84,218
Real estate-commercial	232,479	217,914
Real estate ITIN loan pool	80,671	
Real estate-mortgage	21,912	20,285
Real estate-other	38,238	39,915
Installment	140	145
Other loans	1,490	902
Less:		
Net deferred loan fees	(257)	(87)
Allowance for loan losses	(8,496)	(8,429)
Total net portfolio loans	$ 587,637	$ 518,946

The Company s practice is to place an asset on nonaccrual status when one of the following events occur: (i) any installment of principal or interest is 90 days or more past due (unless in management s opinion the loan is well secured and in the process of collection). (ii) Management determines the ultimate collection of principal or interest to be unlikely or (iii) the terms of the loan have been renegotiated due to a serious weakening of the borrower s financial condition. Nonperforming loans are loans that are on nonaccrual, are 90 days past due and still accruing or have been restructured.

Non accrual and impaired loans are loans for which it is probable that the Bank will not be able to collect all amounts due and payable. The Bank had outstanding balances of $9.8 million and $20.2 million in impaired loans that had impairment allowances of $2.1 million and $1.1 million as of June 30, 2009 and December 31, 2008, respectively.

Mortgages held for sale

Bank of Commerce Mortgage originates residential mortgage loans within Bank of Commerce s footprint and on a nationwide basis. Mortgage loans generally represent loans collateralized by one-to-four family residential real estate and are typically sold to primary mortgage market aggregators (Fannie Mae, Freddie Mac, and Ginnie Mae) and to third party investors, servicing included. The mortgage loans are typically funded on a pre-committed basis and held for sale; the loans are carried on the balance sheet at the lower of cost or fair value until a sale to the third party is completed.

As of June 30, 2009, $20.2 million in mortgages are held for sale outside of the net portfolio loans listed in the above table.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The following table sets forth a summary of the Company s nonperforming assets as of the dates indicated:

(Dollars in thousands)

Non performing assets	June 30, 2009		December 31, 2008
Nonaccrual loans	$ 5,697	$	20,154
Total nonaccrual loans	5,697		20,154
90 days past due and still accruing interest	760		0
Other Real Estate Owned	3,229		2,934
Total non performing assets	$ 9,686	$	23,088

$2.9 million of the OREO properties is a single parcel of land located in the Company s Sacramento, California market. Prior to foreclosure, the project was in the entitlement phase of development; the Company in coordination with the other participating banks will continue the entitlement processes in conjunction with establishing a marketing plan to ultimately dispose of the project. A recent valuation of the property fully supports any additional improvement costs until such time the property is sold. The Company s foreclosed assets are carried at the lower of cost or fair value, less estimated costs to dispose of the properties. The balance of $300,000 is a mortgage loan that has since sold on July 21, 2009 with no loss to the Company.

Material future additions to the allowance for loan losses may be necessary if material adverse economic conditions persist and the performance of the loan portfolio of the Company deteriorates. Future additions to the Company s allowance for loan and lease losses may also be required to reflect market changes and other factors affecting the Company s real estate and real estate related portfolios. Moreover, the FDIC and the DFI, as an integral part of their examination process, review the Company s allowance for loan and lease losses and the carrying value of its assets. The Bank was most recently examined by the FDIC in this regard during the second quarter of 2008. No adjustments were made to management s estimates for the allowance for loan and lease losses during the examination.

Non-performing assets were 1.20% of total assets as of June 30, 2009; 2.98% at December 31, 2008 and 2.88% at June 30, 2008.

Allowance for Loan and Lease Losses (ALLL)

The allowance for loan and lease losses is management s estimate of the amount of probable loan losses in the loan portfolio. The Company determines the allowance for loan losses based on an ongoing evaluation. The evaluation is inherently subjective because it requires material estimates, including the amounts and timing of cash flows expected to be received on impaired loans. Those estimates may be susceptible to significant change. The Company makes provisions to the ALLL on a regular basis through charges to operations that are reflected in the Company s statements of income as a provision for loan losses. When a loan is deemed uncollectible, it is charged against the allowance. Any recoveries of previously charged-off loans are credited back to the allowance. There is no precise method of predicting specific losses or amounts that ultimately may be charged-off on particular categories of the loan portfolio. Material future additions to the allowance for loan losses might be necessary if material adverse changes in economic conditions occur and the performance of the loan portfolio of the Company deteriorates. Future additions to the Company s allowance for loan and lease losses may also be required in order to reflect changes in the markets for real estate in which the Company s real estate related portfolios are located and other factors which may result in adjustments which are necessary to ensure that the Company s foreclosed assets are carried at the lower of cost or fair value, less estimated costs to dispose of the properties.

Moreover, the FDIC and the DFI, as an integral part of their examination process, periodically review the Company s allowance for loan and lease losses and the carrying value of its assets. The Bank was most recently examined by the FDIC in this regard during the second quarter of 2008. No adjustments were made to management s estimates for the allowance for loan and lease losses during the examination.

The Company s allowance for loan and lease losses is the accumulation of various components that are calculated based upon independent methodologies. All components of the allowance for loan losses represent an estimation performed pursuant to SFAS No. 5, *Accounting for Contingencies* or SFAS No. 114, *Accounting by Creditors for Impairment of a Loan.* Management s estimate of each SFAS No. 5 *Accounting for Contingencies* component is based on certain observable data that management believes is the most reflective of the underlying loan losses being estimated. Changes in the amount of each component of the allowance for loan losses are directionally consistent with changes in the observable data, taking into account the interaction of the SFAS No. 5 components over time.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

An essential element of the methodology for determining the allowance for loan and lease losses is the Company s loan risk evaluation process, which includes loan risk grading individual commercial, construction, commercial real estate and most consumer loans. Loans are assigned loan risk grades based on the Company s assessment of conditions that affect the borrower s ability to meet its contractual obligations under the loan agreement. That process includes reviewing borrower s current financial information, historical payment experience, loan documentation, public information, and other information specific to each individual borrower. Loans are reviewed on an annual or rotational basis or as management become aware of information affecting the borrower s ability to fulfill its obligations. Loan risk grades carry a dollar weighted risk percentage.

The ALLL is a general reserve available against the total loan portfolio. It is maintained without any inter-allocation to the categories of the loan portfolio, and the entire allowance is available to cover loan losses. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of the examination process, periodically review the Company s ALLL. Such agencies may require the Company to provide additions to the allowance based on their judgment of information available to them at the time of their examination. Accordingly, it is not possible to predict the effect future economic trends may have on the level of the provision for loan losses in future periods. In addition to the ALLL, an allowance for unfunded loan commitments and letters of credit is determined using estimates of the probability of funding. This reserve is carried as a liability on the condensed consolidated balance sheet.

The ALLL should not be interpreted as an indication that charge-offs in future periods will occur in the stated amounts or proportions.

The following table summarizes the activity in the ALLL reserves for the periods indicated.

(Dollars in thousands)	Three Months Ended		Six Months Ended	
Allowance for Loan Losses	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Beginning balance for Loan Losses	$ 7,701	$ 5,815	$ 8,429	$ 8,233
Provision for Loan Losses	3,056	1,000	4,481	1,600
Charge offs:				
Commercial	(774)	(733)	(2,432)	(733)
Real Estate	(1,603)	(1,067)	(2,100)	(4,087)
Other	(12)	(0)	(12)	(0)
Total Charge offs	(2,389)	(1,800)	(4,544)	(4,820)
Recoveries:				
Commercial	127	0	128	0
Real Estate	0	0	0	0
Other	1	2	2	4
Total Recoveries	128	2	130	4
Ending Balance	$ 8,496	$ 5,017	$ 8,496	$ 5,017
ALLL to total loans	1.43%	0.98%	1.43%	0.98%
Net Charge offs to average loans	0.39%	0.35%	0.77%	0.93%

The allowance for loan and lease losses totaled $8.5 million at June 30, 2009 compared to $8.4 million at December 31, 2008 and $5.0 million at June 30, 2008. The Company s allowance for loan losses was 1.43% of total loans at June 30, 2009, 1.60% at December 31, 2008 and 0.98% at June 30, 2008. Provisions for loan losses for the six months ended June 30, 2009 were $4,481,000 compared to $1,600,000 for the same period in 2008.

The Company continues to be aggressive in identifying non-performing assets. Elevated provisions are associated with a reclassification of loans, following completion of a total portfolio review, and management s aggressive stance in recognizing impaired loans.

On April 17, 2009, the company completed a loan swap transaction which included the purchase of a pool of Individual Tax Identification Number (ITIN) residential mortgage loans with a fair value of $80,671,104. The ITIN portfolio (portfolio) was purchased from a private equity firm in exchange for a combination of approximately $14.0 million in non-performing loans and cash of approximately $67.0 million. The non-performing loans were carried at fair value and were transferred without recourse. As a result of the swap transaction, the Company s ratio of non-performing assets to total assets decreased to 1.20% at June 30, 2009, compared to 2.98% at December 31, 2008.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

QUARTERLY INCOME STATEMENT

Dollars in thousands, except for per share data	June 30, 2009	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008
Interest income:					
Interest and fees on loans	$ 9,272	$ 8,049	$ 8,028	$ 8,252	$ 8,171
Interest on tax-exempt securities	279	296	313	308	302
Interest on U.S. government securities	954	1,192	873	582	533
Interest on federal funds sold and securities repurchased under agreements to resell	5	25	39	116	90
Interest on other securities	131	117	81	13	23
Total interest income	10,641	9,679	9,334	9,271	9,119
Interest expense:					
Interest on demand deposits	239	307	411	514	498
Interest on savings deposits	238	281	383	543	360
Interest on certificates of deposit	1,900	1,881	1,975	1,963	2,238
Securities sold under repurchase agreements	11	14	22	32	35
Interest on FHLB and other borrowings	539	581	638	662	781
Interest on junior subordinated debt payable to unconsolidated subsidiary grantor trust	216	215	263	317	161
Total interest expense	3,143	3,279	3,692	4,031	4,073
Net interest income	7,498	6,400	5,642	5,240	5,046
Provision for loan and lease losses	3,056	1,425	3,620	1,300	1,000
Net interest income after provision for loan and lease losses	4,442	4,975	2,022	3,940	4,046
Noninterest income:					
Service charges on deposit accounts	96	92	108	91	50
Payroll and benefit processing fees	104	134	118	107	99
Earnings on cash surrender value bank owned life insurance	117	86	86	86	85
Net gain on sale of securities available-for-sale	1,074	404	33	159	194
Net gain on sale of loans	340				
Merchant credit card service income, net	75	74	85	99	97
Mortgage brokerage fee income	1,302		4	2	5
Other income	87	75	156	207	187
Total noninterest income	3,195	865	590	751	717
Noninterest expense:					
Salaries and related benefits	2,644	2,127	2,001	1,909	1,892
Occupancy and equipment expense	730	572	1,339	613	640
FDIC insurance premium	301	273	99	113	113
Data processing fees	68	111	52	81	65
Professional service fees	295	159	270	146	133

Payroll processing fees	27	34	30	26	27
Deferred compensation expense	123	119	120	118	113
Stationery and supplies	26	53	70	50	80
Postage	76	81	30	32	38
Directors expense	120	37	71	81	94
Other expenses	483	394	425	443	418
Total noninterest expense	4,893	3,960	4,507	3,612	3,613
Income (loss) before provision for income taxes	2,744	1,882	(1,895)	1,079	1,150
Provision (benefit) for income taxes	1,027	610	(1,237)	362	244
Less: Income non-controlling interest	101				
Net income (loss)	$ 1,616	$ 1,270	$ (658)	$ 717	$ 906
Less preferred dividend and accretion on preferred stock	$ (235)	$ (237)	$ (0)	$ (0)	$ (0)
Income available to common shareholders	$ 1,381	$ 1,033	$ (658)	$ 717	$ 906
Basic earnings (loss) per share	$ 0.16	$ 0.12	$ (0.07)	$ 0.08	$ 0.10
Weighted average shares basic	8,711	8,711	8,755	8,711	8,748
Diluted earnings (loss) per share	$ 0.16	$ 0.12	$ (0.07)	$ 0.08	$ 0.10
Weighted average shares diluted	8,712	8,711	8,802	8,713	8,751
Cash dividends per share	$ 0.00	$ 0.06	$ 0.08	$ 0.08	$ 0.08

51

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market risk is the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions such as market movements. The risk is inherent in the financial instruments associated with our operations and activities including loans, deposits, securities, short-term borrowings, long-term debt and derivatives. Market-sensitive assets and liabilities are generated through loans and deposits associated with our banking business, our Asset Liability Management (ALM) process, and credit risk mitigation activities. Traditional loan and deposit products are reported at amortized cost for assets or the amount owed for liabilities. These positions are subject to changes in economic value based on varying market conditions. Interest rate risk is the effect of changes in economic value of our loans and deposits, as well as our other interest rate sensitive instruments and is reflected in the levels of future income and expense produced by these positions versus levels that would be generated by current levels of interest rates. We seek to mitigate interest rate risk as part of the ALM process.

Interest rate risk, which potentially can have a significant earnings impact, is an integral part of financial services. The Company is subject to interest rate risk for the following reasons:

Assets and liabilities may mature or reprice at different times (for example, if assets reprice faster than liabilities and interest rates fall, earnings will initially decline);

Assets and liabilities may reprice at the same time but by different amounts (for example, the level of interest rates in the market is falling and the Company may reduce rates paid on checking and savings deposit accounts by an amount that is less than the general decline in market rates);

Short-term and long-term market interest rates may change by different amounts (for example, the shape of the yield curve may affect new loan yields and funding costs differently); or

The remaining maturities of various assets and liabilities may shorten or lengthen as interest rates change (for example, if long-term mortgage rates decline sharply, mortgage-backed securities held in the securities available-for-sale may prepay significantly earlier than anticipated, which could reduce portfolio income.)

Our overall goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect net interest income. Interest rates risk is measured as the potential volatility in our net interest income caused by changes in market interest rates. Lending and deposit taking create interest rate sensitive positions on our balance sheet. Interest rate risk from these activities as well as the impact of ever changing market conditions is mitigated using the ALM process. The Company does not operate a trading account and does not hold a position with exposure to foreign currency exchange or commodities. The Company faces market risk through interest rate volatility.

The Board of Directors has overall responsibility for the Company s interest rate risk management policies. The Company has an Asset/Liability Management Committee (ALCO) which establishes and monitors guidelines to control the sensitivity of earnings to changes in interest rates. The internal ALCO Roundtable group maintains a net interest income forecast using different rate scenarios utilizing a simulation model. This group updates the net interest income forecast for changing assumptions and differing outlooks based on economic and market conditions.

The simulation model used includes measures of the expected repricing characteristics of administered rate (NOW, savings and money market accounts) and non-related products (demand deposit accounts, other assets and other liabilities). These measures recognize the relative sensitivity of these accounts to changes in market interest rates, as demonstrated through current and historical experience, recognizing the timing differences of rate changes. In the simulation of net interest margin and net income the forecast balance sheet is processed against five rate scenarios. These five rate scenarios include a flat rate environment, which assumes interest rates are unchanged in the future and four additional rate ramp scenarios ranging for + 200 to 200 basis points in 100 basis point increments, unless the rate environment cannot move in these basis point increments before reaching zero.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)

The formal policies and practices adopted by the Company to monitor and manage interest rate risk exposure measure risk in two ways: (i) repricing opportunities for earning assets and interest-bearing liabilities and (ii) changes in net interest income for declining interest rate shocks of 100,200 or 300 basis points. Because of the Company s predisposition to variable rate, pricing and noninterest bearing demand deposit accounts the Company is asset sensitive. As a result, management anticipates that, in a declining interest rate environment, the Company s net interest income and margin would be expected to decline, and, in an increasing interest rate environment, the Company s net interest income and margin would be expected to increase. However, no assurance can be given that under such circumstances the Company would experience the described relationships to declining or increasing interest rates. Because the Company is asset sensitive, the Company is adversely affected by declining rates rather than rising rates.

To estimate the effect of interest rate shocks on the Company s net interest income, management uses a model to prepare an analysis of interest rate risk exposure. Such analysis calculates the change in net interest income given a change in the federal funds rate of 100,200 or 300 basis points up or down. All changes are measured in dollars and are compared to projected net interest income. Management s most recent calculation estimated an annualized reduction in net interest income attributable to a 50 and 100 basis point decline in the federal funds rate. At April 30, 2009 (the most recent report), the estimated annualized reduction in net interest income attributable to a 100, 200 and 300 basis point decline in the federal funds rate was $6,314, $386,865 and $682,927, respectively, with a similar and opposite result attributable to a 100, 200 and 300 basis point increase in the federal funds rate.

The ALCO has established a policy limitation to interest rate risk of -21% of net interest margin and -30% of the present value of equity.

The securities portfolio is integral to our asset liability management process. The decision to purchase or sell securities is based upon the current assessment of economic and financial conditions, including the interest rate environment, liquidity, regulatory requirements and the relative mix of our cash positions.

The Company s approach to managing interest rate risk may include the use of derivatives. This helps to minimize significant, unplanned fluctuations in earnings, fair values of assets and liabilities and cash flows caused by interest rate volatility. This approach involves modifying the repricing characteristics of certain assets and liabilities so that changes in interest rates do not have a significant adverse effect on the net interest margin and cash flows. As a result of interest rate fluctuations, hedged assets and liabilities will gain or lose market value. In a fair value hedging strategy, the effect of this unrealized gain or loss will generally be offset by income or loss on the derivatives linked to the hedged assets and liabilities. For a cash flow hedge, the change in the fair value of the derivative to the extent that it is effective is recorded through other comprehensive income.

The Company may use derivatives as part of our interest rate risk management, including interest rate swaps, caps and floors. At inception, the relationship between hedging instruments and hedged items is formally documented with our risk management objective, strategy and our evaluation of effectiveness of the hedge transactions. This includes linking all derivatives designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific transactions. Periodically, as required, we formally assess whether the derivative we designated in the hedging relationship is expected to be and has been highly effective in offsetting changes in fair values or cash flows of the hedged item. The Company s use of derivatives is monitored by the Directors ALCO committee.

ITEM 4T. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosure.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

An evaluation as of the end of the period covered by this report was carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d -15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on their evaluation, our certifying officers concluded that these disclosure controls and procedures are effective in providing reasonable assurance that the information required to be disclosed by us in our periodic reports filed with the Securities and Exchange Commission (SEC) is recorded, processed, summarized and reported within the time periods specified by the SEC s rules and SEC reports.

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Subsequent to filing our original report, and in connection with preparing for the 2009 audit, we concluded that the accounting for the cash flows associated with mortgage loans held for sale and goodwill related to the stock purchase agreement with Simonich Corporation was inappropriate. This instance is considered to be a material weakness in our disclosure controls and procedures particularly as it relates to the selection and application of accounting principles and specifically accounting for nonrecurring transactions. This error affects the characterization of items within the Company s statement of cash flows for those periods, but does not affect earnings, statements of income, and does not significantly affect balance sheets.

As a result of such conclusions, our management determined to restate our consolidated financial statements as of and for the three and six months ended June 30, 2009 and the three and nine months ended September 30, 2009.

In conjunction with the decision to restate our financial statements, management re-evaluated our disclosure controls and procedures and concluded that these controls were not effective as of June 30, 2009.

During the first quarter of 2010, in conjunction with preparing our annual financial statements, we are taking steps to identify, rectify and prevent the recurrence of the circumstances that resulted in our determination to restate prior period financial statements, including an increased emphasis on review of accounting literature relating to non-recurring transactions. As part of this undertaking, we have consulted with our independent registered public accounting firm, increased emphasis on continuing education for our accounting personnel and will increase emphasis on reviewing applicable accounting literature, all relating to the selection and application of accounting principles pertaining to these areas.

PART II. Other Information

Item 1. Legal proceedings

The Company is involved in various pending and threatened legal actions arising in the ordinary course of business. The Company maintains reserves for losses from legal actions, which are both probable and estimable. In the opinion of management, the disposition of claims, currently pending will not have a material adverse affect on the Company s financial position or results of operations.

Item 1a. Risk Factors

During the second quarter 2009, the Company acquired a 51% ownership position in a mortgage banking subsidiary. Risk factors have been updated from the registrant s Form 10-K to include the following:

Mortgage banking interest rate and market risk

Changes in interest rates greatly affect the mortgage banking business. Our mortgage subsidiary originates, funds and services mortgage loans, which subjects the Company to various risks, including credit, liquidity and interest rate risks. Based on market conditions and other factors, the Company reduces unwanted credit and liquidity risks by selling some or all of the long-term fixed-rate mortgage loans and adjustable rate mortgages originated. Notwithstanding the continued downturn in the housing sector, and the continued lack of liquidity in the nonconforming secondary markets, the subsidiary mortgage banking revenue continued to be positive. Interest rate and market risk can be substantial in the mortgage business. Changes in interest rates may potentially impact total origination fees.

Interest rates impact the amount and timing of origination because consumer demand for new mortgages and the level of refinancing activity are sensitive to changes in mortgage interest rates. Typically, a decline in mortgage interest rates will lead to an increase in mortgage originations and fees. Given the time it takes for consumer behavior to fully react to interest rate changes, as well as the time required for processing a new application, providing the commitment, and selling the loan, interest rate changes will impact origination fees with a lag. The amount and timing of the impact on origination fees will depend on the magnitude, speed and duration of the change in interest rates. A decline in interest rates generally increases the propensity for refinancing.

As part of subsidiary mortgage banking activities, we enter into commitments to fund residential mortgage loans at specified times in the future. A mortgage loan commitment is an interest rate lock that binds us to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock. Outstanding loan commitments expose the Company to the risk that the price of the mortgage loans underlying the commitments might decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan.

Mortgage banking revenue can be volatile from quarter to quarter

The Company earns revenue from fees for originating mortgage loans. When rates rise, the demand for mortgage loans tends to fall, reducing the revenue from loan originations. It is also possible that, because of the recession and deteriorating housing market, even if interest rates were to fall, mortgage originations may also fall.

Recent legislative and regulatory initiatives to support the financial services industry have been coupled with numerous restrictions and requirements that could detrimentally affect the Company s business and require us to raise additional capital

In addition to the U.S. Treasury Department s Capital Purchase Program (CPP) under the Troubled Asset Relief Program (TARP) announced in the fall of 2008, the U.S. Treasury and the FDIC have taken further steps to support and regulate the financial services industry, that include enhancing the liquidity support available to financial institutions, establishing a commercial paper funding facility, temporarily guaranteeing money market funds and certain types of debt issuances, and increasing insurance on bank deposits. Also, the U.S. Congress, through the Emergency Economic Stabilization Act of 2008 and the American Recovery and Reinvestment Act of 2009, have imposed a number of restrictions and limitations on the operations of financial services firms participating in the federal programs. These programs subject us and other financial institutions who participate in them to (i) additional restrictions, oversight, reporting obligations and costs; and (ii) compensation restrictions that limit our ability to attract and retain executives, each of which could have an adverse impact on our business, financial condition, results of operations or the price of our common stock. In addition, new proposals for legislation continue to be introduced in the U.S. Congress that could further substantially increase regulation of the financial services industry and impose restrictions on the ability of firms within the industry to conduct business consistent with historical practices, including aspects such as compensation, interest rates, new and inconsistent consumer protection regulations and mortgage regulation, among others. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied. We cannot predict the substance or impact of pending or future legislation or regulation, or the application thereof. Compliance with such current and potential regulation and scrutiny may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital and limit our ability to pursue business opportunities in an efficient manner. In response, we may be required to or choose to raise additional capital, which could have a dilutive effect on the existing holders of our common stock and adversely affect the market price of our common stock. We continually evaluate opportunities to access capital markets taking into account our regulatory capital ratios, financial condition, stock price and other relevant considerations. Capital actions may include opportunistically retiring our outstanding securities, including our preferred shares issued to the U.S. Treasury under the CPP or trust preferred securities, by raising capital in open market transactions, privately negotiated transactions or public offers for cash or common shares. We may also issue common stock in public or private transactions to increase or maintain our capital levels above the requirements for a well-capitalized institution as established by the federal bank regulatory agencies as well as other regulatory targets. There can be no assurance that we will, or will be able to, raise capital.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults upon Senior Securities

N/A.

Item 4. Submission of Matters to a vote of Security Holders

Bank of Commerce Holdings parent company of Redding Bank of Commerce and Bank of Commerce Mortgage reports actions approved at their annual Shareholders Meeting held May 12, 2009. The count of shares represented in person or proxy were 5,440,033 or 62.4% of the outstanding voting shares of the Company. 98.0% if the votes cast voted FOR the election of nine directors named in the proxy statement for terms expiring on the date of the annual meeting in 2010. 60.4% of the shares voted FOR the amendment to the Company bylaws expanding the number of director seats to a range of seven (7) to thirteen (13). 100% of the votes cast voted FOR adoption of non-binding advisory resolution approving executive compensation (Say on Pay) and 92.9% of the votes cast voted FOR ratification of the selection of Moss Adams, LLP as the Company s independent auditors for 2009.

Item 5. Other Information

Item 6. Exhibits

(31.1) Certification of Chief Executive Officer pursuant to Sarbanes-Oxley Act of 2002
(31.2) Certification of Chief Financial Officer pursuant to Sarbanes-Oxley Act of 2002
(31.3) Certification of Chief Executive Officer pursuant to Sarbanes-Oxley Act of 2002

(31.4) Certification of Chief Financial Officer pursuant to Sarbanes-Oxley Act of 2002
(32.0) Certification of Chief Executive Officer and Chief Financial Officer pursuant to Sarbanes-Oxley Act of 2002

Table of Contents

SIGNATURES

Following the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BANK OF COMMERCE HOLDINGS
(Registrant)

Date: February 9, 2010

/s/ Samuel D. Jimenez
Samuel D. Jimenez
Senior Vice President and
Chief Financial Officer

56