Bank of Commerce Holdings
Form 10-K
March 04, 2011

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

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

(Exact name of Registrant as specified in its charter)

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) 722-3952
Securities registered pursuant to Section 12(b) of the Act:
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, No Par Value per share	NASDAQ Global Market

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No þ

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference to Part III of this Form 10-K or any amendment to this Form 10-K. 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 þ	Non-accelerated filer o (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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter.

As of the last day of the second fiscal quarter of 2010, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $75,004,921 based on the closing sale price of $4.74 as reported on the NASDAQ Global Market as of June 30, 2010.

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the last practicable date.

The number of shares of the registrant s no par value Common Stock outstanding as of March 3, 2011 was 16,991,495

DOCUMENTS INCORPORATED BY REFERENCE

None

Bank of Commerce Holdings Form 10-K
Table of Contents

Part I.

Item 1. Business 4

Item 1A Risk Factors 18

Item 1B Unresolved Staff Comments 31

Item 2. Properties 31

Item 3. Legal Proceedings 31

Item 4. (Removed and Reserved) 31

Part II.

Item 5. Market for Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities 32

Item 6. Selected Financial Data 36

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations 37

Item 7A. Quantitative and Qualitative Disclosures About Market Risk 70

Item 8. Financial Statements and Supplementary Data 73

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure 146

Item 9A. Controls and Procedures 146

Item 9B. Other Information 147

Part III.

Item 10. Directors, Executive Officers and Corporate Governance 148
Item 11. Executive Compensation 148
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters 148
Item 13. Certain Relationships and Related Transactions, and Director Independence 148
Item 14. Principal Accounting Fees and Services 148

Part IV.

Item 15. Exhibits and Financial Statement Schedules 149
EX-23.1

EX-31.1
EX-31.2
EX-32.1
EX-99.1
EX-99.2

Table of Contents

PART I

Special Note Regarding Forward-Looking Statements

This report includes forward-looking statements within the meaning of the Securities Exchange Act of 1934 (Exchange Act) and the Private Securities Litigation Reform Act of 1995. These statements are based on management s beliefs and assumptions, and on information available to management as of the date of this document. Forward-looking statements include the information concerning possible or assumed future results of operations of the Company set forth under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations. Forward-looking statements also include statements in which words such as expects, anticipates, intend, plan, believes, estimate, consider or similar expressions or conditional verbs such as will, should, would and could are intended to identify such forward looking statements. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. The Company s actual future results and shareholder values may differ materially from those anticipated and expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond the Company s ability to control or predict. Investors are cautioned not to put undue reliance on any forward-looking statements. In addition, the Company does not have any intention and assumes no obligation to update forward-looking statements after the date of the filing of this report, even if new information, future events or other circumstances have made such statements incorrect or misleading. Except as specifically noted herein all references to the Company refer to Bank of Commerce Holdings, a California corporation, and its consolidated subsidiaries.

The following factors, among others, could cause our actual results to differ materially from those expressed in such forward-looking statements:

- *The strength of the United States economy in general and the strength of the local economies in which we conduct operations, the duration of current financial and economic volatility and decline and actions taken by the United States Congress and governmental agencies, including the United States Department of the Treasury (the Treasury), to deal with challenges to the United States financial system;*
- *The effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, or the Federal Reserve Board*
- *Inflation, interest rate, market and monetary fluctuations, the risks presented by a continued economic recession, which could adversely affect credit quality, collateral values, investment values and liquidity;*
- *Changes in the financial performance and/or condition of our borrowers;*
- *Changes in consumer spending, borrowing and savings habits;*
- *Changes in the level of our nonperforming assets and charge-offs;*
- *Oversupply of inventory and continued deterioration in values of real estate in California and the United States generally, both residential and commercial;*
- *Changes in securities markets, public debt markets and other capital markets;*
- *Possible other-than-temporary impairments of securities held by us;*
- *The timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;*
- *The willingness of customers to substitute competitors products and services for our products and services;*

The impact of changes in financial services policies, laws and regulations, including laws, regulations and policies concerning taxes, banking, securities and insurance, and the application thereof by regulatory bodies;

Technological changes could expose us to new risks, including potential systems failures or fraud;

The timing and effect of acquisitions we may make, if any, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions;

Possible impairment of goodwill that has been recorded in connection with acquisitions which may have a material adverse impact on our earnings;

The effect of changes in accounting policies and practices, as may be adopted from time-to-time by bank regulatory agencies, the Securities and Exchange Commission (the SEC), the Public Company Accounting Oversight Board, the Financial Accounting Standards Board or other accounting standards setters;

The impact of current governmental efforts to restructure the United States financial regulatory system, including changes in the scope and cost of FDIC insurance and other coverages and changes in the Treasury s Capital Purchase Program;

Ability to attract deposits and other sources of liquidity at acceptable costs;

Changes in the competitive environment among financial and bank holding companies and other financial service providers;

The loss of critical personnel and the challenge of hiring qualified personnel at reasonable compensation levels;

Geopolitical conditions, including acts or threats of war or terrorism, actions taken by the United States or other governments in response to acts or threats of war or terrorism and/or military conflicts, which could impact business and economic conditions in the United States and abroad;

Unanticipated regulatory or judicial proceedings; and

Our ability to manage the risks involved in the foregoing.

If our assumptions regarding one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this prospectus and in the information incorporated by reference in this prospectus. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We will not update the forward-looking statements to reflect actual results or changes in the factors affecting the forward-looking statements.

Forward-looking statements should not be viewed as predictions, and should not be the primary basis upon which investors evaluate us. Any investor in our common stock should consider all risks and uncertainties discussed in BUSINESS RISK FACTORS and in the MD&A.

ITEM 1. BUSINESS

Bank of Commerce Holdings (Company, , Holding Company, We, or Us) is a corporation organized under the laws California and a bank holding company. Our principal business is to serve as a holding company for Redding Bank of Commerce[tm] (Bank), which operates under two separate names Redding Bank of Commerce[tm], and Roseville Bank of Commerce[tm], a division of Redding Bank of Commerce, and for Bank of Commerce Mortgage[tm], our majority-owned mortgage brokerage subsidiary. We also have two unconsolidated subsidiaries, Bank of Commerce Holdings Trust and Bank of Commerce Holdings Trust II, which were organized in connection with our prior issuances of trust preferred securities. Our common stock is traded on the NASDAQ Global Market under the symbol BOCH.

The Company commenced banking operations in 1982 and currently operates four full service facilities in two diverse markets in Northern California. We are proud of the Bank s reputation as one of Northern California s premier banks for business. We provide 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 in California, such as free checking, interest-bearing checking and savings accounts, money market deposit accounts, sweep arrangements, commercial, construction and 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 that

affiliation.

Table of Contents

In order to enhance our noninterest income, we acquired 51.0% of the capital stock of Simonich Corporation, a successful state of the art mortgage broker of residential real estate loans headquartered in San Ramon, California, with fourteen offices in two different states and licenses in California, Oregon, Washington, Idaho and Colorado. The acquisition allows us to penetrate into the mortgage brokerage services market at our current bank locations and to share in the income on mortgage transactions nationwide. On July 1, 2009 we changed the mortgage company s name to Bank of Commerce Mortgage[tm] in order to enhance our name recognition throughout Northern California. The services offered by Bank of Commerce Mortgage[tm] include brokerage mortgages for single and multi-family residential new financing, refinancing and equity lines of credit; all loan originations are sold, servicing released to the secondary market or to correspondent relationships.

We are continuously search for both organic and external expansion opportunities, through internal growth, strategic alliances, acquisitions, establishing new offices or the delivery of new products and services.

Systematically, we will reevaluate the short and long-term profitability of all of our lines of business, and will not hesitate to reduce or eliminate unprofitable locations or lines of business. We remain a viable, independent bank committed to enhancing shareholder value. This commitment has been fostered by proactive management and vigilant dedication to our staff, customers, and the markets we serve.

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 a myriad of other financial entities that compete for our core business. We have developed strategic plans that evaluate additional services and products that can be delivered to our customers efficiently and profitably. Producing quality returns is, as always, a top priority.

Our governance structure enables us to manage all major aspects of our business effectively through an integrated process that includes financial, strategic, risk and leadership planning. Our management processes, structures and policies and procedures help to ensure compliance with laws and regulations and provide clear lines for decision-making and accountability. Results are important, but we are equally concerned with 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.

Our primary business strategy is to provide comprehensive banking and related services to small and mid-sized businesses, not-for-profit organizations, and professional service providers as well as banking services for consumers, primarily business owners and their key employees. We emphasize the diversity of our product lines and high levels of personal service and, through our technology, offer convenient access typically associated with larger financial institutions, while maintaining the local decision-making authority and market knowledge, typical of a local community bank. Management intends to pursue our business strategy through the following initiatives:

Utilize the Strength of Our Management Team. The experience, depth and knowledge of our management team represent one of our greatest strengths and competitive advantages. Our Senior Leadership Committee establishes short and long-term strategies, operating plans and performance measures and reviews our performance to plan on a monthly basis. Our Credit Round Table Committee recommends corporate credit practices and limits, including industry concentration limits and approval requirements and exceptions. Our Technology Steering Committee establishes technological strategies, makes technology investment decisions, and manages the implementation process. Our Asset Liability Management Committee (ALCO) Round Table Committee establishes and monitors liquidity ranges, pricing, maturities, investment goals, and interest spread on balance sheet accounts. Our SOX 404 Compliance Team has established the master plan for full documentation of the Company s internal controls and compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

Leverage Our Existing Foundation for Additional Growth. Based on our management s depth of experience and certain infrastructure investments, we believe that we will be able to take advantage of certain economies of scale typically enjoyed by larger organizations to expand our operations both organically and through strategic cost-effective avenues.

Table of Contents

We believe there will be opportunities to acquire failing institutions or their assets through loss sharing agreements with the FDIC, buy branches from struggling banks in our market areas looking to improve their capital metrics, and acquire entire franchises for little to no premium. We also believe that the investments we have made in our data processing, staff and branch network will be able to support a much larger asset base. We are committed, however, to control any additional growth in a manner designed to minimize risk and to maintain strong capital ratios.

Maintain Local Decision-Making and Accountability. We believe we have a competitive advantage over larger national and regional financial institutions by providing superior customer service with experienced, knowledgeable management, localized decision-making capabilities and prompt credit decisions. We believe that our customers want to deal directly with the people who make the ultimate credit decisions and have provided our Bank managers and loan officers with the authority commensurate with their experience and history which we believe strikes the right balance between local decision-making and sound banking practice.

Focus on Asset Quality and Strong Underwriting. We consider asset quality to be of primary importance and have taken measures to ensure that, despite the turbulent economy and growth in our loan portfolio, we consistently maintain strong asset quality. As part of our efforts, we utilize a third party loan review service to evaluate our loan portfolio on three engagements per year to recommend action on certain loans if deemed appropriate. As of December 31, 2010, we had $22.8 million in nonperforming assets, including other real estate owned of $2.3 million, which as a percentage of total assets was 2.43%. We also seek to maintain a prudent allowance for loan losses, which at December 31, 2010 was $12.8 million, representing 2.14% of our loan portfolio, not including loans held for sale.

Build a Stable Core Deposit Base. We will continue to grow a stable core deposit base of business and retail customers. In the event that our asset growth outpaces these local core deposit funding sources, we will continue to utilize Federal Home Loan Bank borrowings and raise deposits in the national market using deposit intermediaries. We intend to continue our practice of developing a full deposit relationship with each of our loan customers, their business partners, and key employees. We will continue to use hot spot consumer depositories with state of the art technologies in highly convenient locations to enhance our core deposit base.

Our principal executive offices are located at 1901 Churn Creek Road, Redding, California and the main telephone number is (530) 722-3939.

General

Parent Bank Holding Company. As a bank holding company, the Parent is subject to regulation under the BHC Act and to inspection, examination and supervision by its primary regulator, the Board of Governors of the Federal Reserve System (Federal Reserve Board or FRB). The Parent is also subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, both as administered by the Securities and Exchange Commission (SEC). As a listed Company on the NASDAQ Global Market, the Parent is subject to the rules of the NASDAQ for listed companies.

Subsidiary Bank. The Company s subsidiary bank is subject to regulation and examination primarily by the Federal Deposit Insurance Corporation (FDIC) and by the California Department of Financial Institutions (CDFI).

Nonbank Subsidiary. The Company s nonbank subsidiary may be subject to the laws and regulations of the federal government and/or the State of California.

Table of Contents

Parent Holding Company Activities

Financial in Nature Requirement. As a bank holding company that has elected to become a financial holding company pursuant to the Gramm-Leach-Bliley Financial Modernization Act of 1999 (GLB Act), we may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or incidental or complementary to activities that are financial in nature. Financial in Nature activities include securities underwriting, dealing and market making, sponsoring mutual funds and investment companies, insurance underwriting and agency, merchant banking, and activities that the FRB, in consultation with the Secretary of the U.S. Treasury, determines from time to time to be financial in nature or incidental to such financial activity or is complementary to a financial activity and does not pose a safety and soundness risk.

FRB approval is not required for the Company to acquire a company (other than a bank holding company, bank or savings association) engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the FRB. Notice of such acquisitions, however, must be given to the FRB within 30 days of commencing a new financial activity or acquiring a company engaged in financial in nature activities. Prior FRB approval is required before the Company may acquire the beneficial ownership or control of more than 5% of the voting shares or substantially all of the assets of a bank holding company, bank or savings association.

Because the Holding Company is a financial holding company, if the Bank receives a rating under the Community Reinvestment Act of 1977, as amended (CRA), of less than satisfactory, the Company will be prohibited, until the rating is raised to satisfactory or better, from engaging in new activities or acquiring companies other than bank holding companies, banks or savings associations. The Company could engage in new activities, or acquire companies engaged in activities that are closely related to banking under the BHC Act.

In addition, if the FRB finds that the Bank is not well capitalized or well managed, the Holding Company could be required to enter into an agreement with the FRB to comply with all applicable capital and management requirements and which may contain additional limitations or conditions. Until corrected, the Company would not be able to engage in any new activity or acquire companies engaged in activities that are not closely related to banking under the BHC Act without prior FRB approval. If the Company failed to correct any such condition within a prescribed period, the FRB could order the Company to divest the Bank or, in the alternative, to cease engaging in activities other than those closely related to banking under the BHC Act.

To qualify as well-capitalized, the Bank must, on a consolidated basis: (i) maintain a total risk-based capital ratio of 10% or greater, (ii) maintain a Tier 1 risk-based capital ratio of 6% or greater and (iii) not be subject to any order by the FRB to meet a specified capital level. To qualify as well-managed, the Bank, as the Holding Company s only controlled financial institution, must have received at its most recent examination or review a composite rating and rating for management of at least satisfactory.

In determining whether to approve a proposed bank acquisition, federal bank regulators will consider, among other factors, the effect of the acquisition on competition, financial condition, and future prospects including current and projected capital ratios and levels, the competence, experience, and integrity of management and record of compliance with laws and regulations, the convenience and needs of the communities to be served, including the acquiring institution s record of compliance under the CRA, and the effectiveness of the acquiring institution in combating money laundering activities.

Principal Markets

The Company operates in two distinct markets. Redding Bank of Commerce (Bank) has historically been a leading independent commercial bank in Redding, California, and Shasta County, California. This market has been expanding, but is still relatively small when compared to the greater Sacramento market which is the location of Roseville Bank of Commerce, a division of Redding Bank of Commerce. Management believes that these two markets complement each other, with the Redding market providing the stability and the greater Sacramento market providing growth opportunities.

Table of Contents

Principal Products and Services

Through the Bank and its mortgage subsidiaries, the Bank 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 and savings accounts, money market deposit accounts, sweep arrangements, commercial, construction, term loans, traveler s checks, safe deposit boxes, collection services and electronic banking activities. The Bank currently does not offer trust services or international banking services.

The services offered by our mortgage subsidiary include single and multi-family residential new financing, refinancing and equity lines of credit. All mortgage products originated through our mortgage subsidiary are brokered and are not maintained on the Bank s books as loans held for investment purposes. 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 (1) commercial, (2) real estate construction, and (3) commercial real estate.

The majority of the Bank s loans are direct loans made to individuals and small businesses in the major market areas of the Bank. 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 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.

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 in the Bank s service area. 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 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 are 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.

Government Supervision and Regulation

The Holding Company and Bank are subject to extensive federal and state supervision and regulation. The following discussion describes the elements of the regulatory framework applicable to financial holding companies and banks and specific information about the Holding Company and its subsidiaries. Federal regulation of banks, bank holding companies and financial holding companies is intended primarily for the protection of depositors and the Deposit Insurance Fund rather than for the protection of shareholders and creditors. The following discussion of laws and regulations is only a summary. This discussion is qualified in its entirety by reference to such laws and regulations.

Dividend Restrictions

The FRB generally prohibits a bank holding company from declaring or paying a cash dividend which would impose undue pressure on the capital of subsidiary banks or would be funded only through borrowing or other arrangements that might adversely affect a bank holding company s financial position. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) prohibits insured depository institutions from paying management fees to any controlling persons or, with certain limited exceptions, making capital distributions, including dividends, if, after such transaction, the institution would be undercapitalized.

In addition to the restrictions imposed under federal law, banks chartered under California law generally may only pay cash dividends to the extent such payments do not exceed the lesser of retained earnings of the bank or the bank s net income for its last three fiscal years (less any distributions to shareholders during such period).

In the event a bank desires to pay cash dividends in excess of such amount, the bank may pay a cash dividend with the prior approval of the Commissioner in an amount not exceeding the greater of the bank s retained earnings, the bank s net income for its last fiscal year, or the bank s net income for its current fiscal year.

Regulators also have authority to prohibit a depository institution from engaging in business practices which are considered to be unsafe or unsound, possibly including payment of dividends or other payments under certain circumstances even if such payments are not expressly prohibited by statute. The FRB s policy is that a bank holding company should not continue its existing rate of cash dividends on its common stock unless its net income is sufficient to fully fund each dividend and its prospective rate of earnings retention appears consistent with its capital needs, asset quality and overall financial condition.

Prior to November 14, 2011, unless the Holding 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 Holding 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 Holding 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.

Table of Contents

Interstate Banking

A bank holding company may acquire banks in states other than its home state without regard to the permissibility of such acquisitions under state law, but subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding company, prior to or following the proposed acquisition, controls no more than 10% of the total amount of deposits of insured depository institutions in the United States and no more than 30% of such deposits in that state (or such lesser or greater amount set by state law). Banks may also merge across state lines, therefore creating interstate branches. Furthermore, a bank is now able to open new branches in a state in which it does not already have banking operations if the laws of such state permit such de novo branching. California law authorizes out-of-state banks to enter California by the acquisition of or merger with a California bank that has been in existence for at least five years, unless the California bank is in danger of failing or in certain other emergency situations, but limits interstate branching into California to branching by acquisition of an existing bank.

Capital Standards

In the United States of America, banks, thrifts and bank holding companies are subject to minimum regulatory capital requirements. Specifically, U.S. banking organizations must maintain a minimum leverage ratio and two minimum risk-based ratios. The leverage ratio measures regulatory capital as a percentage of average on-balance-sheet assets as reported in accordance with accounting principles generally accepted in the United States of America (GAAP). The risk-based ratios measure regulatory capital as a percentage of both on- and off-balance-sheet credit exposures with some gross differentiation based on perceived credit risk. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off-balance-sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain U.S. government securities, to 100% for assets with relatively higher credit risk, such as certain loans.

The current U.S. risk-based capital requirements are based on an internationally agreed framework for capital measurement that was developed by the Basel Committee on Banking Supervision (BSC) in 1988. The international framework (1988 Accord) accomplished several important objectives. It strengthened capital levels at large, internationally active banks and fostered international consistency and coordination. The 1988 Accord also reduced disincentives for banks to hold liquid, low risk assets. By requiring banks to hold capital against off-balance-sheet exposures, the 1988 Accord represented a significant step forward for regulatory capital measurement. The federal banking agencies require a minimum ratio of qualifying total capital to risk-adjusted assets and off-balance-sheet items of 8%, and a minimum ratio of Tier 1 capital to risk-adjusted assets and off-balance-sheet items of 4%.

As of December 31, 2010, the Holding Company and the Bank exceeded the well capitalized requirements as follows:

Table of Contents

	December 31, 2010			
	Capital	Actual Ratio	Well Capitalized Requirement	Minimum Capital Requirement
The Company				
Leverage	$ 115,541	12.48%	n/a	4.00%
Tier 1 Risk-Based	115,541	13.74%	n/a	4.00%
Total Risk-Based	126,085	15.00%	n/a	8.00%
Redding Bank of Commerce				
Leverage	$ 106,747	11.60%	5.00%	4.00%
Tier 1 Risk-Based	106,747	13.34%	6.00%	4.00%
Total Risk-Based	116,791	14.59%	10.00%	8.00%

Since the adoption of the 1988 Accord, the world s financial system has become increasingly more complex and the BSC has been working for several years to develop a new regulatory capital framework that recognizes new developments in financial products, incorporates advances in risk measurement and management practices, and more precisely assesses capital charges in relation to risk (New Accord).

The New Accord encompasses three elements: minimum regulatory capital requirements, supervisory review, and market discipline. Under the first element, a banking organization must calculate capital requirements to credit risk, operational risk and market risk. The New Accord does not change the definition of what qualifies as regulatory capital, the minimum risk-based capital ratio, or the methodology for determining capital charges for market risk. The New Accord does provide several methodologies for determining capital requirements for both credit and operational risk. For credit risk there are two general approaches; the standardized approach (based on the 1988 Accord) and the internal ratings-based (IRB) approach, which uses the institution s internal estimates of key risk drivers to derive capital requirements.

The New Accord provides three methodologies for determining capital requirements for operational risk: the basic indicator approach, the standardized approach, and the advanced measurement approaches (AMA). Under the first two methodologies, capital requirements for operational risk are fixed percentages of specified, objective risk measures (for example, gross income.) The AMA provides the flexibility for an institution to develop its own individualized approach for measuring operational risk, subject to supervisory oversight.

The second pillar of the New Accord, supervisory review, highlights the need for banking organizations to assess their capital adequacy positions relative to overall risk (rather than to the minimum capital requirement), and the need for supervisors to review and take appropriate actions in response to those assessments. The third pillar of the New Accord imposes public disclosure requirements on institutions that are intended to allow market participants to assess key information about an institutions risk profile and its associated level of capital.

Prompt Corrective Action and Other Enforcement Mechanisms

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios. The law required each federal banking agency to promulgate regulations defining the following five categories in which an insured depository institution will be placed, based on the level of its capital ratios: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. As of December 31, 2010, the Bank was considered well capitalized under the regulatory framework for prompt corrective action.

An institution that, based upon its capital levels, is classified as well capitalized, adequately capitalized or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound

Table of Contents

condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions.

The federal banking agencies, however, may not treat an institution as critically undercapitalized unless its capital ratio actually warrants such treatment. If an insured depository institution is undercapitalized, it will be closely monitored by the appropriate federal banking agency.

Undercapitalized institutions must submit an acceptable capital restoration plan with a guarantee of performance issued by the holding company. Further restrictions and sanctions are required to be imposed on insured depository institutions that are critically undercapitalized. Furthermore, the appropriate federal banking agency is required to either appoint a receiver for the institution within 90 days, or obtain the concurrence of the FDIC in another form of action.

Fiscal and Monetary Policies

The Company s business and earnings are affected significantly by the fiscal and monetary policies of the federal government and its agencies. The Company is particularly affected by the policies of the FRB, which regulates the supply of money and credit in the United States. Among the instruments of monetary policy available to the FRB are (a) conducting open market operations in United States government securities, (b) changing the discount rates of borrowings of depository institutions, (c) imposing or changing reserve requirements against depository institutions deposits, and (d) imposing or changing reserve requirements against certain borrowings by banks and their affiliates. These methods are used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. The policies of the FRB may have a material effect on the Company s business, results of operations and financial condition.

Privacy Provisions of the Gramm-Leach-Bliley Act

Federal banking regulators, as required under the GLB Act, have adopted rules limiting the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. The rules require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to nonaffiliated third parties. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial services companies and conveyed to outside vendors.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) implemented a broad range of corporate governance and accounting measures to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of disclosures under federal securities laws. The Holding Company is subject to Sarbanes-Oxley because it is required to file periodic reports with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934. Among other things, Sarbanes-Oxley and/or its implementing regulations have established new membership requirements and additional responsibilities for our audit committee, imposed restrictions on the relationship between the Holding Company and its outside auditors (including restrictions on the types of non-audit services our auditors may provide to us), imposed additional responsibilities for our external financial statements on our Chief Executive Officer and Chief Financial Officer, expanded the disclosure requirements for our corporate insiders, required our management to evaluate the Holding Company s disclosure controls and procedures and its internal control over financial reporting, and will require our auditors to issue a report on our internal control over financial reporting.

Table of Contents

Patriot Act and Anti-Money Laundering

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Patriot Act) is intended to strengthen the ability of U.S. law enforcement agencies and intelligence communities to work together to combat terrorism on a variety of fronts. The Patriot Act has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The Patriot Act requires the Company to implement new or revised policies and procedures relating to anti-money laundering, compliance, suspicious activities, and currency transaction reporting 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.

Economic Emergency Stabilization Act of 2008

The Emergency Economic Stabilization Act of 2008 (EESA), which was signed into law on October 3, 2008, was enacted to promote liquidity in the financial markets and to minimize further economic deterioration in the United States. The primary components of EESA are the Troubled Asset Relief Program and increase in FDIC deposit insurance limits.

EESA authorized the U.S. Treasury Department (Treasury) to establish the Troubled Asset Relief Program (TARP). Under EESA, $700 billion in total was authorized to purchase troubled assets from financial institutions, which also includes making equity investments in such qualifying institutions. The Treasury had until the end of 2009 to use the funds allocated for purchases under EESA.

Using its authority under TARP, the Treasury also created the Capital Purchase Program (CPP). The CPP immediately authorized the Treasury to purchase equity from qualifying financial institutions, thus moving away from purchases of troubled assets as originally contemplated by TARP. To participate, a qualifying financial institution issues to the Treasury non-voting, redeemable preferred stock, and warrants for common stock, in an amount ranging from 1%-3% of such institution s total risk-based assets, not to exceed $25 billion. The terms of the preferred stock include payment of a dividend of 5% per annum for the first five years, and 9% per annum thereafter. In addition, the financial institution must issue to the Treasury a ten-year warrant to purchase shares of common stock, with an aggregate market price equal to 15% of the Treasury s total investment in the financial institution. Financial institutions participating in the CPP also must comply with the executive compensation and corporate governance requirements of EESA. The Holding Company issued $17 million of Series A Preferred Stock under the CPP program.

EESA also provides that FDIC deposit insurance will be temporarily increased from $100,000 to $250,000 until December 31, 2013, regardless of whether those funds are held in interest-bearing or noninterest-bearing accounts. Deposits held at the Bank are fully insured to the extent of this higher limit.

Temporary Liquidity Guarantee Program

On October 13, 2008, FDIC adopted the Temporary Liquidity Guarantee Program (TLGP), using the authority contained in systemic risk exception to FDICIA. The aim of the TGLP was to strengthen confidence and encourage liquidity in the banking system by guaranteeing newly issued senior unsecured debt of banks, thrifts, and certain holding companies, and by providing full coverage of non-interest bearing deposit transaction accounts, regardless of dollar amount. The two core components of the TGLP are the Debt Guarantee Program and the Transaction Account Guarantee Program.

Under the Debt Guarantee Program, the FDIC guarantees all newly-issued senior unsecured debt issued by participating entities up to certain prescribed limits. The guarantee does not extend beyond June 30, 2012. As a result of this guarantee, the unpaid principal and interest of newly-issued senior unsecured debt would be paid by the FDIC if the issuing insured depository institution failed or if a bankruptcy petition were filed by its issuing holding company.

Table of Contents

The Transaction Account Guarantee Program (TAGP) provides participating financial institutions to offer depositors a temporary, full guarantee by the FDIC for funds held at FDIC-insured depository institutions in noninterest-bearing transaction accounts above the existing deposit insurance limit. This coverage became effective on October 14, 2008, and was originally scheduled to terminate on December 31, 2009. On November 9, 2010 the FDIC Board of Directors issued the final rule to implement the section of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) that provides temporary unlimited coverage for noninterest bearing transaction accounts at all FDIC-insured depository institutions. The separate coverage for noninterest-bearing transaction accounts becomes effective on December 31, 2010, and terminates on December 31, 2012. Deposits held at our Bank are guaranteed to the fullest extent permitted.

Federal Deposit Insurance Premiums

On February 27, 2009, the FDIC adopted a final rule modifying its risk-based assessment system and setting initial base assessment rates beginning April 1, 2009 at 12 to 45 basis points with potential adjustments to each risk category. On May 22, 2009, the FDIC adopted a final rule imposing a 5 basis point special assessment on each insured depository institution s assets minus Tier 1 capital as of June 30, 2009, not to exceed 10 basis points times the institution s assessment base for the second quarter of 2009. On November 12, 2009, the FDIC adopted a final rule imposing a 13-quarter prepayment of FDIC insurance premiums payable by December 30, 2009.

President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act). The Act effects changes in the FDIC assessment base with stricter oversight. A new council of regulators led by the U.S. Treasury will set higher requirements for the amount of cash banks must keep on hand. FDIC insurance coverage is made permanent at the $250 thousand level retroactive to January 1, 2008 and unlimited FDIC insurance is provided for noninterest-bearing transaction accounts in all banks effective December 31, 2010 through the end of 2012. Further, the Act removes the prohibition on payments of interest on demand deposit accounts as of July 21, 2011. Thus, if a depositor sweeps any amount in excess of $250 thousand from a noninterest-bearing transaction account to an interest bearing demand deposit, there is no FDIC insurance coverage on the portion that is over $250 thousand coverage limit.

The Impact of New Financial Reform Legislation

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act), a landmark financial reform bill comprised of new rules and restrictions that will impact banks going forward. It includes key provisions aimed at preventing a repeat of the 2008 financial crisis and a new process for winding down failing, systemically important institutions in a manner as close to a controlled bankruptcy as possible. The Act includes other key provisions as follows:

(1) The Act establishes a new Financial Stability Oversight Council to monitor systemic financial risks. The Board of Governors of the Federal Reserve (Fed) are given extensive new authorities to impose strict controls on large bank holding companies with total consolidated assets equal to or in excess of $50 billion and systemically significant nonbank financial companies to limit the risk they might pose for the economy and to other large interconnected companies. The Fed can also take direct control of troubled financial companies that are considered systemically significant.

(2) The Act also establishes a new independent Federal regulatory body for consumer protection within the Federal Reserve System known as the Bureau of Consumer Financial Protection (the Bureau), which will assume responsibility for most consumer protection laws (except the Community Reinvestment Act). It will also be in charge of setting appropriate consumer banking fees and caps. The Office of Comptroller of the Currency will continue to have authority to preempt state banking and consumer protection laws if these laws prevent or significantly interfere with the business of banking.

Table of Contents

(3) The Act restricts the amount of trust preferred securities (TPS) that may be considered as Tier 1 Capital. For depository institution holding companies below $15 billion in total assets, TPS issued before May 19, 2010 will be grandfathered, so their status as Tier 1 capital does not change. However going forward, TPS will be disallowed as Tier 1 capital. Beginning January 1, 2013, Bank holding companies above $15 billion in assets will have a three-year phase-in period to fill the capital gap caused by the disallowance of the TPS issued before May 19, 2010.
(4) The Act effects changes in the FDIC assessment base with stricter oversight. A new council of regulators led by the U.S. Treasury will set higher requirements for the amount of cash banks must keep on hand. FDIC insurance coverage is made permanent at the $250 thousand level retroactive to January 1, 2008 and unlimited FDIC insurance is provided for noninterest-bearing transaction accounts in all banks effective December 31, 2010 through the end of 2012. Further, the Act removes the prohibition on payments of interest on demand deposit accounts as of July 21, 2011. Thus, if a depositor sweeps any amount in excess of $250 thousand from a noninterest-bearing transaction account to an interest bearing demand deposit, there is no FDIC insurance coverage on the portion that is over $250 thousand coverage limit.
(5) The Act places certain limitations on investment and other activities by depository institutions, holding companies and their affiliates.
The impact of the Act on our banking operations is still uncertain due to the massive volume of new rules still subject to adoption and interpretation.

Future Legislation

Congress will periodically introduce various legislation, including proposals to substantially change the financial institution regulatory system, is from time to time introduced in Congress. This legislation may change banking statutes and the operating environment of the Company in substantial and unpredictable ways. If enacted, this legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. The Company cannot predict whether any of this potential legislation will be enacted and, if enacted, the effect that it, or any implementing regulations, would have on the Company s business, results of operations or financial condition.

State Regulation and Supervision

The Bank is a California chartered bank insured by the FDIC, and as such is subject to regulation, supervision and regular examination by the CDFI and the FDIC. As a non-member of the Federal Reserve System, the primary federal regulator of the Bank is the FDIC. The primary federal regulator of the Holding Company is the Federal Reserve Board. The regulations of these agencies affect most aspects of the Bank s business and prescribe permissible types of loans and investments, the amount of required reserves, requirements for branch offices, the permissible scope of the Bank s activities and various other requirements. The Bank is also subject to applicable provisions of California law, insofar as such provisions are not in conflict with or preempted by federal banking law. In addition, the Bank is subject to certain regulations of the FRB dealing primarily with check-clearing activities, establishment of banking reserves, Truth-in-Lending (Regulation Z), Truth-in-Savings (Regulation DD), and Equal Credit Opportunity (Regulation B).
Under California law, a state chartered bank is subject to various restrictions on, and requirements regarding, its operations and administration including the maintenance of branch offices and automated teller machines, capital and reserve requirements, deposits and borrowings, shareholder rights and duties, and investment and lending activities.

Table of Contents

Safety and Soundness Standards

FDICIA also implemented certain specific restrictions on transactions and required federal banking regulators to adopt overall safety and soundness standards for depository institutions related to internal control, loan underwriting, documentation, and asset growth. Among other things, FDICIA limits the interest rates paid on deposits by undercapitalized institutions, restricts the use of brokered deposits, limits the aggregate extensions of credit by a depository institution to an executive officer, director, principal shareholder or related interest, and reduces deposit insurance coverage for deposits offered by undercapitalized institutions for deposits by certain employee benefits accounts.

The federal banking agencies may require an institution to submit to an acceptable compliance plan as well as have the flexibility to pursue other more appropriate or effective courses of action given the specific circumstances and severity of an institution s noncompliance with one or more standards.

Community Reinvestment Act and Fair Lending Developments

The Bank is subject to certain fair lending requirements and reporting obligations involving home mortgage lending operations and Community Reinvestment Act (CRA) activities. The CRA generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of their local communities, including low and moderate-income neighborhoods. In addition to substantive penalties and corrective measures that may be required for a violation of certain fair lending laws, the federal banking agencies may take compliance with such laws and CRA into account when regulating and supervising other activities.

Enforcement Powers

In addition to measures taken under the prompt corrective action provisions, insured banks may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their businesses, or for violation of any law, rule, regulation, or condition imposed in writing by the regulatory agency or term of a written agreement with the regulatory agency.

Enforcement actions may include: (1) the appointment of a conservator or receiver for the bank; (2) the issuance of a cease and desist order that can be judicially enforced; (3) the termination of the bank s deposit insurance; (4) the imposition of civil monetary penalties; (5) the issuance of directives to increase capital; (6) the issuance of formal and informal agreements; (7) the issuance of removal and prohibition orders against officers, directors and other institution-affiliated parties; and (8) the enforcement of such actions through injunctions or restraining orders based upon a judicial determination that the deposit insurance fund or the bank would be harmed if such equitable relief was not granted. The Commissioner, as the primary regulator for state-chartered banks, also has a broad range of enforcement measures, from cease and desist powers and the imposition of monetary penalties to the ability to take possession of a bank, including causing its liquidation.

Competition

The Company engages in the highly competitive financial services industry. Generally, the lines of activity and markets served involve competition with other banks, thrifts, credit unions and other non-bank financial institutions, such as investment banking firms, investment advisory firms, brokerage firms, investment companies and insurance entities which offer financial services, located both domestically and through alternative delivery channels such as the Internet. Many of these competitors enjoy fewer regulatory constraints and some may have lower cost structures. The methods of competition center around various factors, such as customer services, interest rates on loans and deposits, lending limits, customer convenience and technological advances.

Table of Contents

Securities firms, insurance companies and brokerage houses that elect to become financial holding companies may acquire banks and other financial institutions. Combinations of this type will significantly change the competitive environment in which we conduct business.

In order to compete with major banks and other competitors in its primary service areas, the Company relies upon the experience of its executive and senior officers in serving business clients, and upon its specialized services, local promotional activities and the personal contacts made by its officers, directors and employees. For customers whose loan demand exceeds the Company s legal lending limit, the Company may arrange for such loans on a participation basis with other banks. Competitive pressures in the banking industry significantly increase changes in the interest rate environment, and reduce net interest margins. Less than favorable economic conditions can also result in a deterioration of credit quality and an increase in the provisions for loan losses.

Employees

As of December 31, 2010 the Company employed 313 full-time equivalent employees. Of these employees, 26 were employed in the Roseville market, 96 were in the Redding market, and the remaining 191 were employed with the Company s mortgage subsidiary. None of the employees within the Company are subject to a collective bargaining agreement. Management considers its employee relations to be excellent.

Available Information

We will provide free of charge upon request, or through links to publicly available filings accessed through our 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. Our internet address is www.bankofcommerceholdings.com. Additionally, reports may be obtained through the Securities and Exchange Commission s website at www.sec.gov.

Table of Contents

ITEM 1A. RISK FACTORS

Our business is subject to various economic risks that could adversely impact our results of operations and financial condition.

The financial markets and the financial services industry in particular suffered unprecedented disruption, causing a number of institutions to fail or require government intervention to avoid failure. These conditions were largely the result of the erosion of the United States and international credit markets, including a significant and rapid deterioration in the mortgage lending and related real estate markets and valuation levels. Unemployment nationwide and in California has increased significantly through this economic downturn and is anticipated to increase or remain elevated for the foreseeable future. Continued declines in real estate values, high unemployment and financial stress on borrowers as a result of the uncertain economic environment could have an adverse effect on our borrowers or their customers, which could adversely affect our financial condition and results of operations.

We conduct banking operations principally in Northern California. As a result, our business results are dependent in large part upon the business activity, population, income levels, deposits and real estate activity in Northern California. There can be no assurance that the economic conditions that have adversely affected the financial services industry, and the capital, credit and real estate markets generally, will improve in the near term, in which case we could continue to experience losses and write-downs of assets, and could face capital and liquidity constraints or other business challenges. In addition, the State of California is currently experiencing significant budgetary and fiscal difficulties, which include terminating and furloughing state employees. The businesses operating in California and Sacramento in particular depend on these state employees for business, and reduced spending activity by these state employees could have a material impact on the success or failure of these businesses, some of which are current or potential future customers of the Bank. A further deterioration in economic conditions, particularly within our geographic region, could result in the following consequences, any of which could have a material adverse effect on our business, prospects, financial condition and results of operations:

- Loan delinquencies may further increase causing additional increases in our provision and allowance for loan losses;

- Financial sector regulators may adopt more restrictive practices or interpretations of existing regulations, or adopt new regulations;

- Collateral for loans made by the Bank, especially real estate related, may continue to decline in value, which in turn could reduce a client s borrowing power, and reduce the value of assets and collateral associated with our loans held for investment;

- Consumer confidence levels may decline and cause adverse changes in payment patterns, resulting in increased delinquencies and default rates on loans and other credit facilities and decreased demand for our products and services; and

- Performance of the underlying loans in the private label mortgage backed securities we hold may deteriorate due to the economic downturn, potentially causing other-than-temporary impairment markdowns to our investment portfolio.

Nonperforming assets take significant time to resolve and adversely affect our results of operations and financial condition.

As of December 31, 2010, our total nonperforming assets, including $2.3 million in other real estate owned, amounted to $22.8 million, or 2.43% of total assets. Nonperforming assets increased from $15.6 million, or 1.92% of total assets a year earlier. We experienced $11.2 million in net charge-offs in 2010 compared to $6.7 million in 2009. Our provision for loan and lease losses was $12.9 million for the twelve months ended December 31, 2010 compared to $9.5 million for the twelve months ended December 31, 2009. Nonperforming assets adversely affect our net income in various ways, including but not limited to increased loan provision expense, and forgone loan interest income.

Until economic and market conditions improve, we may expect to continue to incur losses relating to an increase in nonperforming assets. We generally do not record interest income on nonperforming loans or other real estate owned, thereby adversely affecting our income, and increasing our loan administration costs. When we take collateral in foreclosures and similar proceedings, we are required to mark the related asset to the then fair market value of the collateral, which may ultimately result in a loss. An increase in the level of nonperforming assets increases our risk profile and may impact the capital levels our regulators believe are appropriate in light of the ensuing risk profile. While we reduce problem assets through loan sales, workouts, restructurings and otherwise, decreases in the value of the underlying collateral, or in these borrowers performance or financial condition, whether or not due to economic and market conditions beyond our control, could adversely affect our business, results of operations and financial condition. In addition, the resolution of nonperforming assets requires significant commitments of time from management and our directors, which can be detrimental to the performance of their other responsibilities. There can be no assurance that we will not experience future increases in nonperforming assets.

We have a concentration risk in real estate related loans.

As of December 31, 2010, approximately 77.09% of our loan portfolio was secured by real estate, the majority of which is commercial real estate. Of that amount, 6.88% of our total loan portfolio consisted of construction loans, 43.67% related to commercial real estate, 14.96% related to residential mortgage loans (including ITIN portfolio) and 11.58% involved real estate loans not classified in the preceding definitions.

As a result of increased levels of commercial and consumer delinquencies and declining real estate values, we have experienced increasing levels of net charge-offs. A large percentage of our loan portfolio is secured by commercial real estate loans which generally carry larger loan balances and historically have involved a greater degree of financial and credit risks than residential first mortgage loans. These loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower, and therefore repayment of these loans is often dependent on the cash flow of the borrower which may be unpredictable. Continued increases in commercial and consumer delinquency levels or continued declines in real estate market values would require increased net charge-offs and increases in the allowance for loan and lease losses, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Monitoring and servicing our Individual Tax Identification Number (ITIN) residential mortgage loans could prove more costly and time consuming than previously modeled.

In April 2009, we completed a loan swap transaction, whereby we exchanged, without recourse, certain nonperforming assets and cash in exchange for a pool of performing ITIN loans with an outstanding balance of approximately $80.4 million. These loans are residential mortgage loans made to United States residents without a social security number and are geographically dispersed throughout the United States. This is our first ITIN loan transaction, and as such, is serviced through a third party. Worsening economic conditions in the United States may cause us to suffer higher default rates on our ITIN loans and reduce the value of the assets that we hold as collateral. In addition, if we are forced to foreclose and service these ITIN properties ourselves, we may realize additional monitoring, servicing and appraisal costs due to the geographic disbursement of the portfolio which would adversely affect our noninterest expense.

Future loan losses may exceed the allowance for loan losses.

We have established a reserve for possible losses expected in connection with loans in the credit portfolio. This allowance reflects estimates of the collectability of certain identified loans, as well as an overall risk assessment of total loans outstanding.

Table of Contents

The determination of the amount of loan loss allowance is subjective; although the method for determining the amount of the allowance uses criteria such as risk ratings and historical loss rates, these factors may not be adequate predictors of future loan performance, particularly in the current economic climate. Accordingly, we cannot offer assurances that these estimates ultimately will prove correct or that the loan loss allowance will be sufficient to protect against losses that ultimately may occur. If the loan loss allowance proves to be inadequate, we will need to make additional provisions to the allowance, which is accounted for as charges to income, which would adversely impact results of operations and financial condition. Moreover, bank regulators frequently monitor banks loan loss allowances, and if regulators were to determine that the allowance was inadequate, they may require us to increase the allowance, which also would adversely impact results of operations and financial condition.

Defaults may negatively impact us.

A source of risk arises from the possibility that losses will be sustained if a significant number of borrowers, guarantors and related parties fail to perform in accordance with the terms of their loans.

We have adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan losses, which management believes are appropriate to minimize risk by assessing the likelihood of nonperformance, tracking loan performance and diversifying the loan portfolio. These policies and procedures, however, may not prevent unexpected losses that could materially affect our results of operations.

Interest rate fluctuations, which are out of our control, could harm profitability.

Our income is highly dependent on interest rate differentials and the resulting net interest margins (i.e., the difference between the interest rates earned on the Bank s interest-earning assets such as loans and securities, and the interest rates paid on the Bank s interest-bearing liabilities such as deposits and borrowings). These rates are highly sensitive to many factors, which are beyond our control, including general economic conditions, inflation, recession and the policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board. Because of our preference for using variable rate pricing on the majority of our loan portfolio and non-interest bearing demand deposit accounts we are asset sensitive. As a result, we are 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. These changes also affect the rates received on loans and securities and paid on deposits, which could have a material adverse effect on our business, financial condition and results of operations.

Changes in the fair value of our securities may reduce our shareholders equity and net income.

At December 31, 2010, $189.2 million of our securities were classified as available-for-sale. At such date, the aggregate net unrealized loss on our available-for-sale securities, net of tax, was $3.2 million.

We increase or decrease shareholders equity by the amount of change from the unrealized gain or loss (the difference between the estimated fair value and the amortized cost) of our available-for-sale securities portfolio, net of the related tax, under the category of accumulated other comprehensive income/loss. Therefore, a decline in the estimated fair value of this portfolio will result in a decline in reported shareholders equity, as well as book value per common share and tangible book value per common share. This decrease will occur even though the securities are not sold. In the case of debt securities, if these securities are never sold and there are no credit impairments, the decrease will be recovered over the life of the securities. In the event there are credit loss related impairments, the credit loss component is recognized in earnings.

Our available for sale equity holdings consist of shares of the Federal Home Loan Bank of San Francisco (FHLB). As of December 31, 2010, we held stock in the FHLB totaling $7.9 million. The stock is carried at cost and is subject to recoverability testing under applicable accounting standards.

As of December 31, 2010, we did not recognize an impairment charge related to our FHLB stock holdings; however, future negative changes to the financial condition of the FHLB may require us to recognize an impairment charge with respect to such stock holdings.

Conditions in the financial markets may limit our access to additional funding to meet our liquidity needs.

Liquidity is essential to our business, as we must maintain sufficient funds to respond to the needs of depositors and borrowers. An inability to raise funds through deposits, repurchase agreements, federal funds purchased, FHLB advances, the sale or pledging as collateral of loans and other assets could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could negatively affect our access to liquidity sources include negative operating results, a decrease in the level of our business activity due to a market downturn or negative regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as severe disruption of the financial markets or negative news and expectations about the prospects for the financial services industry as a whole, as evidenced by turmoil in the domestic and worldwide credit markets in recent years.

The condition of other financial institutions could negatively affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, public perceptions and other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and other institutional clients.

In the event there are credit loss related impairments, the credit loss component is recognized in earnings. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to us. Any such losses could have a material adverse effect on our financial condition and results of operations.

Changes in laws, government regulation and monetary policy may have a material effect on our results of operations.

Financial institutions have been the subject of substantial legislative and regulatory changes and may be the subject of further legislation or regulation in the future, none of which is within our control. Significant new laws or regulations or changes in, or repeals of, existing laws or regulations may cause our results of operations to differ materially. In addition, the cost and burden of compliance with applicable laws and regulations have significantly increased and could adversely affect our ability to operate profitably. Further, federal monetary policy significantly affects credit conditions for us, as well as for our borrowers, particularly as implemented by the Federal Reserve Board, primarily through open market operations in United States government securities, the discount rate for bank borrowings and reserve requirements. A material change in any of these conditions could have a material impact on us or our borrowers, and therefore on our results of operations.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (EESA) was signed into law. Pursuant to the EESA, the Treasury was granted the authority to take a range of actions for the purpose of stabilizing and providing liquidity to the United States financial markets and has proposed several programs, including the purchase by the Treasury of certain troubled assets from financial institutions and the direct purchase by the Treasury of equity of financial institutions. There can be no assurance, however, as to the actual impact that the foregoing or any other governmental program will have on the financial markets. The failure of the financial markets to stabilize and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock.

In addition, current initiatives of President Obama s Administration and the possible enactment of recently proposed bankruptcy legislation may adversely affect our financial condition and results of operations. There can be no assurance, however, as to the actual impact that the foregoing or any other governmental program will have on the financial markets.

The failure of the financial markets to stabilize and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit and the trading price of our common stock.

We expect to face increased regulation and supervision of our industry as a result of the existing financial crisis, and there will be additional requirements and conditions imposed on us to the extent that we participate in any of the programs established or to be established by the Treasury or by the federal bank regulatory agencies. Such additional regulation and supervision may increase our costs and limit our ability to pursue business opportunities. The effects of such recently enacted, and proposed, legislation and regulatory programs on us cannot reliably be determined at this time.

Because of our participation in the Troubled Asset Relief Program we are subject to several restrictions including, without limitation, restrictions on our ability to declare or pay dividends and repurchase our shares as well as restrictions on compensation paid to our executives.

On November 14, 2008, in exchange for an aggregate purchase price of $17.0 million, we issued and sold to the Treasury pursuant to the Trouble Asset Relief Program (TARP) Capital Purchase Program the following: (1) 17,000 shares of our newly designated Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value per share and liquidation preference $1,000 per share (Series A Preferred Stock), and (2) a warrant to purchase up to 405,405 shares of our common stock, no par value per share, at an exercise price of $6.29 per share, subject to certain anti-dilution and other adjustments. The warrant may be exercised for up to ten years after issuance.

In connection with the issuance and sale of our securities, we entered into a Letter Agreement including the Securities Purchase Agreement Standard Terms, dated November 14, 2008, with the Treasury (Agreement). The Agreement contains limitations on the payment of quarterly cash dividends on our common stock in excess of $0.08 per share, and on our ability to repurchase our common stock.

Our Series A Preferred Stock diminishes the net income available to our common shareholders and earnings per common share.

The dividends accrued on the Series A Preferred Stock reduce the net income available to common shareholders and our earnings per common share. In 2010 our net income of $6.2 million was reduced to $5.3 million after deducting approximately $0.94 million in dividends to the Treasury plus accretion on the Series A Preferred Stock. The Series A Preferred Stock is cumulative, which means that any dividends not declared or paid will accumulate and will be payable when the payment of dividends is resumed. The dividend rate on the Series A Preferred Stock will increase from 5% to 9% per annum five years after its original issuance if not earlier redeemed. If we are unable to redeem the Preferred Stock prior to the date of this increase, the cost of capital to us will increase substantially. Depending on our financial condition at the time, this increase in the Series A Preferred Stock annual dividend rate could have a material adverse effect on our earnings and could also adversely affect our ability to pay dividends on our common shares. Shares of Series A Preferred Stock will also receive preferential treatment in the event of the liquidation, dissolution or winding up of the Company.

Finally, the terms of the Series A Preferred Stock allow the Treasury to impose additional restrictions, including those on dividends and unilateral amendments required to comply with changes in applicable federal law.

Our holders of the Series A Preferred Stock have certain voting rights that may adversely affect our common shareholders, and the holders of the Series A Preferred Stock may have interests different from our common shareholders.

In the event that we fail to pay dividends on the Series A Preferred Stock for a total of at least six quarterly dividend periods (whether or not consecutive), the Treasury will have the right to appoint two directors to our Board of Directors until all accrued but unpaid dividends has been paid. Currently, except as required by law, holders of the Series A Preferred Stock have limited voting rights. So long as shares of Series A Preferred Stock are outstanding, in addition to any other vote or consent of shareholders required by law or our Articles of Incorporation, the vote or consent of holders of at least 66.7% of the shares of Series A Preferred Stock outstanding is required for:

Any authorization or issuance of shares ranking senior to the Series A Preferred Stock;

Any amendments to the rights of the Series A Preferred Stock so as to adversely affect the rights, preferences, privileges or voting power of the Series A Preferred Stock; or

Consummation of any merger, share exchange or similar transaction unless the shares of Series A Preferred Stock remain outstanding, or if we are not the surviving entity in such transaction, are converted into or exchanged for preference securities of the surviving entity and the shares of Series A Preferred Stock remaining outstanding or such preference securities have the rights, preferences, privileges and voting power of the Series A Preferred Stock.

The holders of our Series A Preferred Stock, including the Treasury, may have different interests from the holders of our common stock, and could vote to block the foregoing transactions, even when considered desirable by, or in the best interests of, the holders of our common stock.

We rely heavily on our management team and the loss of key officers may adversely affect operations.

Our success has been and will continue to be greatly influenced by the ability to retain existing senior management and, with expansion, to attract and retain qualified additional senior and middle management. The departure of any of our senior management could have an adverse effect on us.

Our participation in the TARP Capital Purchase Program could also have an adverse effect on our ability to attract and retain qualified executive officers. Legislation and rules applicable to the TARP Capital Purchase Program participants include extensive new restrictions on our ability to pay retention awards, bonuses and other incentive compensation to our Chief Executive Officer during the period in which the Series A Preferred Stock is outstanding. Other restrictions are not limited to our Chief Executive Officer and cover other employees whose contributions to revenue and performance can be significant.

The limitations may adversely affect our ability to recruit and retain these key employees in addition to our senior executive officers, especially if we are competing for talent against institutions that are not subject to the same restrictions.

The Federal Reserve, and perhaps the FDIC, is contemplating proposed rules governing the compensation practices of financial institutions and these rules, if adopted, may adversely affect our management retention and limit our ability to promote our objectives through our compensation and incentive programs and, as a result, adversely affect our results of operations and financial condition.

The full scope and impact of these limitations is uncertain and difficult to predict. The Secretary of the Treasury has adopted standards that implement certain compensation limitations, but these standards have not yet been broadly interpreted and remain, in many respects, ambiguous. The new and potential future legal requirements and implementing standards under the Capital Purchase Program may have unforeseen or unintended adverse effects on the financial services industry as a whole, and particularly on Capital Purchase Program participants, including us. It will likely require significant time, effort and resources on our part to interpret and apply them.

If any of our regulators believe that we are not in compliance with new and future legal requirements and implementing standards, it could subject us to regulatory actions or otherwise adversely affect our management retention and, as a result, our results of operations and financial condition.

Even if we redeem our Series A Preferred Stock and repurchase the warrant issued to the Treasury, we will continue to be subject to evolving legal and regulatory requirements that may, among other things, require increasing amounts of our time, effort and resources to ensure compliance.

Internal control systems could fail to detect certain events.

We are subject to many operating risks, including, without limitation, data processing system failures and errors, and customer or employee fraud. There can be no assurance that such an event will not occur, and if such an event is not prevented or detected by our other internal controls and does occur, and it is uninsured or is in excess of applicable insurance limits, it could have a significant adverse impact on our reputation in the business community and our business, financial condition and results of operations.

Our operations could be interrupted if third party service providers experience difficulty, terminate their services or fail to comply with banking regulations.

We depend, and will continue to depend to a significant extent, on a number of relationships with third-party service providers. Specifically, we utilize software and hardware systems for processing, essential web hosting, debit and credit card processing, merchant processing, Internet banking systems and other processing services from third-party service providers. If these third-party service providers experience difficulties or terminate their services, and we are unable to replace them with other qualified service providers, our operations could be interrupted. If an interruption were to continue for a significant period of time, our business, financial condition and results of operations could be materially adversely affected.

Confidential customer information transmitted through the Bank s online banking service is vulnerable to security breaches and computer viruses, which could expose the Bank to litigation and adversely affect its reputation and ability to generate deposits.

The Bank provides its customers the ability to bank online. The secure transmission of confidential information over the Internet is a critical element of online banking. The Bank s network could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security problems. The Bank may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that the Bank s activities or the activities of its customers involve the storage and transmission of confidential information, security breaches and viruses could expose us and the Bank to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in the Bank s systems and could adversely affect its reputation and our ability to generate deposits.

Potential acquisitions may disrupt our business and dilute shareholder value.

We continuously consider merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our stock s tangible book value and net income per common share may occur in connection with any future transaction. In addition, while loss sharing arrangements currently associated with FDIC-assisted transactions provide some level of risk reduction; these arrangements do not completely eliminate risk. To the extent we would participate in an FDIC-assisted transaction there can be no assurances that any positive expected results of such a transaction would fully materialize.

Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our financial condition and results of operations. We may seek merger or acquisition partners that are culturally similar, have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. We do not currently have any specific plans, arrangements or understandings regarding such expansion.

We cannot say with certainty that we will be able to consummate, or if consummated, successfully integrate future acquisitions or that we will not incur disruptions or unexpected expenses in integrating such acquisitions. In attempting to make such acquisitions, we anticipate competing with other financial institutions, many of which have greater financial and operational resources than us. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- Potential exposure to unknown or contingent liabilities of the target company;
- Exposure to potential asset quality issues of the target company;
- Difficulty and expense of integrating the operations and personnel of the target company;
- Potential disruption to our business;
- The possible loss of key employees and customers of the target company;
- Difficulty in estimating the value of the target company; and
- Potential changes in banking or tax laws or regulations that may affect the target company.

We are subject to extensive regulation which could adversely affect our business.

Our operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Given the current disruption in the financial markets and potential new regulatory initiatives, including the Obama Administration s recent financial regulatory reform proposal, new regulations and laws that may affect us are increasingly likely. Because our business is highly regulated, the laws, rules and regulations applicable to us are subject to modification and change. There are currently proposed laws, rules and regulations that, if adopted, would impact our operations.

These proposed laws, rules and regulations, or any other laws, rules or regulations, may be adopted in the future, which could (1) make compliance much more difficult or expensive, (2) restrict our ability to originate, broker or sell loans or accept certain deposits, (3) further limit or restrict the amount of commissions, interest or other charges earned on loans originated or sold by us, or (4) otherwise adversely affect our business or prospects for business. Moreover, banking regulators have significant discretion and authority to address what regulators perceive to be unsafe or unsound practices or violations of laws or regulations by financial institutions and holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory authority by banking regulators over us may have a negative impact on our financial condition and results of operations. Additionally, in order to conduct certain activities, including acquisitions, we are required to obtain regulatory approval. There can be no assurance that any required approvals can be obtained, or obtained without conditions or on a timeframe acceptable to us.

Higher FDIC deposit insurance premiums and assessments could adversely affect our financial condition.

We expect to pay significantly higher FDIC premiums in the future. As the large number of bank failures continues to deplete the Deposit Insurance Fund, the FDIC adopted a revised risk-based deposit insurance assessment schedule in February 2009, which raised deposit insurance premiums. In 2010, the FDIC approved a rule requiring financial institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010 through and including 2012 in order to re-capitalize the Deposit Insurance Fund.

Accordingly, the Bank prepaid the appropriate deposit insurance premiums and maintained an outstanding prepaid deposit insurance balance of $2.4 million at December 31, 2010, which continue to be amortized over the assessment period. There can be no assurance that the FDIC will not increase premiums or levy additional special assessments, either of which could have a material adverse effect on our results of operations and financial condition.

Shares eligible for future sale could have a dilutive effect.

Shares of our common stock eligible for future sale, including those that may be issued in connection with our various stock option and equity compensation plans, in possible acquisitions, and any other offering of our common stock for cash, and the issuance of 405,405 shares underlying the warrant issued to the Treasury pursuant to the TARP Capital Purchase Program, could have a dilutive effect on the market for our common stock and could adversely affect its market price. Our Articles of Incorporation authorize 50,000,000 shares of which 16,911,495 shares were outstanding as of December 31, 2010. There are 300,080 shares subject to common stock options outstanding with a weighted average exercise price of $8.17 per share.

Changes in accounting standards may impact how we report our consolidated financial condition and consolidated results of operations.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board changes the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in a restatement of prior period financial statements.

A natural disaster or recurring energy shortage, especially in California, could harm our business.

Historically, California has been vulnerable to natural disasters. Therefore, we are susceptible to the risks of natural disasters, such as earthquakes, wildfires, floods and mudslides. Natural disasters could harm our operations directly through interference with communications, including the interruption or loss of our websites, which would prevent us from gathering deposits, originating loans and processing and controlling our flow of business, as well as through the destruction of facilities and our operational, financial and management information systems. California has also experienced energy shortages, which, if they recur, could impair the value of the real estate in those areas affected. Although we have implemented several back-up systems and protections and maintain business interruption insurance, these measures may not protect us fully from the effects of a natural disaster. The occurrence of natural disasters or energy shortages in California could have a material adverse effect on our business, prospects, financial condition and results of operations.

The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell shares of common stock owned by you at times or at prices you find attractive.

Stock price volatility may make it difficult for you to resell your common stock when you want and at prices you find attractive. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- Actual or anticipated variations in quarterly results of operations;
- Recommendations by securities analysts;
- Operating and stock price performance of other companies that investors deem comparable to us;
- News reports relating to trends, concerns and other issues in the financial services industry, including the failures of other financial institutions in the current economic downturn;
- Perceptions in the marketplace regarding us and/or our competitors;
- Public sentiments toward the financial services and banking industry generally;

Table of Contents

- New technology used, or services offered, by competitors;
- Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- Failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- Changes in government regulations; and
- Geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of operating results as evidenced by the current volatility and disruption of capital and credit markets.

Our profitability measures could be adversely affected if we are unable to effectively deploy the capital raised in our latest offering.

On February 11, 2010, we filed a Form S-1 Registration Statement (the Registration Statement) with the SEC to offer $30.0 million of shares of our common stock in an underwritten public offering (Offering). Additionally, we granted the underwriters in the Offering an option to purchase up to an additional $4.5 million of common stock to cover over-allotment, if any.

On March 23, 2010, we filed a Form S-1/A Registration Statement (the registration statement) with the SEC to offer 7,200,000 shares of our common stock in the Offering. In the Registration Statement, we set out our intent to use the net proceeds of the Offering for general corporate purposes, including contributing additional capital to the Bank, supporting our ongoing and future anticipated growth, which may include opportunistic acquisitions of all or parts of other financial institutions, including FDIC-assisted transactions, and positioning us for eventual redemption of our Series A Preferred Stock issued to the Treasury. Although we are periodically engaged in discussions with potential acquisition candidates, we are not currently party to any purchase or merger agreement.

On April 14, 2010 the Company announced that the underwriters of the Offering of common shares fully exercised their over-allotment option, which resulted in the issuance of an additional 1,080,000 shares of common stock, and approximately $4.4 million in additional net proceeds. The option was granted in connection with the Company s public offering of 7,200,000 shares of common stock at a public offering price of $4.25 per share. With the additional proceeds from the exercise of the over-allotment option, the Company realized total net proceeds from the offering of approximately $33.0 million, after deducting the underwriting discount and offering expenses. The exercise of the over-allotment option brings the total number of shares of common stock sold by the Company in the offering to 8,280,000.

Only a limited trading market exists for our common stock, which could lead to significant price volatility.

Our common stock is traded on the NASDAQ Global Market under the trading symbol BOCH, but there have historically been low trading volumes in our common stock. The limited trading market for our common stock may cause fluctuations in the market value of our common stock to be exaggerated, leading to price volatility in excess of that which would occur in a more active trading market of our common stock. Future sales of substantial amounts of common stock in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of the common stock. In addition, even if a more active market in our common stock develops, we cannot assure you that such a market will continue.

Table of Contents

Anti-takeover provisions in our articles of incorporation could make a third party acquisition of us difficult.

In order to approve a merger or similar business combination with the owner of 20% or more of our common stock (an Interested Shareholder), our Articles of Incorporation contain provisions that would require a supermajority vote of 66.7% of the outstanding shares of the common stock (excluding the shares held by the Interested Shareholder or its affiliates). These provisions further require that the per share consideration to be paid in such a transaction would have to equal or exceed the greater of (a) the highest per share price paid by the Interested Shareholder (1) within two years of the transaction proposal announcement date, or (2) the date the Interested Shareholder acquired a 20% -plus ownership interest (if the acquisition occurred less than two years before the transaction announcement) and (b) the fair market value of the Common Stock on (1) the transaction proposal announcement date, or (2) the date the Interested Shareholder acquired a 20% -plus ownership interest (if the acquisition occurred less than two years before the transaction announcement).

The operation of these provisions could result in the Company becoming a less attractive target for a would-be acquirer. As a consequence, it is possible that shareholder would lose an opportunity to be paid a premium for their shares in an acquisition transaction.

There may be future sales or other dilutions of our equity which may adversely affect the market price of our common stock.

We are not restricted from issuing additional shares of common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive our common stock. In addition, we are not prohibited from issuing additional securities which are senior to our common stock. Because our decision to issue securities in any future offering will depend in part on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of any future offerings other than the Offering. Thus, our shareholders bear the risk of any future stock issuances reducing the market price of our common stock and diluting their stock holdings in us.

The exercise of the underwriters over-allotment option to be granted in connection with the Offering, the exercise of any options granted to our directors and employees, the exercise of the outstanding warrants for our common stock as referenced above, the issuance of shares of common stock in acquisitions and other issuances of our common stock could have an adverse effect on the market price of the shares of our common stock. In addition, the existence of options and warrants to acquire shares of our common stock may materially adversely affect the terms upon which we may be able to obtain additional capital in the future through the sale of equity securities. Any future issuances of shares of our common stock will be dilutive to existing shareholders.

The holders of our preferred stock and trust preferred securities have rights that are senior to those of our holders of common stock and that may impact our ability to pay dividends on our common stock to our common shareholders and reduce net income available to our common shareholders.

At December 31, 2010, our subsidiary trusts had outstanding $15.0 million of trust preferred securities. These securities are effectively senior to shares of common stock due to the priority of the underlying junior subordinated debt. As a result, we must make payments on our trust preferred securities before any dividends can be paid on our common stock; moreover, in the event of our bankruptcy, dissolution, or liquidation, the obligations outstanding with respect to our trust preferred securities must be satisfied before any distributions can be made to our shareholders. While we have the right to defer dividends on the trust preferred securities for a period of up to five years, if any such election is made, no dividends may be paid to our common or preferred shareholders during that time.

We are required to pay cumulative dividends on the $17.0 million in Series A Preferred Stock issued to the Treasury in the TARP Capital Purchase Program at an annual rate of 5% for the first five years and 9% thereafter, unless we redeem the shares earlier.

We may not declare or pay dividends on our common stock or repurchase shares of our common stock without first having paid all accrued cumulative preferred dividends that are due. Until January 2012, we also may not increase our per share common stock dividend rate or repurchase shares of our common shares without the Treasury s consent, unless the Treasury has transferred to third parties all the Series A Preferred Stock originally issued to it.

Our future ability to pay dividends and repurchase stock is subject to restrictions.

Since we are a holding company with no significant assets other than the Bank and our majority-owned mortgage company, we have no material source of income other than dividends received from the Bank and the mortgage company. Therefore, our ability to pay dividends to our shareholders will depend on the Bank s and mortgage company s ability to pay dividends to us.

Moreover, banks and financial holding companies are both subject to certain federal and state regulatory restrictions on cash dividends. We are also restricted from paying dividends if we have deferred payments of the interest on, or an event of default has occurred with respect to, our trust preferred securities or Series A Preferred Stock. Additionally, terms and conditions of our Series A Preferred Stock place certain restrictions and limitations on our common stock dividends and repurchases of our common stock.

Potential Volatility of Deposits

The Bank s depositors could choose to withdraw their deposits from the Bank and then put it into alternative investments, causing an increase in our 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.

At December 31, 2010, time certificates of deposit in excess of $100,000 represented approximately 36% 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 our profitability, business prospects, results of operations and cash flows. The Company monitors activity of volatile liability deposits on a quarterly basis.

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 or acquisitions, and from actions taken by government regulators and community organizations in response to that conduct.

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, our subsidiary mortgage banking revenue continued to be strong. Interest rate and market risk can be substantial in the mortgage business. Changes in interest rates may potentially impact total origination fees.

Table of Contents

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 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, 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, with a corresponding impact on origination fees.

Table of Contents

ITEM 1B. UNRESOLVED STAFF COMMENTS

None to report.

ITEM 2. PROPERTIES

The Company s principal administrative offices and technology center consists of approximately 12,000 square feet of space on property adjacent to the main office at 1901 Churn Creek Road, Redding, California 96002. The Bank s main office is housed in a two-story building with approximately 21,000 square feet of space located at 1951 Churn Creek Road, Redding, California, 96002. The Bank owns the buildings and the 1.25 acres of land on which the buildings are situated. The Bank also owns the land and building located at 1177 Placer Street, Redding, California, 96001, in which the Bank uses approximately 11,650 square feet of space for its banking operations. The Company also leases approximately 3,787 square feet for the location of another branch which provides commercial and retail services. This branch is located at 3455 Placer Street, Redding, California. The lease agreement expires on August 21, 2017.

The Company s Roseville Bank of Commerce is located on the first floor of a three-story building with approximately 8,550 square feet of space located at 1504 Eureka Road, Roseville, California. The Company leases the space pursuant to a triple net lease expiring on May 31, 2012.

The Company s Bank of Commerce Mortgage is located at 3130 Crow Canyon Place, San Ramon, California. Bank of Commerce Mortgage occupies 13,613 square feet of space on the third floor of this four-story building. The office space is leased under a non-cancelable operating lease expiring December 31, 2014.

In addition, Bank of Commerce Mortgage has nine branch leases as of December 31, 2010. All of which are located in California except for one branch located in Colorado. All of these leases are on month to month terms.

We believe that the facilities are adequate to meet our current needs and that additional facilities are available to meet future needs.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. (REMOVED AND RESERVED)

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The principal market on which the Company s common stock is traded is the NASDAQ Global Market. The Company s common stock is listed under the trading symbol BOCH . The following table sets forth the high and low closing sales prices of the Company s common stock on the NASDAQ Global Market for the periods indicated:

	Sales Price Per Share		
Quarter Ended:	High	Low	Volume
March 31, 2010	$ 5.68	$ 4.30	1,770,615
June 30, 2010	$ 5.45	$ 4.55	1,611,878
September 30, 2010	$ 4.85	$ 3.75	930,147
December 31, 2010	$ 4.25	$ 3.47	616,925
March 31, 2009	$ 5.05	$ 3.90	123,989
June 30, 2009	$ 6.52	$ 4.08	74,922
September 30, 2009	$ 6.30	$ 4.50	129,689
December 31, 2009	$ 5.99	$ 5.10	156,391

There were approximately 770 shareholders of the Company s common stock as of December 31, 2010, including those held in street name, and the market price on that date was $4.25 per share.

Dividends

Cash dividends of $0.06 were paid on January 14, 2010, March 24, 2010, and July 7, 2010, and a cash dividend of $0.03 was paid on October 7, 2010, respectively to shareholders of record as of December 31, 2009, March 15, 2010, June 30, 2010, and September 30, 2010.

The Company s ability to pay dividends is subject to certain regulatory requirements. The Federal Reserve Board (FRB) generally prohibits a bank holding company from declaring or paying a cash dividend which would impose undue pressure on the capital of subsidiary banks or would be funded only through borrowing or other arrangements that might adversely affect a financial services holding company s financial position. The FRB s policy is that a bank holding company should not continue its existing rate of cash dividends on its common stock unless its net income is sufficient to fully fund each dividend and its prospective rate of earnings retention appears consistent with its capital needs, asset quality and overall financial condition. The power of the board of directors of an insured depository institution to declare a cash dividend or other distribution with respect to capital is subject to statutory and regulatory restrictions which limit the amount available for such distribution depending upon the earnings, financial condition and cash needs of the institution, as well as general business conditions.

In addition to the restrictions imposed under federal law, banks chartered under California law generally may only pay cash dividends to the extent such payments do not exceed the lesser of retained earnings of the bank or the bank s net income for its last three fiscal years (less any distributions to shareholders during such period). In the event a bank desires to pay cash dividends in excess of such amount, the bank may pay a cash dividend with the prior approval of the Commissioner of the Department of Financial Institutions in an amount not exceeding the greatest of the bank s retained earnings, the bank s net income for its last fiscal year, or the bank s net income for its current fiscal year.

Table of Contents

Securities Authorized for Issuance Under Equity Compensation Plans

We currently maintain one equity-based compensation plan which was approved by the shareholders in 2008. The following table sets forth, for each of the Company s equity-based compensation plan, the number of shares of common stock subject to outstanding options and rights, the weighted-average exercise price of outstanding options, and the number of shares available for future award grants as of December 31, 2010:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	300,080	$ 8.17	586,500
Equity compensation plans not approved by security holders	None	None	None
Total	300,080	$ 8.17	586,500

33

Table of Contents

Stock Performance Graph

The following graph compares the Company s cumulative total return to shareholders during the past five years with that of the NASDAQ Composite Stock Index and the SNL Securities $500-$1 billion Bank Asset-Size Index (the SNL Securities Index). The stock price performance shown on the following graph is not necessarily indicative of future performance of the Company s Common Stock.

Bank of Commerce Holdings
Five Year Performance Graph
Stock Performance Graph (1)

SNL Securities LC (C) 2010 **(888) 275-2822**

(1) Assumes $100 invested on December 31, 2005, in the Company s Common Stock, the NASDAQ, and the SNL Securities Index. The model assumes reinvestment of dividends. Source: SNL Securities (share prices for the Company s Common Stock was furnished to SNL Securities through the NASDAQ).

Sales of Unregistered Securities

Pursuant to a Letter Agreement dated November 14, 2008, and the Securities Purchase Agreement Standard Terms (Securities Purchase Agreement) the Company issued to the United States Department of the Treasury (Treasury) 17,000 shares of our Series A Preferred Stock for a total price of $17.0 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. Except under limited circumstances, the Series A Preferred Stock is non-voting.

Table of Contents

As part of its purchase of the Series A Preferred Stock, the Treasury received a warrant (Warrant) to purchase 405,405 shares of our 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. Pursuant to the Securities Purchase Agreement, the Treasury 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. Upon the request of the Treasury 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.

Prior to November 14, 2011, unless we have redeemed the Series A Preferred Stock or the Treasury has transferred the Series A Preferred Stock to a third party, the consent of the Treasury 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 the Treasury were allocated based on the relative fair value of the Warrant as compared with the fair value of the preferred stock. The fair value of the Warrant was determined using a valuation model which incorporates assumptions including our common stock price, dividend yield, stock price volatility and the risk-free interest rate. The fair value is determined based on assumptions regarding the discount rate (market rate) on our Series A Preferred Stock which was estimated to be approximately 9% at the date of issuance. The discount will be accreted to par value over a five-year term, which is the expected life of our Series A Preferred Stock. Capital Purchase Program participants may opt out by repaying the capital without raising additional capital subject to consultation with the appropriate federal regulator.

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

No shares were repurchased during 2010.

2010 Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
Total				

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below for the five years ended December 31, 2010, have been derived from the Company s audited consolidated financial statements and should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Company s audited consolidated financial statements and notes thereto, included elsewhere in this report.

In Thousands (Except Ratios and Per Share Data)	2010	2009	2008	2007	2006
Statements of Income					
Total Interest Income	$ 42,391	$ 41,329	$ 37,690	$ 41,128	$ 37,610
Net Interest Income	32,993	28,994	21,348	22,012	22,035
Provision for Loan Losses	12,850	9,475	6,520	3,291	226
Total Noninterest Income	19,818	10,063	2,623	4,535	1,928
Total Noninterest Expense	30,328	20,624	15,296	15,744	13,333
Total Revenues	62,209	51,392	40,313	45,753	39,539
Net Income	$ 6,220	$ 6,005	$ 2,194	$ 6,107	$ 6,568
Balance Sheets					
Total Assets	$ 939,133	$ 813,406	$ 774,214	$ 618,327	$ 583,442
Total Gross Portfolio Loans	600,796	601,439	527,463	494,748	414,191
Allowance for Loan Losses	12,841	11,207	8,429	8,233	4,904
Total Deposits	648,702	640,464	555,282	473,631	439,407
Shareholders Equity	$ 103,727	$ 68,807	$ 62,578	$ 46,164	$ 43,916
Performance Ratios [1]					
Return on Average Assets [2]	0.69%	0.75%	0.33%	1.04%	1.20%
Return on Average Shareholders Equity [3]	6.50%	9.01%	4.99%	13.39%	15.59%
Dividend Payout	41.18%	34.81%	127.04%	46.47%	40.36%
Average Equity to Average Assets	10.55%	8.28%	8.91%	9.43%	9.49%
Tier 1 Risk-Based Capital Holding Company [4]	13.74%	12.06%	11.58%	9.97%	11.42%
Total Risk-Based Capital Holding Company	15.00%	13.31%	12.84%	11.22%	12.54%
Net Interest Margin [5]	4.06%	3.94%	3.47%	3.98%	4.26%
Average Earning Assets to Total Average Assets	89.63%	91.42%	92.86%	93.74%	94.20%
Nonperforming Assets to Total Assets [6]	2.43%	1.92%	2.98%	2.01%	0.00%
Net Charge-offs to Average Loans	1.84%	1.14%	1.22%	0.00%	-0.09%
Allowance for Loan Losses to Total Loans	2.14%	1.86%	1.60%	1.66%	1.18%
Nonperforming Loans to Allowance for Loan Losses	159.73%	113.50%	239.10%	150.72%	0.00%
Efficiency Ratio [7]	57.43%	52.80%	63.81%	59.31%	55.64%
Share Data					
Average Common Shares Outstanding basic	14,951	8,711	8,713	8,858	8,760
Average Common Shares Outstanding diluted	14,951	8,711	8,724	8,938	8,932
Book Value Per Common Share	$ 4.97	$ 5.72	$ 5.23	$ 5.27	$ 4.96
Basic Earnings Per Common Share	$ 0.35	$ 0.58	$ 0.25	$ 0.69	$ 0.75
Diluted Earnings Per Common Share	$ 0.35	$ 0.58	$ 0.25	$ 0.68	$ 0.74
Cash Dividends Per Common Share	$ 0.18	$ 0.24	$ 0.32	$ 0.33	$ 0.29

[1] Regulatory Capital Ratios and Asset Quality Ratios are end of period ratios. With the exception of end of period ratios, all ratios are based on average daily balances during the indicated period.

[2] Return on average assets is net income divided by average total assets.

[3] Return on average equity is net income divided by average shareholders equity.

[4] Regulatory capital ratios are defined in detail in the table on page 67

[5] Net interest margin equals net interest income as a percent of average interest-earning assets.

[6] Nonperforming assets include all nonperforming loans (nonaccrual loans, loans 90 days past due and still accruing interest and restructured loans that are nonperforming) and real estate acquired by foreclosure.

[7] 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

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of financial condition as of December 31, 2010 and 2009 and results of operations for each of the years in the three-year period ended December 31, 2010 should be read in conjunction with our consolidated financial statements and related notes thereto, included in Part II Item 8 of this report. Average balances, including balances used in calculating certain financial ratios, are generally comprised of average daily balances.

The disclosures set forth in this item are qualified by important factors detailed in Part I captioned *Forward-Looking Statements* and Item 1A captioned *Risk Factors* of this report and other cautionary statements set forth elsewhere in the report.

2010 Highlights

Due to conservative loan underwriting, active servicing of problem credits and maintenance of a healthy net interest margin, we have remained profitable during the economic downturn and have positioned our Company to take advantage of growth opportunities in the coming years. During 2010 we recorded net income of $6.2 million, and net income to common shareholders of $5.3 million, or $0.35 per diluted share, after deducting preferred dividend payments made to the Treasury and accretion of preferred shares under the TARP Capital Purchase Program. Net income for 2010 was marginally better than 2009 results of $6.0 million. During 2010, the Company successfully completed a public offering of common shares, which resulted in the sale of 8,280,000 shares of common stock, resulting in net proceeds of $33.0 million. The increase in common shares outstanding caused diluted earnings per share to decrease by $0.23 per share from $0.58 per share in 2009. The Company continued to pay dividends on common stock in 2010, but decreased the per share amount from $0.06 to $0.03 to ensure that dividend payout ratios remain consistent to periods prior to the common stock offering. As of December 31, 2010, the Company had total assets of $939.1 million, total portfolio loans of $600.7 million, an allowance for loan and lease losses of $12.8 million, or 2.14% of total loans, deposits outstanding of $648.7 million and shareholders equity of $103.7 million.

Overview

Our Company was established to make a profitable return while serving the financial needs of the business and professional communities which make up our markets. We are in the financial services business, and no line of financial services is beyond our charter so long as it serves the needs of our customers. Our mission is to provide our shareholders with a safe and profitable return on investment over the long term. Management will attempt to minimize risk to our shareholders by making prudent business decisions, maintaining adequate levels of capital and reserves, and communicating effectively with shareholders.

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

It is also our vision of the Company to remain independent, expanding our presence through internal growth and the addition of strategically important full service and focused service locations. We will pursue attractive opportunities to enter related lines of business and to acquire financial institutions with complementary lines of business. We will strive to continue our expansion into profitable markets in order to build franchise value. We will distinguish ourselves from the competition by a commitment to efficient delivery of products and services in our target markets to businesses and professionals, while maintaining personal relationships with mutual loyalty.

Table of Contents

Our long term success rests on the shoulders of the leadership team and its ability to effectively enhance the performance of the Company. As a financial services company, we are in the business of taking and managing risks. Whether we are successful depends largely upon whether we take the right risks and get paid appropriately for those risks. 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.

Risk Management

Overview

Through our corporate governance structure, risk and return is evaluated to produce sustainable revenues, reduce risks of earnings volatility and increase shareholder value. The financial services industry is exposed to four major risks; liquidity, credit, market and operational. Liquidity risk is the inability to meet liability maturities and withdrawals, fund asset growth and otherwise meet contractual obligations at reasonable market rates. Credit risk is the inability of a customer to meet its repayment obligations. Market risk is the fluctuation in asset and liability values caused by changes in market prices and yields, and Operational risk is the potential for losses resulting from events involving people, processes, technology, legal issues, external events, regulation, or reputation.

Board Committees

Our corporate governance structure begins with our Board of Directors. The Board of Directors evaluates risk through the Chief Executive Officer (CEO) and four Board Committees:

Loan Committee reviews credit risks and the adequacy of the allowance for loan and lease losses.

ALCO reviews liquidity and market risks.

Audit and Qualified Legal Compliance Committee reviews the scope and coverage of internal and external audit activities; and

Nominating and Corporate Governance Committee evaluates corporate governance structure, charters, committee performance and acts in best interests of the corporation and its shareholders with regard to the appointment of director nominees.

These committees review reports from management, the Company s auditors, and other outside sources. On the basis of materials that are available to them and on which they rely, the committees review the performance of the Company s management and personnel, and establish policies, but neither the committees nor their individual members (in their capacities as members of the Board of Directors) are responsible for daily operations of the Company. In particular, risk management activities relating to individual loans are undertaken by Company personnel in accordance with the policies established by the committees of the Board of Directors.

Senior Leadership Committees

To ensure that our risk management goals and objectives are accomplished, oversight of our risk taking and risk management activities are conducted through five Senior Leadership committees comprised of members of management:

The Senior Leadership Committee establishes short and long-term strategies and operating plans. The committee establishes performance measures and reviews performance to plan on a monthly basis:

The Credit Round Table Committee recommends corporate credit administration practices and limits including industry concentration limits, approval requirements, and exceptions:

The Technology Steering Committee establishes technological strategies, makes technology investment decisions, and manages the implementation process:

The ALCO Round Table Committee establishes and monitors liquidity ranges, pricing, maturities, investment goals, and interest spread on balance sheet accounts: and

The SOX 404 Compliance Committee has established the master plan for full documentation of the Company s internal controls and compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

Risk Management Controls

We use various controls to manage risk exposure within the Company. Budgeting and planning processes provide for early indication of unplanned results or risk levels. Models are used to estimate market risk and net interest income sensitivity. Segmentation analysis is used to estimate expected and unexpected credit losses. Compliance with regulatory guidelines plays a significant role in risk management as well as corporate culture and the actions of management. Our code of ethics provides the guidelines for all employees to conduct themselves with the highest integrity in the delivery of service to our clients.

Liquidity Risk Management

Liquidity Risk

Liquidity risk is the inability to meet liability maturities and withdrawals, fund asset growth and otherwise meet contractual obligations at reasonable market rates. Liquidity management involves maintaining ample and diverse funding capacity, liquid assets and other sources of cash to accommodate fluctuations in asset and liability levels due to business shocks or unanticipated events. ALCO is responsible for establishing our liquidity policy and the accounting department is responsible for planning and executing the funding activities and strategies.

Sources of liquid assets consist of the repayments and maturities of loans, selling of loans, short-term money market investments, and cashflows, maturities and sales from the available-for-sale security portfolio. Increased available-for-sale security balances were responsible for the major use of liquidity, followed by growth in the loan portfolio. The weighted-average life of the available-for-sale security portfolio is 7.7 years.

Liquidity is generated from liabilities through deposit growth and Federal Home Loan Bank borrowings. We emphasize preserving and maximizing customer deposits and other customer-based funding sources. Deposit marketing strategies are reviewed for consistency with liquidity policy objectives.

We have available correspondent banking lines of credit through correspondent relationships totaling approximately $10.0 million and available secured borrowing lines of approximately $46.6 million with the Federal Home Loan Bank of San Francisco. In addition, we periodically obtain secured borrowings from the Federal Reserve Bank of San Francisco (Reserve Bank) and had $44.5 million in available borrowing lines at the Reserve Bank. While these sources are expected to continue to provide significant amounts of liquidity in the future, their mix, as well as the possible use of other sources, will depend on future economic and market conditions. Liquidity is also provided through cash flows generated through our operations.

Our liquid assets (cash and amounts due from banks, interest bearing deposits held at other banks, and available-for-sale securities) totaled $252.5 million or 26.89% of total assets at December 31, 2010, $148.3 million or 18.2% of total assets at December 31, 2009 and $216.9 million or 28.01% of total assets at December 31, 2008. In 2010, the Holding Company s primary sources of funding were proceeds from the issuance of common stock, and cash dividends from the Bank.

Table of Contents

The Holding Company expects to receive dividends from the Bank in 2011. See Note 24 to the Consolidated Financial Statements for a discussion of the restrictions on the Bank s ability to pay dividends.

To accommodate future growth and business needs, we develop an annual capital expenditure budget during strategic planning sessions. We expect that our earnings, acquisition of core deposits and wholesale borrowing arrangements will be sufficient to support liquidity needs in 2011.

Other Borrowings

We actively use Federal Home Loan Bank (FHLB) advances as a source of wholesale funding to provide liquidity and to implement leverage strategies. At December 31, 2010, the Company had three short term advances outstanding. Two of the advances were fixed rate, and one floated to three month LIBOR plus one basis point. The advances did not contain call or put features. As of December 31, 2010, the Company had $141.0 million in FHLB advances outstanding compared to $70.0 million at December 31, 2009 and $120.0 million at December 31, 2008.

	2010	**2009**	**2008**
Securities sold under agreements to repurchase with weighted average interest rates of 0.34%, 0.49% and 0.62% at December 31, 2010, 2009 and 2008, respectively	$ 13,547,562	$ 9,620,867	$ 13,853,255
Federal Home Loan Bank borrowings with weighted average interest rates of 0.29%, 0.85% and 2.41% at December 31, 2010, 2009 and 2008, respectively	141,000,000	70,000,000	120,000,000
Total Other Borrowings	$ 154,547,562	$ 79,620,867	$ 133,853,255

	2010	**2009**	**2008**
Securities sold under agreements to repurchase:			
Maximum outstanding at any month end	$ 18,820,233	$ 12,359,119	$ 14,581,881
Average balance during the year	12,274,351	11,006,007	13,038,870
Weighted average interest rate during year	0.42%	0.46%	1.32%
Federal Home Loan Bank borrowings:			
Maximum outstanding at any month end	$ 147,000,000	$ 130,000,000	$ 120,000,000
Average Balance during the year	112,783,562	103,317,808	83,048,645
Weighted average interest rate during year	0.56%	1.93%	3.40%

Credit Risk Management

Credit risk arises from the inability of a customer to meet its repayment obligations. Credit risk exists in our outstanding loans, letters of credit and unfunded loan commitments. We manage credit risk based on the risk profile of the borrower, repayment sources and the nature of underlying collateral given current events and conditions.

Commercial portfolio credit risk management

Commercial credit risk management begins with an assessment of the credit risk profile of the individual borrower based on an analysis of the borrower s financial position in light of current industry, economic or geopolitical trends. As part of the overall credit risk assessment of a borrower, each commercial credit is assigned a risk grade and is subject to approval based on existing credit approval standards. Risk grading is a substantial factor in determining the adequacy of the allowance for loan and lease losses.

Table of Contents

Credit decisions are determined by Credit Administration to certain limitations and approvals from the Loan Committee above certain limitations. Credit risk is continuously monitored by Credit Administration for possible adjustment if there has been a change in the borrower s ability to perform under its obligations. Additionally, we manage the size of our credit exposure through loan sales and loan participation agreements. The primary sources of repayment of our commercial loans are from the borrowers operating cash flows and the borrowers conversion of short-term assets to cash. The net assets of the borrower or guarantor are usually identified as a secondary source of repayment. The principal factors affecting our 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 in our service area. We manage our commercial loan portfolio by monitoring our borrowers payment performance and their respective financial condition and make periodic adjustments, if necessary, to the risk grade assigned to each loan in the portfolio. Our evaluations of our borrowers are facilitated by management s knowledge of local market conditions and periodic reviews by a consultant of our credit administration policies.

Real estate portfolio credit risk management

The principal source of repayment of our real estate construction loans is the sale of the underlying collateral or the availability of permanent financing from the Company or other 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.

We manage our credit risk associated with real estate construction lending by establishing a loan-to-value ratio on projects on an as-completed basis, inspecting project status in advance of disbursements, and matching maturities with expected completion dates. Generally, we require a loan-to-value ratio of not more than 80% on single family residential construction loans. Our specific underwriting standards and methods for each principal line of lending include industry-accepted analysis and modeling and certain proprietary techniques. Our underwriting criteria are designed to comply with applicable regulatory guidelines, including required loan-to-value ratios. Our credit administration policies contain mandatory lien position and debt service coverage requirements, and the Bank generally requires a guarantee from individuals owning 20% or more of the borrowing entity.

Concentrations of credit risk

Portfolio credit risk is evaluated with the goal that concentrations of credit exposure do not result in unacceptable levels of risk. Concentrations of credit exposure can be measured in various ways including industry, product, geography, and customer relationship. We review non-real estate commercial loans by industry and real estate loans by geographic location and property type.

Nonperforming assets

Our practice is to place an asset on nonaccrual status when one of the following events occurs: (1) 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), (2) management determines the ultimate collection of principal or interest to be unlikely, or (3) the terms of the loan have been renegotiated due to a serious weakening of the borrower s financial condition. Nonperforming loans include impaired loans which may be on nonaccrual, are 90 days past due and still accruing, or have been restructured and are not in compliance with their modified terms.

Allowance for loan and lease losses (ALLL)

The allowance for loan and lease losses represents management s best estimate of probable losses in the loans and leases portfolio.

Table of Contents

Within the allowance, reserves are allocated to segments of the portfolio based on specific formula components. Changes to the allowance for credit losses are reported in the Consolidated Statement of Income in the provision for loan and lease losses.

We perform periodic and systematic detailed evaluations of our lending portfolio to identify and estimate the inherent risks and assess the overall collectability. We evaluate general conditions such as the portfolio composition, size and maturities of various segmented portions of the portfolio such as secured, unsecured, construction, and Small Business Administration (SBA). We also evaluate concentrations of borrowers, industries, geographical sectors, loan product, loan classes and collateral types, volume and trends of loan delinquencies and nonaccrual; criticized and classified assets and trends in the aggregate in significant credits identified as watch list items.

Our 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 based on certain observable data that management believes most reflects 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 components over time.

An essential element of the methodology for determining the allowance for loan and lease losses is our credit risk evaluation process, which includes credit risk grading of individual, commercial, construction, commercial real estate, and consumer loans. Loans are assigned credit risk grades based on our 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 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, 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 and the associated inherent credit risk. This reserve is carried as a liability on the consolidated balance sheet.

We make provisions to the ALLL on a regular basis through charges to operations that are reflected in our consolidated statements of income as provision expense 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.

Various regulatory agencies periodically review our ALLL as an integral part of their examination process. Such agencies may require us to provide additions to the allowance based on their judgment of information available to them at the time of their examination. There is uncertainty concerning future economic trends. Accordingly, it is not possible to predict the effect future economic trends may have on the level of the provisions for possible loan losses in future periods. The ALLL should not be interpreted as an indication that charge-offs in future periods will occur in the stated amounts or proportions.

Table of Contents

Market Risk Management

General

Market risk is the potential loss due to adverse changes in market prices and interest rates. Market risk is inherent in our operating positions and activities including customers loans, deposit accounts, securities and long-term debt. Loans and deposits generate income and expense, respectively, and the value of cash flows changes based on general economic levels, and most importantly, the level of interest rates.

The goal for managing our assets and liabilities is to maximize shareholder value and earnings while maintaining a high quality balance sheet without exposing the Company to undue interest rate risk. The absolute level and volatility of interest rates can have a significant impact on our profitability. Market risk arises from exposure to changes in interest rates, exchange rates, commodity prices, and other relevant market rate or price risk. We do not operate a trading account, and do not hold a position with exposure to foreign currency exchange. We face market risk through interest rate volatility. Net interest income or margin risk is measured based on rate shocks over different time horizons versus a current stable interest rate environment. Assumptions used in these calculations are similar to those used in the planning and budgeting model. The overall interest rate risk position and strategies are reviewed on an ongoing basis with ALCO.

Securities Portfolio

The securities portfolio is central to our asset liability management strategies. The decision to purchase or sell securities is based upon the current assessment of economic and financial conditions, including the interest rate environment, liquidity and regulatory requirements. We classify our securities as *available-for-sale* or *held-to-maturity* at the time of purchase. We do not engage in trading activities. Securities *held-to-maturity* is carried at cost adjusted for the accretion of discounts and amortization of premiums. Securities *available-for-sale* may be sold to implement our asset liability management strategies and in response to changes in interest rates, prepayment rates and similar factors. Securities available-for-sale are recorded at fair value and unrealized gains or losses, net of income taxes, are reported as a component of accumulated other comprehensive income(loss), in a separate component of shareholders equity. Gain or loss on sale of securities is based on the specific identification method.

Operational Risk Management

Operational risk is the potential for loss resulting from events involving people, processes, technology, legal or regulatory issues, external events, and reputation. In keeping with the corporate governance structure, the Senior Leadership committee is responsible for operational risk controls. Operational risks are managed through specific policies and procedures, controls and monitoring tools. Examples of these include reconciliation processes, transaction monitoring and analysis and system audits. Operational risks fall into two major categories, business specific and company wide. The Senior Leadership committee works to ensure consistency in policies, processes and assessments. With respect to company wide risks, the Senior Leadership committee works directly with members of our Board of Directors to develop policies and procedures for information security, business resumption plans, compliance and legal issues.

Critical Accounting Policies

General

Our significant accounting principles are described in Note 2 to the consolidated financial statements and are essential to understanding Management s Discussion and Analysis of Results of Operations and Financial Condition. Bank of Commerce Holdings consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

The financial information contained within our statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. Some of our accounting principles require significant judgment to estimate values of assets or liabilities. In addition, certain accounting principles require significant judgment in applying the complex accounting principles to transactions to determine the most appropriate treatment.

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 a material adverse 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) loss in the results of operations in the period in which the determination occurred.

An investment is impaired if the fair value of the investment is less than its cost adjusted for accretion, amortization and OTTI, otherwise defined as an unrealized loss. When an investment is impaired, the impairment is evaluated to determine whether it is temporary or other-than-temporary. 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 differences 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 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) our intent and ability to retain the 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.

Allowance for Loan and Lease Losses (ALLL)

The allowance for loan and lease losses is management s best estimate of the probable losses that may be sustained in our loan portfolio at the balance sheet date. The allowance is based on two basic principles of accounting: (1) that losses be accrued when they are probable of occurring and estimable and (2) that losses 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.

Table of Contents

We perform periodic and systematic detailed evaluations of our lending portfolio using several analytical tools and benchmarks to calculate a range of probable outcomes and estimate the inherent risks and assess the overall collectability. Although, no single statistic or measurement determines the adequacy of the allowance, we consider general conditions such as the portfolio composition, size and maturities of various segmented portions of the portfolio.

Additional factors include concentrations of borrowers, industries, geographical sectors, loan product, loan classes and collateral types; volume and trends of loan delinquencies and nonaccrual; criticized and classified assets and trends in the aggregate in significant credits identified as watch list items. There are several components to the determination of the adequacy of the ALLL. Each of these components is determined based upon estimates that can and do change when the actual events occur. For those segments that require an ALLL, we estimate loan losses on a monthly basis based upon its ongoing loan review process and analysis of loan performance. We follow a systematic and consistently applied approach to select the most appropriate loss measurement methods and support our conclusions and rationale with written documentation. One method of estimating loan losses for groups of loans is through the application of loss rates to the groups aggregate loan balances. Such rates typically reflect historical loss experience for each group of loans, adjusted for relevant economic factors over a defined period of time. We evaluate and modify our loss estimation model as needed to ensure that the resulting loss estimate is consistent with GAAP.

When a loan is individually 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 we 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.

Stock-Based Compensation

We measure the cost of employee services received in exchange for an award of equity instruments. The cost is determined based on the fair value of the award on the grant date. The grant date fair value is measured using the Black Scholes option-pricing model with assumptions made regarding volatility, the risk-free interest rate, expected dividends, assumed forfeiture rate and expected term. The grant date fair value is recognized in the statement of income over the service period of the award.

Revenue recognition

Our primary source of revenue is 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. Another source of revenue is 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. Interest income is recorded on an accrual basis. Note 2 to the Consolidated Financial Statements offers an explanation of the process for determining when the accrual of interest income is discontinued on an impaired loan.

Income Taxes

We account 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.

Table of Contents

Mortgages Held for Sale

Mortgages held for sale are generated through two pipelines; (1) Bank of Commerce Mortgage and (2) the Bank s purchase program with Bank of Commerce Mortgage. In both cases our majority owned subsidiary Bank of Commerce Mortgage originates residential mortgage loans within Bank of Commerce s geographic market, as well as on a nationwide basis. In scenario (1) above, the loans are funded through a warehouse line of credit with the Bank, and are accounted for as loans held for sale at the Mortgage Subsidiary. Under scenario (2) above, the Bank purchases the mortgages at origination from the Mortgage Subsidiary, and are classified as held for sale at the Bank.

All mortgage loans originated through either pipeline 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 (FNMA), Freddie Mac (FHLMC), and Ginnie Mae (GNMA)) and to third party investors including the servicing rights. Mortgages held for sale are carried at the lower of cost of fair value. Cost generally approximates fair value, given the short duration of these assets. 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. We generally sell all servicing rights associated with the mortgage loans. Accordingly, there are no separately recognized servicing assets or liabilities resulting from the sale of mortgage loans.

Derivative Loan Commitments

Our majority owned subsidiary, Bank of Commerce Mortgage enters into forward delivery contracts to sell residential mortgage loans at specific prices and dates in order to hedge the interest rate risk in its portfolio of mortgage loans held for sale and its residential mortgage loan commitments. Generally, the Company enters into a best efforts interest rate lock commitment (IRLC) with borrowers and forward delivery contracts with investors associated with mortgage loans receivable held for sale. Our derivative instruments consist primarily of IRLC s executed with borrowers and mandatory forward purchase commitments with investor lenders. These derivative instruments are accounted for as fair value hedges, with the changes in fair value reflected in earnings as a component of mortgage brokerage fee income.

Fair Value Measurements

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. We base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Securities available for sale, derivatives, and loans held for sale, if any, are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record certain assets at fair value on a non-recurring basis, such as certain impaired loans held for investment and securities held to maturity that are other-than-temporarily impaired. These non-recurring fair value adjustments typically involve write-downs of individual assets due to application of lower-of-cost or market accounting.

We have established and documented a process for determining fair value. We maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. Whenever there is no readily available market data, Management uses its best estimate and assumptions in determining fair value, but these estimates involve inherent uncertainties and the application of Management s judgment. As a result, if other assumptions had been used, our recorded earnings or disclosures could have been materially different from those reflected in these financial statements. For detailed information on our use of fair value measurements and our related valuation methodologies, see Note 25 to the Consolidated Financial Statements in Item 8 of this Form 10-K.

Other Real Estate Owned

Real estate acquired by foreclosure is carried at the lower of the recorded investment in the property or its fair value less estimated selling costs.

Table of Contents

Prior to foreclosure, the value of the underlying loan is written down to the fair value of the real estate to be acquired, less costs to sell, by a charge to the allowance for loan losses, if necessary. Fair value of other real estate is generally determined based on an appraisal of the property. Any subsequent write-downs are charged against noninterest expenses. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other expenses.

Gain recognition on the disposition of real estate is dependent upon the transaction meeting certain criteria relating to the nature of the property sold and the terms of the sale. This includes the buyer s initial and continuing investment, the degree of continuing involvement by the Company with the property after the sale, and other matters. Under certain circumstances, revenue recognition may be deferred until these criteria are met.

Financial Highlights Results of Operations

The following discussion and analysis provides a comparison of the results of operations for the five years ended December 31, 2010. This discussion should be read in conjunction with the consolidated financial statements and related notes.

Key Financial Ratios

	2010	2009	2008	2007	2006
Profitability					
Return on average assets	0.69%	0.75%	0.33%	1.04%	1.20%
Return on average equity	6.50%	9.01%	4.99%	13.39%	15.59%
Average earning assets to total average assets	89.63%	91.42%	92.86%	93.74%	94.20%
Interest Margin					
Net interest margin	4.06%	3.94%	3.47%	3.98%	4.26%
Asset Quality					
Allowance for loan losses to total loans	2.14%	1.86%	1.60%	1.66%	1.18%
Nonperforming assets to total assets	2.43%	1.92%	2.98%	2.01%	0.00%
Net charge-offs to average loans	1.84%	1.14%	1.22%	0.00%	-0.09%
Liquidity					
Loans to deposits	92.60%	93.87%	93.28%	102.67%	93.08%
Liquidity ratio	41.86%	38.84%	22.56%	18.49%	27.96%
Capital					
Tier 1 risk-based capital Bank	13.34%	11.57%	11.58%	9.97%	11.42%
Total risk-based capital Bank	14.59%	12.83%	12.84%	11.22%	12.54%
Efficiency					
Efficiency ratio	57.43%	52.80%	63.81%	59.31%	55.64%

The above table represents key financial performance ratios that our Senior Leadership Team monitors on a monthly basis in comparison with Uniform Bank Performance Report peer data. Uniform Bank Performance Reports are available on all Federal Deposit Insurance Corporation insured financial institutions and are used to measure quality performance to peer groupings and may be obtained online at www.fdic.gov. Management monitors the high-performing sector of the peer group and uses this data to examine strategies of other high-performing financial institutions and to establish the financial performance goals of the Company on an annual basis. These goals are then communicated through budgets, strategies, planning and projections to the Senior Leadership Team for implementation. Results are monitored both to plan and to peer group at the Board of Directors level on a monthly basis.

Balance Sheet

The Company s total assets were $939.1 million as of December 31, 2010 compared to $813.4 million as of December 31, 2009. The $125.7 million or 15.5% increase in total assets was centered in the investment portfolio and to a lesser extent, the Company s held for sale loan portfolio. The investment portfolio increased $109.2 million while the held for sale mortgage portfolio increased $15.7 million. Management executed a investment leverage strategy in 2010 and invested in highly liquid agency mortgage-backed securities and other agency debt, highly credit rated municipal securities, and highly credit rated corporate securities. The increase in held for sale mortgage portfolio reflects significant increases in mortgage loan originations associated with the Company s affiliate, Bank of Commerce Mortgage. The held for investment loan portfolio remained flat to the prior year and reflected tepid loan demand in the Company s markets.

Total deposits increased $8.2 million or 1.29% over December 31, 2009. While deposit growth was modest in 2010, management made solid gains in core deposit growth. Management defines core deposits as non-maturity deposits including interest and non-interest bearing demand deposits, money market accounts, and savings accounts. Demand deposits increased $20.0 million or 8.6% when compared to December 31, 2009 while money market and savings accounts increased $18.2 million or 27.9% over the same period. Time deposits decreased $30.0 million or 8.8% over December 31, 2009 and reflects the planned maturity and non-renewal of brokered time deposits along with some deposit mitigation to non-maturity deposits.

Asset Quality

Our loan portfolio remains strained. The commercial and industrial, and real estate portfolios continued to experience deterioration in 2010. Both portfolios have been negatively impacted by the current economic recession and significant weakness in the real estate market. Net charge-offs were $11.2 million for the year ended December 31, 2010 as compared to $6.7 million for the year ended December 31, 2009. The charge-offs were generally equally divided between in the Company s residential, commercial real estate, and commercial and industrial portfolios. Management remains committed to working with our customers experiencing financial difficulties to find potential solutions that benefit both parties.

Capital

The capital ratios of Bank of Commerce Holdings continue to be above the well-capitalized guidelines established by regulatory agencies. The Company successfully raised $33.0 million in net equity proceeds in 2010. The increased level of capital increased the Company s total risk-based capital ratio to 15.00% as compared to 13.31% on December 31, 2009. The Company s strong equity position will allow management to continue to pursue and evaluate strategic opportunities within our markets and consider opportunities outside of our current footprint.

Sources of Income

We derive our income from two principal sources: (1) net interest income, which is the difference between the interest income we receive on interest-earning assets and the interest expense we pay on interest-bearing liabilities, and (2) fee income, which includes fees earned on deposit services, income from payroll processing, electronic-based cash management services, mortgage brokerage fee income and merchant credit card processing services. Our income depends to a great extent on net interest income. These interest rate characteristics are highly sensitive to many factors, which are beyond our control, including general economic conditions, inflation, recession, and the policies of various governmental and regulatory agencies, and the Federal Reserve Board in particular. Because of our predisposition to variable rate pricing on our assets and level of time deposits, we are considered asset sensitive. Consequently, we benefit in a rising rate environment and we are affected adversely by declining interest rates.

Table of Contents

Net interest income reflects both our net interest margin, which is the difference between the yield we earn on our assets and the interest rate we pay for deposits and our other sources of funding, and the amount of earning assets we hold. As a result, changes in either our net interest margin or the amount of earning assets we hold could affect our net interest income and our earnings.

Increase or decreases in interest rates could adversely affect our net interest margin. Although the yield we earn on our assets 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, and cause our net interest margin to expand or contract. Many of our assets are tied to prime rate, so they may adjust faster in response to changes in interest rates. As a result, when interest rates fall, the yield we earn on our assets may fall faster than the re-pricing opportunities of our liabilities, causing our net interest margin to contract until the re-pricing of liabilities catches up.

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, which means 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, we could experience pressure on our net interest margin as our cost of funds increases relative to the yield we can earn on our assets.

We assess our interest rate risk by estimating the effect on our earnings under various scenarios that differ based on assumptions about the direction, magnitude and speed of interest rate changes and the slope of the yield curve.

There is always the risk that changes in interest rates could reduce our net interest income and our earnings in material amounts, especially if actual conditions turn out to be materially different than what we assumed. For example, if interest rates rise or fall faster than we assumed or the slope of the yield curve changes, we may incur significant losses on debt securities we hold as investments. To reduce our interest rate risk, we may rebalance our investment and loan portfolios, refinance our debt and take other strategic actions which may result in losses or expenses.

Mortgage brokerage services are performed by Bank of Commerce Mortgage subsidiary. Mortgage brokerage services offers residential real estate loans with fourteen offices in two different states and licenses in California, Oregon, Washington, Idaho and Colorado. Mortgages that are originated are sold, servicing included, in the secondary market or directly to correspondent financial institutions. We derive fee income from our mortgage brokerage services.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

We reported net income of $6.2 million and net income to common shareholders of $5.3 million for the year ended December 31, 2010, representing an increase of approximately $200,000 or 3.33%, over net income of $6.0 million and net income to common shareholders of $5.1 million for the year ended December 31, 2009. During 2010, our net interest margin increased modestly as the Company continued to fund earning assets with low cost deposits and wholesale borrowings. The downward repricing of wholesale borrowings continued to provide positive benefit to our net interest margin. Consistent with 2009, gains on the sale of securities contributed significantly to our 2010 earnings. In 2010, the Company also benefited from the settlement of the irrevocable loss guarantee (Put Reserve) associated with the ITIN loan portfolio (see Note 28), which increased noninterest income by $1.8 million.

During 2010, we increased provisions for loan and lease losses significantly. Increased provisions are directly attributed to further deterioration in the Commercial and Industrial portfolio and continuing weakness in our real estate portfolio. Our provision for loan and lease losses increased to $12.9 million in 2010 from $9.5 million in 2009. Ongoing credit quality reviews and current appraisals identified impairment within the portfolio and significantly contributed to increased provisions in 2010.

Nonperforming assets as a percentage of total assets increased to 2.43% compared to 1.92% in 2009. The majority of the increase in nonperforming assets is primarily related to the ITIN loan portfolio. The current recession with the accompanying depressed residential real estate market continues to stress these assets. Accordingly, management has taken an aggressive and prudent stance in monitoring these credits, and will continue to do so in 2011.

Return on average assets (ROA) was 0.69% in 2010 and 0.75% in 2009. Return on average common equity (ROE) was 6.50% in 2010 compared 9.01% in 2009. Diluted earnings per share for 2010 and 2009 were $0.35 and $0.58, respectively, which was a year-over-year decrease of 39.7%. The decrease in diluted earnings per share is a direct result from the additional common shares outstanding. During 2010, the Company successfully completed a public offering of common stock, whereby issuing 8,280,000 of common stock at $4.25 per share with net equity proceeds of $33.0 million.

Our average total assets increased to $906.1 million in 2010 or 12.7% from $804.2 million in 2009. Total deposits grew by $8.2 million or 1.3% over 2009; the deposit growth was centered in noninterest bearing demand accounts and savings accounts. Total gross loans decreased by $0.6 million or 0.11% over 2009; decreases in the real estate construction portfolio were offset by increases to the home equity line portfolio, the remaining mix remained consistent with 2009. During the first quarter of 2010 the Company purchased a pool of performing home equity revolving and non revolving loans which accounted for the majority of the increase in the home equity portfolio.

The yield on the loan portfolio decreased 30 basis points to 5.78% compared to 6.08% in 2009. Yields on all earning assets decreased 40 basis points to 5.22% compared to 5.62% in 2009. Our income is highly dependent on interest rate differentials and the resulting net interest margins (i.e., the difference between the interest rates earned on the Bank s interest-earning assets such as loans and securities, and the interest rates paid on the Bank s interest-bearing liabilities such as deposits and borrowings).

These rates are highly sensitive to many factors, which are beyond our control, including general economic conditions, inflation, recession and the policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board (FRB). Because of our predisposition to variable rate pricing on our assets and level of time deposits, we are normally considered asset sensitive. However, with the current historically low interest rate environment, the market rates on many of our variable-rate loans are below their respective floors. Consequently, we would not immediately benefit in a rising rate environment. As such, we are currently considered liability sensitive in the 100bp to 300bp upward rate shock, and asset sensitive for 400bp upward rate shock. As a result, management anticipates that, in a rising interest rate environment, our net interest income and margin would generally be expected to decline, as well as in a declining interest rate environment. However, given that the model assumes a static balance sheet, no assurance can be given that under such circumstances we would experience the described relationships to declining or increasing interest rates.

During 2010, the Company entered into a series of deferred starting interest rate swap contracts to mitigate a portion of future interest rate risk. The contracts were forward starting with the first one becoming effective on March 1, 2012. Management designated the deferred interest rate swap contracts as cash flow hedges of interest payments. During 2011, the Company settled the deferred interest rate swap contracts and removed the hedge designation. As a result of the settlement of the deferred interest rate swap contracts, the Company realized $3.0 million in cash proceeds from the counterparty. Management intends on reclassifying the gains realized on the hedge instruments into earnings from other comprehensive income, as a reduction of interest expense, in the same periods during which the hedged forecasted transaction affects earnings on the basis it is probable the forecasted transaction will occur. As such, the Company s margin will benefit from the future reclassifications of these gains by lowering interest expense on Federal Home Loan advances. This benefit is expected to begin in March 2012.

Funding costs decreased by 50 basis points to 1.37% compared with 1.87% in 2009, reflecting the current lower cost rate environment.

Table of Contents

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

We reported net income of $6.0 million and net income to common shareholders of $5.1 million for the year ended December 31, 2009, representing an increase of approximately $2.87 million or 130.7%, over net income of $2.19 million for the year ended December 31, 2008.

The increase can be primarily attributed to loan growth funded with low cost deposits and re-pricing wholesale borrowings with the resulting effect expanding our net interest margin and net income for the year.

During 2009, we increased provisions for loan and lease losses significantly. Increased provisions are directly attributed to deterioration in the Commercial and Industrial portfolio and continuing weakness in our real estate portfolio.

Our provision for loan and lease losses increased to $9.5 million in 2009 from $6.5 million in 2008. Ongoing credit quality reviews identified impairment within the portfolio and greatly contributed to the increased provisions in 2009. Nonperforming assets as a percentage of total assets decreased to 1.92% compared to 2.98% in 2008. The decrease in nonperforming assets is primarily attributed to a bulk sale of nonperforming assets in the second quarter of 2009. On April 17, 2009, we completed a Loan Swap transaction which included the purchase of a portfolio of Individual Tax Identification Number (ITIN) residential mortgage loans. The ITIN portfolio was purchased from a private equity firm in exchange for a combination of approximately $14.0 million in nonperforming loans and cash of approximately $67.0 million. The nonperforming loans were transferred without recourse. At the settlement date, the mortgage loan pool contained 859 single family residential mortgages with an average principal 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 fully documented. The ITIN mortgage pool is geographically dispersed throughout the United States.

Return on average assets (ROA) was 0.75% in 2009 and 0.33% in 2008. Return on average common equity (ROE) was 9.01% in 2009 compared 4.99% in 2008. Diluted earnings per share for 2009 and 2008 were $0.58 and $0.25, respectively, which was a year-over-year increase of 132.0%. Our average total assets increased to $804.2 million in 2009 or 21.4% from $662.3 million in 2008. Total deposits grew by $85.2 million or 15.3% over 2008; the deposit growth was centered in certificates of deposit followed by interest-bearing checking accounts. Total loans grew by $73.9 million or 14.0% over 2008; loan growth was centered in residential mortgage loans.

The yield on the loan portfolio decreased 39 basis points to 6.08% compared to 6.47% in 2008. Yields on total earning assets decreased 51 basis points to 5.62% compared to 6.13% in 2008. Our income is highly dependent on interest rate differentials and the resulting net interest margins (i.e., the difference between the interest rates earned on the Bank s interest-earning assets such as loans and securities, and the interest rates paid on the Bank s interest-bearing liabilities such as deposits and borrowings).

These rates are highly sensitive to many factors, which are beyond our control, including general economic conditions, inflation, recession and the policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board (FRB). Because of our predisposition to variable rate pricing on our assets and level of time deposits, we are considered asset sensitive. Consequently, we benefit in a rising rate environment and we are adversely affected by declining interest rates.

Funding costs decreased 115 basis points to 1.87% compared with 3.02% in 2008, reflecting the current lower cost rate environment.

Table of Contents

Net Interest Income and Net Interest Margin

Our primary source of income is derived from net interest income. Net interest income represents the excess of interest and fees earned on 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 increased $4.0 million to $33.0 million in 2010 compared to $29.0 million in 2009 and $21.3 million in 2008, representing a 13.79% increase in 2010 over 2009, and a 35.82% increase in 2009 over 2008. The average balance of total earning assets increased to $812.1 million in 2010 compared to $735.2 million in 2009, which reflects a 10.46% increase.

Portfolio loans, the largest component of average earning assets, increased $50.9 million or 8.63% compared with the prior year period. During the period, yields on average earning assets decreased by 40 basis points to 5.22%.

The decrease in yields on average earning assets is primarily due to two factors; relatively higher yielding loans either maturing or being reclassified as nonaccrual and current year additions to the available for sale investment portfolio at relatively lower market rates.

Table of Contents

The following table sets forth our daily average balance sheet, related interest income or expense and yield or rate paid for the periods indicated. The yield on tax-exempt securities has not been adjusted to a tax-equivalent yield basis.

Average Balances, Interest Income/Expense and Yields/Rates Paid
Years Ended December 31,

(Dollars in thousands)	**2010**			**2009**			**2008**		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Interest Earning Assets									
Portfolio loans[1]	$ 640,213	$ 37,000	5.78%	$ 589,336	$ 35,860	6.08%	$ 518,759	$ 33,582	6.47%
Tax-exempt securities	42,172	1,692	4.01%	28,384	1,164	4.10%	24,399	1,197	4.91%
US government securities	27,423	617	2.25%	8,606	343	3.99%	13,637	553	4.06%
Mortgage backed securities	48,972	1,466	2.99%	53,722	3,107	5.78%	37,328	1,916	5.13%
Federal funds sold	995	2	0.20%	13,438	32	0.24%	17,987	303	1.68%
Other securities	52,322	1,614	3.08%	41,305	823	1.99%	2,918	139	4.76%
Average Earning Assets	$ 812,097	$ 42,391	5.22%	$ 734,791	$ 41,329	5.62%	$ 615,028	$ 37,690	6.13%
Cash & due from banks	28,748			26,841			16,298		
Bank premises	9,814			10,322			11,097		
Other assets	55,440			32.257			19,866		
Average Total Assets	$ 906,099			$ 804,211			$ 662,289		
Interest Bearing Liabilities									
Interest bearing demand	$ 141,983	$ 968	0.68%	$ 145,542	$ 1,015	0.70%	$ 138,743	$ 2,173	1.57%
Savings deposits	76,718	921	1.20%	62,846	963	1.53%	56,914	1,576	2.77%
Certificates of deposit	321,051	6,151	1.92%	317,417	7,628	2.40%	234,493	8,552	3.65%
Repurchase agreements	12,274	52	0.42%	11,006	51	0.46%	13,043	173	1.33%
Other borrowings	134,255	1,306	0.97%	122,057	2,678	2.19%	98,518	3,868	3.93%
Average Interest	$ 686,281	$ 9,398	1.37%	$ 658,868	$ 12,335	1.87%	$ 541,711	$ 16,342	3.02%

Liabilities									
Noninterest bearing demand	92,433			69,250			70,933		
Other liabilities	31,748			9,467			5,660		
Shareholders equity	95,637			66,626			43,985		
Average Liabilities and Shareholders Equity	$ 906,099			$ 804,211			$ 662,289		
Net Interest Income and Net Interest Margin		$ 32,993	4.06%		$ 28,994	3.94%		$ 21,348	3.47%

Interest income on loans includes fee income (expense) of approximately $250,475, ($21,607) and $76,857 for the years ended December 31, 2010, 2009 and 2008 respectively.

During the year ending December 31, 2010, the Company leveraged the net proceeds from the common stock issuance by purchasing approximately $100.0 million in agencies and highly credit rated available for sale securities. Pursuant to these transactions, the available for sale portfolio was repositioned to mitigate interest rate risk. Accordingly, some existing portfolio securities with higher stated yields were sold, while the securities purchased carried lower stated yields. As a result, for the year ending December 31, 2010 the weighted average yield on the available for sale investment portfolio decreased by ninety seven basis points compared to year ending December 31, 2009.

Average deposits and borrowings increased by $27.4 million over the same period a year ago. The yield on funding costs decreased to 1.37% compared with 1.87% for the same period a year ago. The Company utilizes retail deposits, brokered deposits and FHLB borrowings as its main sources of funding.

[1] Average nonaccrual loans and average loans held for sale of $20.5 and $30.6 million are included respectively

Table of Contents

The following tables set forth changes in interest income and expense for each major category of interest earning assets and interest-bearing liabilities, and the amount of change attributable to volume and rate changes for the periods indicated. Changes not solely attributable to rate or volume has been allocated to volume. The yield on tax-exempt securities has not been adjusted to a tax-equivalent yield basis.

Analysis of Changes in Net Interest Income
Years ended December 31,

(Dollars in thousands)	**2010 over 2009**			**2009 over 2008**		
	Variance due to Average Volume	Variance due to Average Rate	Total	Variance due to Average Volume	Variance due to Average Rate	Total
Increase (Decrease) In Interest Income:						
Portfolio loans	$ 2,490	($1,350)	$ 1,140	$ 3,791	($1,512)	$ 2,279
Tax-exempt securities	547	(19)	528	115	(147)	(32)
US government securities	386	(112)	274	(203)	(7)	(210)
Mortgage backed securities	(517)	(1,124)	(1,641)	1,009	182	1,191
Federal funds sold	(26)	(4)	(30)	(8)	(99)	(107)
Other securities	453	338	791	480	38	518
Total Increase (Decrease)	3,333	(2,271)	1,062	5,184	(1,545)	3,639
(Decrease) Increase In Interest Expense:						
Interest bearing demand	(30)	(17)	(47)	(254)	(904)	(1,158)
Savings accounts	114	(156)	(42)	(85)	(528)	(613)
Certificates of deposit	(317)	(1,160)	(1,477)	1,263	(2,188)	(925)
Repurchase agreements	4	(3)	1	(37)	(84)	(121)
Other borrowings	(164)	(1,208)	(1,372)	5	(1,195)	(1,190)
Total Increase (Decrease)	(393)	(2,544)	(2,937)	892	(4,899)	(4,007)
Net Increase (Decrease)	$ 3,726	$ 273	$ 3,999	$ 4,292	$ 3,354	$ 7,646

A combination of reduced funding costs and an increase in the volume of earning assets improved the Company s net interest margin. The increased volume of earning assets contributed an additional $3.3 million in interest income. The majority of the increase in earning assets resulted from increases in average portfolio loans, and to a lesser extent the available for sale investment portfolio. In addition, the continued decline in interest rates on earning assets resulted in a reduction of $2.3 million to interest income. Accordingly, the net effect of changes in rate and volume of earning assets resulted in $1.1 million increase in interest income.

The Company s volume in average deposits and borrowings did not increase significantly for the year ending December 31, 2010 compared to the year ending December 31, 2009. However, the Company did benefit from the continued decline in interest expense relating to retail and wholesale funding. These benefits were mainly derived from the refinancing of existing FHLB borrowings at lower interest rates, and the maturing of certificates of deposits that carried higher rates than the market currently offered. As a result, the Company realized a decrease in interest expense of $2.5 million. Accordingly, the net effect of changes in rate and volume of interest bearing liabilities

resulted in a decrease of $2.9 million in interest expense.

Table of Contents

Noninterest Income

The following table sets forth a summary of noninterest income for the periods indicated.

(Dollars in thousands)	**Years Ended December 31,**		
	2010	2009	2008
Noninterest income:			
Service charges on deposit accounts	$ 260	$ 390	$ 311
Payroll and benefit processing fees	448	452	453
Earnings on cash surrender value- Bank owned life insurance	438	418	340
Net gain on sale of securities available-for-sale	1,981	2,438	628
Net loss on sale of derivative swap transaction			(225)
Net gain on transfer of financial assets		341	
Gain on settlement of put reserve	1,750		
Mortgage brokerage fee income	14,214	5,327	21
Other income	727	697	1,095
Total Noninterest income	$ 19,818	$ 10,063	$ 2,623

Noninterest income includes service charges on deposit accounts, payroll processing fees, earnings on key life investments, gains on the sale of securities investments, mortgage brokerage fee income, and income pertaining to the settlement of the put reserve.

Noninterest income for 2010 was $19.8 million or 31.9% of total gross revenues compared to $10.1 million or 19.6% of total gross revenues in 2009. The increase in noninterest income is primarily due to an increase in mortgage brokerage fee income associated with our purchase of an equity interest in the Simonich Corporation, and the settlement of the put reserve.

Mortgage brokerage fee income is primarily derived from origination fees on residential mortgage loans and from the sale of mortgage loans to financial institutions. Loan origination fees and sales fees earned on brokered loans are recorded as income when the loans are sold. Mortgage Services brokerage fee income increased substantially as a result of increased origination volume, due to the historically low interest rate environment. In addition, for the year ending December 31, 2010, the Company recognized a full twelve months of mortgage broker fee income compared to approximately seven months for the year ending December 31, 2009.

In August of 2010, the Company settled and terminated the put reserve provided on the ITIN loan pool purchase. Prior to the release, the put reserve carried a balance of $2.1 million; at termination the Company received $1.8 million in cash and returned $0.3 million in cash to the seller from the deposit account. Accordingly, the Company recognized a gain upon settlement. As such, no portion of the remaining outstanding principal balance of the ITIN loan portfolio has an accompanying loss guarantee.

The put reserve was part of the April 17, 2009 loan swap transaction in which the Company purchased a pool of Individual Tax Identification Number (ITIN) residential mortgages in exchange for a combination of certain nonperforming loans and cash. The put reserve was an irrevocable first loss guarantee from the seller that provided us the right to put back delinquent ITIN loans to the seller that were 90 days or more delinquent up to an aggregate amount of $3.5 million. This guarantee was backed by a seller cash deposit with the Company that was restricted for this sole purpose. The seller s cash deposit was classified as a deposit liability in the Company s balance sheet. At the end of the term of this loss guarantee, the Company was required to return the cash deposit to the seller to the extent not used to fund losses in the ITIN portfolio. During the period from March 2010 to September 2010, thirteen ITIN loans with an aggregate principal amount of $1.4 million were returned to the seller under the loss guarantee, reducing the deposit liability to approximately $2.1 million prior to reaching the settlement with the seller to eliminate the loss guarantee arrangement.

55

Table of Contents

Our investment strategy requires that we reposition our investment portfolio within certain parameters to minimize risks to comprehensive income, and to mitigate interest rate risk. Accordingly, the Company continued to reposition the portfolio during year ending December 31, 2010. As a result, the Company realized gain on sales of securities of $2.0 million during 2010.

Noninterest Expense

The following table sets forth a summary of noninterest expense for the periods indicated.

(Dollars in thousands)	**Years ended December 31,**		
	2010	2009	2008
Salaries & related benefits	$ 15,903	$ 10,882	$ 7,751
Occupancy & equipment expense	3,660	3,405	2,501
Write down of other real estate owned	1,571	161	735
FDIC insurance premium	1,016	1,274	383
Data processing fees	270	282	276
Professional service fees	1,726	820	667
Deferred compensation expense	493	478	461
Stationery & supplies	258	185	262
Postage	198	147	134
Directors expenses	266	299	294
Goodwill impairment	32		
Other expenses	4,935	2,691	1,832
Total Noninterest expense	$ 30,328	$ 20,624	$ 15,296

Noninterest expense includes salaries and benefits, occupancy, write down of other real estate owned, FDIC insurance assessments, director fees, and other expenses.

Noninterest expense increased $9.7 million or 47.1% to $30.3 million in 2010. The increase in noninterest expense is primarily due to increased salaries and related benefits pertaining to the Mortgage Services subsidiary, write downs of other real estate owned, professional fees associated with loan credit quality evaluations, and a full twelve months consolidation of the Mortgage Services subsidiary.

The increase in salaries and related benefits is primarily due to the timing of the purchase of an equity interest in the Simonich Corporation. The Company consolidated an additional $4.6 million in related salaries and benefits of the Mortgage Services for the year ending December 31, 2010 compared to a consolidation of seven months of expense for the year ending December 31, 2009. In addition, in 2010, Mortgage Services transitioned existing independent contractors to FTE s, and increased staff due to growth in general operations. As a result, the Company experienced an increase in salaries and related benefits for the period.

In 2010, the Company determined a valuation adjustment to the carrying value of the Company s other real estate owned was necessary. The values were adjusted downward, reflecting the continued deterioration in local real estate market conditions. As a result, the Company recognized a $1.6 million impairment charge to earnings.

For the year ending December 31, 2010, professional fees increased approximately $1.0 million. During the reporting period, the Company increased the solicitation of outside professionals to conduct credit quality reviews pertaining to the Company s loan portfolio. In addition, during the reporting period, the Company increased the engagements of legal counsel. The increase in these services coincides with the continued monitoring of the Company s nonperforming loans.

Table of Contents

Other expenses increased by $2.3 million during 2010. The increase is primarily due to increased credit administration expenses including appraisal expense associated with the Company s real estate loan portfolio, prior period tax expenses, and overall increased activities associated with the Mortgage Services general operations. Furthermore, due to the timing of the purchase of Simonich Corporation, the Company consolidated twelve months of Mortgage Services related other expenses, compared to approximately seven months in the prior period. Other expenses recorded by Mortgage Services include expenses for business travel, telephone, insurance and licensing fees.

Income Taxes

Our provision for income taxes includes both federal and state income taxes and reflects the application of federal and state statutory rates to our income before taxes. The principal difference between statutory tax rates and our effective tax rate is the benefit derived investing in tax-exempt securities and preferential state tax treatment for qualified enterprise zone loans. We continue to participate in a California Affordable Housing project which affords federal and state tax credits. Increases and decreases in the provision for taxes reflect changes in our income before taxes.

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

(Dollars in thousands)	**Years Ended December 31,**		
	2010	2009	2008
Income tax provision (benefit)	$ 3,159	$ 2,690	($40)
Effective tax rate	32.79%	30.02%	-1.83%

Non-controlling interests are presented in the income statement such that the consolidated income statement includes income and income tax expense from both the Company and non-controlling interests. The effective tax rate is calculated by dividing income tax expense by income before tax expense for the consolidated entity.

Asset Quality

We concentrate our portfolio lending activities primarily within El Dorado, Placer, Sacramento, Shasta, and Tehama counties in California, and the location of the Bank s four full services branches, specifically identified as Northern California. We manage our credit risk through diversification of our loan portfolio and the application of underwriting policies and procedures and credit monitoring practices. Although we have a diversified loan portfolio, a significant portion of our borrowers 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 located in California and are expected to be repaid from cash flows of the borrower s business or cash flows from real estate investments.

Although we have 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. The loans are secured by real estate or other assets primarily 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 management s top focus.

The Company s practice is to place an asset on nonaccrual status when one of the following events occurs: (1) 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), (2) management determines the ultimate collection of principal or interest to be unlikely or, (3) the terms of the loan have been renegotiated due to a serious weakening of the borrower s financial condition. Nonperforming loans may be on nonaccrual, 90 days past due and still accruing, or have been restructured and are not performing to their modified terms. Accruals are resumed on loans only when they are brought fully current with respect to interest and principal and when the loan is estimated to be fully collectible. Restructured loans are those loans on which concessions in terms have been granted because of the borrower s financial or legal difficulties. Interest is generally accrued on such loans in accordance with the new terms, after a period of sustained performance by the borrower.

One exception to the 90 days past due policy for non-accruals is the bank s pool of home equity loans and lines purchased from a private equity firm. The purchase of this pool of loans included a put option allowing the bank to sell a portion of the loan pool back to the private equity firm in the event of default by the borrower. At 90 days past due a loan in this pool will be sold back to the private equity firm for the outstanding principal balance, unless a workout plan has been put in place with the borrower. Once this put reserve is exhausted, the bank will charge off any loans that go more than 90 days past due. In accordance to this policy, management does not expect to classify any of the loans from this pool as nonaccrual. Management believes that charging the loan off at the time it becomes impaired would be more conservative than placing it in nonaccrual status.

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

(Dollars in thousands)	As of December 31,									
	2010	**%**	**2009**	**%**	**2008**	**%**	**2007**	**%**	**2006**	**%**
Commercial & industrial	$ 133,199	22.17%	$ 133,080	23.13%	$ 164,083	31.11%	$ 173,704	35.11%	$ 125,725	30.36%
Real Estate loans										
Construction	41,327	6.88%	59,524	9.90%	84,218	15.97%	106,977	21.62%	110,693	26.73%
Commercial	262,340	43.67%	260,024	42.23%	217,914	41.31%	175,013	35.37%	159,370	38.48%
ITIN loan pool	70,585	11.75%	78,250	13.04%						
Other first lien mortgages	19,299	3.21%	20,525	3.38%	20,285	3.85%	10,787	2.18%	4,278	1.04%
Equity loans	69,590	11.58%	45,601	7.58%	39,915	7.57%	26,818	5.42%	12,986	3.14%
Installment	2,303	0.38%	2,223	0.37%	145	0.03%	226	0.05%	202	0.05%
Other loans	2,153	0.36%	2,212	0.37%	903	0.16%	1,223	0.25%	937	0.20%
Gross Loans	600,796	100.00	601,439	100.00	527,463	100.00%	494,748	100.00%	$ 414,191	100.00%
Less: Deferred loan fees and costs	90		209		87		232		298	
Allowance for Loan losses	12,841		11,207		8,429		8,233		4,904	

Net Loans	$ 587,865	$ 590,023	$ 518,947	$ 486,283	$ 408,989

Table of Contents

The following table provides a breakdown of our real estate construction portfolio as of December 31, 2010:
(Dollars in thousands)

Loan Type	Balance	Percent of gross loan portfolio
Commercial real estate construction	$ 18,356	3.06%
Commercial lots	14,951	2.49%
1-4 family subdivision loans	5,592	0.93%
1-4 family individual residential lots	1,757	0.29%
1-4 family construction speculative	671	0.11%
Total Real estate-construction	$ 41,327	6.88%

The following table provides a breakdown of commercial real estate portfolio as of December 31, 2010:
(Dollars in thousands)

Loan Type	Balance	% of Gross loan portfolio
Commercial- investor	$ 194,285	32.34%
Commercial-owner occupied	68,055	11.33%
Total Commercial	262,340	43.67%

Net portfolio loans decreased by $2.2 million or 0.37% to $587.9 million at December 31, 2010 compared to $590.0 million at December 31, 2009. Decreases in real estate construction, and the ITIN pool were offset by an increase in home equity loans.

Home equity loans increased by $24.0 million for the year ending December 31, 2010 compared to December 31, 2009. A substantial portion of the increase can be attributed to the purchase of a pool of home equity term loans and lines of credit in 2010. On March 12, 2010, the Company purchased a pool of residential mortgage home equity loans with a par value of $22.0 million. At the settlement date the mortgage home equity loan pool consisted of 562 loans with an average principle balance of approximately $39,200, a weighted average credit score of 744, a weighted average loan to value of 86.44%, and a weighted average yield of 7.76%. Fifty one percent of the mortgage home equity loan pool is located in the state of Michigan; the remaining balance is geographically disbursed throughout the United States. The purchased home equity loan pool was recorded at a fair value of $21.7 million.

The other considerable change is reflected in the real estate construction portfolio; the real estate construction portfolio reflects 6.88% of the loan mix versus 9.90% at December 31, 2009. The decrease in the mix of real estate construction loans was due to lower origination volume, and the maturing of the existing portfolio.

Mortgages held for sale

Mortgages held for sale are generated through two pipelines; (1) Bank of Commerce Mortgage and (2) the Bank s purchase program with Bank of Commerce Mortgage. In both cases our majority owned subsidiary Bank of Commerce Mortgage originates residential mortgage loans within Bank of Commerce s geographic market, as well as on a nationwide basis. In scenario (1) above, the loans are funded through a warehouse line of credit with the Bank, and are accounted for as loans held for sale at the Mortgage Subsidiary. Under scenario (2) above, the Bank purchases the mortgages at origination from the Mortgage Subsidiary, and are classified as held for sale at the Bank.

All mortgage loans originated through either pipeline 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 (FNMA), Freddie Mac (FHLMC), and Ginnie Mae (GNMA)) and to third party investors including the servicing rights.

Mortgages held for sale are carried at the lower of cost of fair value. Cost generally approximates fair value, given the short duration of these assets. 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. We generally sell all servicing rights associated with the mortgage loans. Accordingly, there are no separately recognized servicing assets or liabilities resulting from the sale of mortgage loans. As of December 31, 2010, the Company had $43.0 million in mortgages are held for sale. These loans are not included in net portfolio loans listed in the table above.

Nonperforming Assets

The following table sets forth a summary of our nonperforming assets, including other real estate owned as of the dates indicated:

(Dollars in thousands)

	As of December 31,				
Nonperforming assets	2010	2009	2008	2007	2006
Commercial & industrial	$ 2,302	$ 237	$ 2,279	$	$
Secured by 1-4 family, closed end 1st lien	1,166	623	1,047		
Secured by 1-4 family revolving	97	199	350	83	
Secured by RE - 1-4 construction	242	849	6,989	9,022	
Secured by RE other construction	100		9,489	3,304	
Secured by NFNR	7,066	5,759			
Nonaccrual loan portfolio	$ 10,973	$ 7,667	$ 20,154	$ 12,409	$
Nonaccrual ITIN loan pool	$ 9,538	$	$	$	$
Nonaccrual home equity loan pool					
90 days past due and still accruing interest		5,052			
Other real estate owned	2,288	2,880	2,934		
Total nonperforming assets	$ 22,799	$ 15,599	$ 23,088	$ 12,409	$

Nonperforming assets adversely affect our net income in various ways. Until economic and market conditions improve, we may expect to continue to incur losses relating to nonperforming assets. We generally do not record interest income on nonperforming loans or other real estate owned, thereby adversely affecting our income, and increasing our loan administration costs. When we take collateral in foreclosures and similar proceedings, we mark the respective assets to their fair market value which may result in the recognition of a loss. An increase in the level of nonperforming assets increases our risk profile and may impact the capital levels our regulators believe are appropriate in light of the ensuing risk profile. While we reduce problem assets through loan sales, workouts, restructurings and otherwise, decreases in the value of the underlying collateral, or in these borrowers performance or financial condition, whether or not due to economic and market conditions beyond our control, could adversely affect our business, results of operations and financial condition. In addition, the resolution of nonperforming assets requires significant commitments of time from management and our directors, which can be detrimental to the performance of their other responsibilities.

On March 12, 2010, the Company completed a loan swap transaction which included the purchase of a pool of residential mortgage home equity loans with a par value of $22.0 million. As of December 31, 2010, the Company has allocated $758 thousand towards this pool or 4.25% of the outstanding principal balance. An accompanying $1.5 million put reserve was also part of the loan swap transaction and represents a credit enhancement. As such, management considers this put reserve in estimating probable losses in the home equity portfolio.

Table of Contents

As of December 31, 2010, the remaining put reserve totals $1.2 million or 6.57% of the outstanding principal balance. The put reserve is an irrevocable first loss guarantee from the seller that provided us the right to put back delinquent home equity loans to the seller that were 90 days or more delinquent up to an aggregate amount of $1.5 million. This guarantee is backed by a seller cash deposit with the Company that is restricted for this sole purpose. The seller s cash deposit is classified as a deposit liability in the Company s balance sheet. At the end of the term of this loss guarantee, the Company is required to return the cash deposit to the seller to the extent not used to fund losses in the home equity portfolio.

The ITIN loan pool represents residential mortgage loans made to legal United States residents without a social security number and are geographically dispersed throughout the United States. The ITIN loan portfolio is serviced through a third party.

Worsening economic conditions in the United States may cause us to suffer higher default rates on our ITIN loans and reduce the value of the assets that we hold as collateral. In addition, if we are forced to foreclose and service these ITIN properties ourselves, we may realize additional monitoring, servicing and appraisal costs due to the geographic disbursement of the portfolio which will adversely affect our noninterest expense.

As part of the original ITIN loan transaction, we obtained an irrevocable first loss guarantee from the seller that provided us the right to put back delinquent ITIN loans to the seller that were 90 days or more delinquent up to an aggregate amount of $3.5 million. This guarantee was backed by a seller cash deposit with the Company that was restricted for this sole purpose. The seller s cash deposit was classified as a deposit liability in the Company s balance sheet. At the end of the term of this loss guarantee, the Company was required to return the cash deposit to the seller to the extent not used to fund losses in the ITIN portfolio.

The Company accounted for the loans returned to the seller under the loss guarantee by derecognizing the loan, debiting cash and relieving the deposit liability. During the period from March 2010 to September 2010, thirteen ITIN loans with an aggregate principal amount of $1.4 million were returned to the seller under the loss guarantee, reducing the deposit liability to approximately $2.1 million prior to reaching the settlement with the seller to eliminate the loss guarantee arrangement. At the date of settlement, the Company received $1.8 million in cash and returned $0.3 million in cash to the seller from the deposit account. Accordingly, the Company recognized a gain upon settlement. As such, no portion of the remaining outstanding principal balance of the ITIN loan portfolio has an accompanying loss guarantee.

In conjunction with settlement of the loss guarantee, $1.8 million was expensed in provisions for loan losses, and specifically allocated in the Allowance for Loan Losses (ALLL) against the ITIN portfolio. The gain on settlement and the increase in loan loss provisions were two separate and distinct events. However, the two events are linked because upon eliminating the irrevocable loss guarantee from the seller, an increase in our ALLL related to the ITIN loans was necessary; the following factors were considered in determining the specific ALLL allocation to the ITIN Portfolio:

- Increasing delinquencies 20% of the portfolio was delinquent 30 days or more as of 12/31/2010
- Servicer modification efforts were generally extending beyond a typical timeframe
- Mortgage insurance A small number of mortgage insurance claims have been denied and management has not been able to identify a trend regarding any potential future denials
- Sale of other real estate owned (OREO) An emerging trend in the lengthening disposition of ITIN other real estate owned had developed including the potential for decreased recoveries and consequently increased net charge offs.

The specific ITIN ALLL allocation now represents approximately 4.05% of total outstanding principal compared to 1.56% as of December 31, 2009.

Nonperforming assets were 2.43% of total assets as of December 31, 2010 compared to 1.92% at December 31, 2009. For the year ending December 31, 2010, there were $33.9 million in impaired loans of which $20.5 million were in nonaccrual status.

61

Table of Contents

Of these, $9.5 million or one hundred and seven are ITIN loans with a weighted average balance of approximately $89,142 each, and all in various stages of collection; the majority, or $6.5 million, of the nonperforming ITINs are classified as Troubled Debt Restructurings and on nonaccrual status. The remaining balance of $3.0 million is in the process of foreclosure.

The remaining nonaccrual loans consist of five commercial and industrial loans, one commercial lot loan, two residential lot loans, seven commercial real estate loans, four residential mortgages, and one home equity line of credit.

The Company periodically restructures loans and grants concessions to borrowers due to economic or legal reasons relating to the borrower s financial condition that it would not otherwise consider. Accordingly, loans restructured in these situations are classified as troubled debt restructurings.

The Company does not necessarily place a troubled debt restructuring on nonaccrual status. Rather, if the borrower is current at the time of the restructuring, and continues to pay as agreed, the loan is reported as current.

As of December 31, 2010, the Company has ninety three restructured loans that qualified as troubled debt restructurings, of which fifty were performing according to their restructured terms. As of December 31, 2010, the Company had $24.6 million in troubled debt restructurings compared to $10.7 million as of December 31, 2009.

The following table sets forth a summary of the Company s restructured loans that qualify as troubled debt restructurings:

(Dollars in thousands)

Troubled debt restructurings		**December 31, 2010**		**December 31, 2009**
Nonaccrual	$	11,977	$	4,937
Accruing		12,668		5,730
Total troubled debt restructurings	$	24,645	$	10,667

Troubled debt restructurings (TDRs) represented 4.10% of total portfolio loans as of December 31, 2010 compared to 1.77% at December 31, 2009. The increase in TDRs was centered in our ITIN portfolio which accounted for $6.5 million of the $14.0 million increase from December 31, 2009. As of December 31, 2010, thirty-four or $3.4 million of the sixty-six ITIN TDRs are accruing and considered performing assets. The balance of the year-over-year increase in TDRs was primarily in commercial real estate loans. All of the Company s restructured loans met the terms for TDR classification.

Refer to Note 6 in the consolidated financial statements for further discussion pertaining to the key features of the modifications, including the significant terms modified.

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

(Dollars in thousands)	**2010**	**2009**	**2008**	**2007**	**2006**
Beginning balance	$ 11,207	$ 8,429	$ 8,233	$ 4,904	$ 4,316
Provision for loan loss charged to expense	12,850	9,475	6,520	3,291	226
Loans charged off	(12,089)	(6,871)	(6,329)		(299)
Loan loss recoveries	873	174	5	38	661
Ending balance	$ 12,841	$ 11,207	$ 8,429	$ 8,233	$ 4,904
Gross portfolio loans outstanding at period end	$ 600,707	$ 601,230	$ 527,376	$ 494,516	$ 413,893
Ratio of allowance for loan losses to total loans	2.14%	1.86%	1.60%	1.66%	1.18%
Nonaccrual loans at period end:					
Commercial	$ 2,302	$ 237	$ 2,279	$	$
Construction	342	849	16,478	12,326	
Commercial real estate	7,066	5,759			
Residential real estate	10,704	623	1,047		
Home equity	97	199	350	83	
Total nonaccrual loans	$ 20,511	$ 7,667	$ 20,154	$ 12,409	$
Accruing troubled-debt restructured loans					
Construction	$ 2,804	$ 2,219	$	$	$
Commercial real estate	3,621	3,511			
Residential real estate	6,243				
Total accruing restructured loans	$ 12,668	$ 5,730	$	$	$
All other accruing impaired loans	737			1,576	
Total impaired loans	$ 33,916	$ 13,397	$ 20,154	$ 13,985	$
Allowance for loan losses to nonaccrual loans at period end	62.61%	146.17%	41.82%	66.35%	0.00%
Nonaccrual loans to total loans	3.41%	1.28%	3.82%	2.51%	0.00%

Allocation of Allowance for Loan and Lease Losses by product type:
(Dollars in thousands)

	Dec. 31, 2010		**Dec. 31, 2009**		**Dec. 31, 2008**		**Dec. 31, 2007**		**Dec. 31, 2006**	
		% Loan		% Loan		% Loan		% Loan		% Loan

	Amount	Category	Amount	Category	Amount	Category	Amount	Category	Amount	Category
Balance at end of period applicable to:										
Commercial and financial	$ 4,393	34.21%	$ 5,306	47.35%	$3,249	38.55%	$1,946	23.64%	$2,111	43.05%
Commercial real estate constructions	1,271	9.90%	$ 1,188	10.60%	$1,913	22.70%	$4,627	56.20%	$1,244	25.37%
Commercial real estate other	2,422	18.86%	$ 2,348	20.95%	$2,225	26.40%	$1,295	15.73%	$1,210	24.67%
ITIN loan pool	2,857	22.25%	1,227	10.95%						
Other residential	1,632	12.71%	853	7.61%	$ 692	8.21%	$ 213	2.59%	$ 139	2.83%
Consumer	46	0.36%	35	0.31%	$ 42	0.50%	$ 41	0.50%	$ 24	0.49%
Unallocated	220	1.71%	250	2.23%	$ 308	3.64%	$ 111	1.34%	$ 176	3.59%
Total allowance for loan and lease losses	$12,841	100.00%	$11,207	100.00%	$8,429	100.00%	$8,233	100.00%	$4,904	100.00%

Table of Contents

Loan Maturity Schedule

The following table sets forth the maturity and repricing distribution of our commercial, real estate and other loans outstanding as of December 31, 2010, which, based on remaining scheduled repayments of principal, were due within the periods indicated.

(Dollars in thousands)	Within One Year	After One Through Five Years	After Five Years	Total
Commercial & financial	$ 64,181	$ 40,002	$ 29,016	$ 133,199
Real estate loans				
Construction	25,841	11,099	4,387	41,327
Commercial	10,800	74,068	177,472	262,340
ITIN loan pool			70,585	70,585
Other mortgage	1,029	5,176	13,094	19,299
Equity lines	994	21,430	47,166	69,590
Installment	2,142	161		2,303
Other loans	781	1,272	100	2,153
Total gross loans	$ 105,768	$ 153,208	$ 341,820	$ 600,796
Loans due after one year with:				
Fixed Rates	$	$ 61,857	$ 110,137	$ 171,994
Variable Rates		91,351	231,683	323,034
Total	$	$ 153,208	$ 341,820	$ 495,028

Available-for-sale securities

The following table presents information regarding the amortized cost, and maturity structure of the investment portfolio at December 31, 2010:

(Dollars in thousands)	Within One Year		Over One through Five Years		Over Five through Ten Years		Over Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. government & agencies	$		$ 7,054	1.35%	$ 19,760	2.37%	$		$ 26,814	2.10%
Obligations of state and political subdivisions					7,543	3.56%	59,461	4.34%	67,004	4.25%
Mortgage backed securities and collateralized mortgage obligations	7,963	1.42%	38,547	2.84%	7,364	3.36%	11,178	3.69%	65,052	2.87%
Corporate securities			12,212	3.21%	16,807	3.79%			29,019	3.54%

Other asset backed securities							4,569	1.74%	$ 4,569	1.74%
Total	$ 7,963	1.42%	$ 57,813	2.74%	51,474	3.15%	$ 75,208	4.08%	$ 192,458	3.32%

The maturities for the collateralized mortgage obligations and mortgage backed securities are presented by expected average life, rather than contractual maturity. The yield on tax-exempt securities has not been adjusted to a tax-equivalent yield basis.

Table of Contents

Deposit Structure

We obtain deposits primarily from local businesses and professionals as well as through certificates of deposits, savings and checking accounts. The following table sets forth the distribution of our average daily balances for the periods indicated.

(Dollars in thousands)

	Years Ended December 31,					
	2010		2009		2008	
	Amount	Yield	Amount	Yield	Amount	Yield
NOW accounts	$ 38,843	0.58%	$ 58,437	0.51%	$ 51,215	0.88%
Savings	76,718	1.20%	62,846	1.53%	56,914	2.77%
Money market accounts	103,140	0.72%	87,105	0.84%	87,528	1.97%
Certificates of deposit	321,051	1.92%	317,417	2.40%	234,493	3.65%
Interest bearing deposits	539,752	1.49%	525,805	1.83%	430,150	2.87%
Noninterest bearing deposits	92,433		69,250		70,933	
Average total deposits	$ 632,185		$ 595,055		$ 501,083	
Average other borrowings	$ 146,529	0.93%	$ 133,063	2.06%	$ 111,561	3.62%

The following table sets forth the remaining maturities of certificates of deposit in amounts of $100,000 or more as of December 31, 2010:

Deposit Maturity Schedule

(Dollars in thousands)

	2010
Maturing in:	
Three months or less	$ 67,135
Three through six months	42,820
Six through twelve months	47,165
Over twelve months	76,570
Total	$ 233,690

Capital Management and Adequacy

We use capital to fund organic growth, pay dividends and repurchase our 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. Our potential sources of capital include retained earnings, common and preferred stock issuance, and issuance of subordinated debt and trust preferred securities.

Overall capital adequacy is monitored on a day-to-day basis by our management and reported to our Board of Directors on a monthly basis. The regulators of the Bank measure capital adequacy by using a risk-based capital framework and by monitoring compliance with minimum leverage ratio guidelines. Under the risk-based capital standard, assets reported on our balance sheet and certain off-balance sheet items are assigned to risk categories, each of which is assigned a risk weight.

This standard characterizes an institution s capital as being Tier 1 capital (defined as principally comprising shareholders equity) and Tier 2 capital (defined as principally comprising the qualifying portion of the ALLL). The minimum ratio of total risk-based capital to risk-adjusted assets, including certain off-balance sheet items, is 8%. At

least one-half (4%) of the total risk-based capital is to be comprised of common equity; the balance may consist of debt securities and a limited portion of the ALLL.

Table of Contents

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets and of Tier 1 capital to average assets. Management believes as of December 31, 2010 and 2009, that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2010, the most recent notification from the Federal Deposit Insurance Corporation 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 the notification that management believes have changed the Bank s category. The Company and the Bank s capital amounts and ratios are presented in the table.

(Dollars in thousands)

December 31, 2010	Capital	Actual Ratio	Well Capitalized Requirement	Minimum Capital Requirement
The Company				
Leverage	$ 115,541	12.48%	n/a	4.00%
Tier 1 Risk-Based	115,541	13.74%	n/a	4.00%
Total Risk-Based	126,085	15.00%	n/a	8.00%
The Bank				
Leverage	$ 106,747	11.60%	5.00%	4.00%
Tier 1 Risk-Based	106,747	13.34%	6.00%	4.00%
Total Risk-Based	116,791	14.59%	10.00%	8.00%

Cash dividends of $0.06 were paid on January 14, 2010, March 24, 2010, July 7, 2010, to shareholders of record as of December 31, 2009, March 15, 2010, and June 30, 2010, respectively. Cash dividends of $0.03 were paid on October 7, 2010, to shareholders of record as of September 30, 2010.

The United States Department of Treasury (Treasury) introduced the Capital Purchase Program on October 14, 2008, under which the Treasury was authorized make up to $250 billion in equity capital available to qualifying healthy financial institutions. Bank of Commerce Holdings qualified for this highly selective program and received capital investment in November of 2008. This capital investment enabled us to leverage into both investments and residential loans intended to support the housing markets, as well as to increase local lending limits to support our communities.

On March 23, 2010, we filed a Form S-1/A Registration Statement (the Registration Statement) with the SEC to offer 7,200,000 shares of our common stock in an underwritten public offering (Offering). In the Registration Statement, we set out our intent to use the net proceeds of the Offering for general corporate purposes, including contributing additional capital to the Bank, supporting our ongoing and future anticipated growth, which may include opportunistic acquisitions of all or parts of other financial institutions, including FDIC-assisted transactions, and positioning us for eventual redemption of our Series A Preferred Stock issued to the Treasury.

On March 29, 2010 the Company announced the successful closing of the Offering. The Company received net proceeds from the Offering of approximately $28.8 million, after underwriting discounts and commissions and estimated expenses. On April 14, 2010 the underwriters exercised their overallotment option adding additional net proceeds of approximately $4.2 million to the Company s equity, for a total of $33.0 million in net proceeds received through the Offering.

Although we are periodically engaged in discussions with potential acquisition candidates, we are not currently party to any purchase or merger agreement. With our strong capital position, we find significantly more opportunities now for loan growth, investment portfolio purchases and attractive loan and asset purchases.

Table of Contents

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.

Lending Transactions with Related Parties

The business we conduct with directors, officers, significant shareholders and other related parties (collectively, Related Parties) is restricted and governed by various laws and regulations, including Regulation O as promulgated and enforced by the Federal Reserve. Furthermore, it is our policy to conduct business with Related Parties on an arm s length basis at current market prices with terms and conditions no more favorable than we provide in the normal course of business.

Some of our directors, officers and principal shareholders of the Company and their associates were customers of and had banking transactions with the Bank in the ordinary course of business during 2010 and the Bank expects to have such transactions in the future. All loans and commitments to loans included in such transactions were made in compliance with the applicable laws on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar creditworthiness, and in our opinion did not involve more than a normal risk of collectability or present other unfavorable features.

The following table presents a summary of aggregate activity involving related party borrowers for the years ended December 31, 2010 and 2009:

(Dollars in thousands)

	Years Ended December 31,	
	2010	**2009**
Balance at beginning of year	$ 9,469	$ 7,911
New loan additions	1,248	1,418
Advances on existing lines of credit	15,704	11,497
Principal repayments	(17,017)	(11,642)
Reclassification	(176)	285
Balance at end of year	$ 9,228	$ 9,469

Impact of Inflation

Inflation affects our financial position as well as operating results. It is our opinion that the effects of inflation for the three years ended December 31, 2010 on the financial statements have not been material.

Commitments

Off-Balance Sheet Financial Instruments - In the ordinary course of business, we enter into various types of transactions which involve financial instruments with off-balance sheet risk. 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.

Table of Contents

Our off-balance sheet credit risk exposure is the contractual amount of commitments to extend credit and stand-by letters of credit. We apply the same credit standards to these contracts we use for loans recorded on the balance sheet.
(Dollars in thousands)

	Years Ended December 31, 2010	2009
Off-balance sheet commitments:		
Commitments to extend credit	$ 146,915	$ 122,872
Standby letters of credit	3,509	4,844
Guaranteed commitments outstanding	1,299	1,325
	$ 151,723	$ 129,041

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 us 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 us 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 us upon default of performance. 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.
We have mortgage loan purchase agreements with various mortgage bankers. We are obligated to perform certain procedures in accordance with these agreements.
The agreements provide for conditions whereby we may be required to repurchase mortgage loans for various reasons among which are either (1) a mortgage loan is originated in violation of the mortgage banker s requirement, (2) we breach any term of the agreement and (3) an early payment default occurs from a mortgage originated by us. The mortgage loan repurchase agreements are consistent with the standard representations and warranties of the loan sales agreements and the impact is considered immaterial to the consolidated financial statements.
The Company entered into a mandatory forward loan volume commitment agreement with a purchaser of mortgage loans. Under the agreement, the Company is committed to deliver $264,000,000 loan volume over the period from March 1, 2010 through January 30, 2011. Upon failure to deliver minimum loan volume quarterly, the Company is responsible to pay a non-delivery fee to the purchaser. As of December 31, 2010, the Company met the volume commitments.

Commitments and Contingent Liabilities

The following table presents a summary of significant contractual obligations extending beyond one year as of December 31, 2010, and maturing as indicated:

(Dollars in thousands)

	Total	Less than One Year	1 3 Years	3 5 Years	More than 5 years	Indeterminate Maturity (1)
Preferred Stock and Warrants	$ 17,000	$	$	$17,000	$	$
Junior Subordinated Debentures	15,465				15,465	
FHLB Borrowings	141,000	126,000	15,000			
Operating lease obligations	2,802	775	1,094	663	270	
Repurchase Agreements	13,548	13,548				
Deposits (1)	648,702	204,551	98,408	8,808		336,935
Total	$838,517	$344,874	$114,502	$26,471	$15,735	$336,935

(1) Represents interest-bearing and non-interest bearing checking, money market, savings accounts, and time deposits.

Table of Contents

ITEM 7A. 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 interest rates. 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 represents the most significant market risk exposure to our financial instruments. 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 gathering creates 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. We do not operate a trading account and do not hold a position with exposure to foreign currency exchange or commodities. We face market risk through interest rate volatility.

The Board of Directors has overall responsibility for our interest rate risk management policies. We have 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 via 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 + 400 to 400 basis points in 100 basis point increments, unless the rate environment cannot move in these basis point increments before reaching zero.

The formal policies and practices we adopted to monitor and manage interest rate risk exposure measure risk in two ways: (1) repricing opportunities for earning assets and interest-bearing liabilities, and (2) changes in net interest income for declining interest rate shocks of 100 to 400 basis points. Because of our predisposition to variable rate pricing and noninterest bearing demand deposit accounts, we are normally considered asset sensitive. However, with the current historically low interest rate environment, the market rates on many of our variable-rate loans are below their respective floors. Consequently, we would not immediately benefit in a rising rate environment. As such, we are currently considered liability sensitive in the 100bp to 300bp upward rate shock, and asset sensitive for 400bp upward rate shock. As a result, management anticipates that, in a rising interest rate environment, our net interest income and margin would generally be expected to decline, as well as in a declining interest rate environment. However, given that the model assumes a static balance sheet, no assurance can be given that under such circumstances we would experience the described relationships to declining or increasing interest rates.

To estimate the effect of interest rate shocks on our 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, 300 or 400 basis points up or down. All changes are measured in dollars and are compared to projected net interest income. The most recent model results, at December 31, 2010, indicate the estimated annualized reduction in net interest income attributable to a 100, 200, 300 and 400 basis point declines in the federal funds rate was $156,137, $1,224,031, $1,941,061 and $2,133,823 respectively. At December 31, 2009, the estimated annualized reduction in net interest income attributable to a 100, 200 and 300 basis point decline in the federal funds rate was $1,239,230, $1,901,994 and $2,458,129 respectively, with a similar and opposite results attributable to a 100, 200 or 300 basis point increase in the federal funds rate.

The Federal Reserve currently has the federal funds rate targeted between zero to twenty five basis points. Accordingly, the Company is focused on the affects of interest rate shocks on our net interest income during a rising rate environment. The most recent model results, as December 31, 2010, indicate the estimated annualized decrease in net interest income attributable to a 100, 200, 300 basis point increases in the federal funds rate was $384,223, $370,357, and $52,930 respectively. The 400 basis point increase results in an estimated increase in annualized net interest income of $348,804.

The ALCO has established a policy limitation to interest rate risk of -28% of the net interest margin and -40% 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 following table sets forth the most recent model results relating to the distribution of repricing opportunities for the Bank s earning assets and interest-bearing liabilities. It also reports the GAP (different volumes of rate sensitive assets and liabilities) repricing interest earning assets and interest-bearing liabilities at different time intervals, the cumulative GAP, the ratio of rate sensitive assets to rate sensitive liabilities for each repricing interval, and the cumulative GAP to total assets.

(Dollars in thousands)

			GAP Analysis		
	Within 3 Months	3 Months to One Year	One Year to Five Years	Over Five Years	Total
Interest-Earning Assets					
Available-for-sale securities	$ 13,374	$ 6,514	$ 53,932	$ 115,415	$ 189,235
Other investments	11,655	28,815			40,470
Loans, gross	163,033	148,148	162,426	127,190	600,797
Total Interest-earning Assets	$ 188,062	$ 183,477	$ 216,358	$ 242,605	$ 830,502
Interest-Bearing Liabilities					
Demand interest bearing	$ 23,921	$ 40,564	$ 57,208	$ 40,565	$ 162,258
Savings accounts	6,705	20,951	35,102	20,894	83,652
Certificates of deposit	79,792	124,759	107,216		311,767
Other borrowings	44,013	126,000			170,013
Total Interest-bearing Liabilities	$ 154,431	$ 312,274	$ 199,526	$ 61,459	$ 727,690
GAP in dollars	$ 33,631	$ (128,797)	$ 16,832	$ 181,146	$ 102,812

Cumulative GAP in dollars	$ 33,631	$ (95,166)	$ (78,334)	$ 102,812	$ 102,812
As a percentage of earning assets:					
GAP Ratio	1.22	0.59	1.08	3.95	1.14
Cumulative GAP Ratio	1.22	0.80	0.88	1.14	1.14
Gap as % of Earning Assets	4.05%	-15.51%	2.03%	21.81%	12.38%
Cumulative Gap as % of Earning Assets	4.05%	-11.46%	-9.43%	12.38%	12.38%

The model utilized by management to create the analysis described in the preceding paragraph uses balance sheet simulation to estimate the impact of changing rates on our projected annual net interest income Actual results will differ from simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies.

Management believes that the short duration of its rate-sensitive assets and liabilities contributes to its ability to re-price a significant amount of its rate-sensitive assets and liabilities and mitigate the impact of rate changes in excess of 100, 200, 300, or 400 basis points. The model s primary benefit to management is its assistance in evaluating the impact that future strategies with respect to our mix and level of rate-sensitive assets and liabilities will have on our net interest income.

Our approach to managing interest rate risk may include the use of derivatives, including interest rate swaps, caps and floors. 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 an off-balance sheet instrument with the same 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.

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.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

	Page
Report of Independent Registered Public Accounting Firm	74
Management Report on Internal Control Over Financial Reporting	76
Consolidated Balance Sheets as of December 31, 2010 and 2009	77
Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008	78
Consolidated Statements of Shareholders Equity for the years ended December 31, 2010, 2009 and 2008	79
Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008	81
Notes to Consolidated Financial Statements for the years ended December 31, 2010, 2009 and 2008	83

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Bank of Commerce Holdings

We have audited the accompanying consolidated balance sheets of Bank of Commerce Holdings and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2010. We also have audited the Company s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting and Compliance with Applicable Laws and Regulations. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bank of Commerce Holdings and subsidiaries as of December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows each of the three years in the period ended December 31, 2010, in conformity with generally accepted accounting principles in the United States of America.

Table of Contents

Also in our opinion, Bank of Commerce Holdings maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.
/s/ Moss Adams LLP
Stockton, California
March 4, 2011

Table of Contents

March 4, 2011
To the Shareholders:

Management s Report on Internal Control over Financial Reporting and Compliance with Applicable Laws and Regulations

Management of the Bank of Commerce Holdings and its subsidiaries (the Company) is responsible for preparing the Company s annual consolidated financial statements in accordance with generally accepted accounting principles. Management is also responsible for establishing and maintaining internal control over financial reporting, including controls over the preparation of regulatory financial statements, and for complying with the designated safety and soundness laws and regulations pertaining to insider loans and dividend restrictions. The Company s internal control contains monitoring mechanisms, and actions are taken to correct deficiencies identified.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Management has assessed the Company s internal control over financial reporting encompassing both consolidated financial statements prepared in accordance with generally accepted accounting principles and those prepared for regulatory reporting purposes as of December 31, 20010. The assessment was based on criteria for effective internal control over financial reporting described in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, Management believes that, as of December 31, 2010, the Company maintained effective internal control over financial reporting encompassing both consolidated financial statements prepared in accordance with generally accepted accounting principles and those prepared for regulatory reporting purposes in all material respects. Management also believes that the Company complied with the designated safety and soundness laws and regulations pertaining to insider loans and dividend restrictions during 2010.

Management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2010 has been audited by Moss Adams LLP, an independent registered public accounting firm, as stated in their report which appears on the previous page.

/s/ Patrick J. Moty

Patrick J. Moty, President and Chief Executive Officer

/s/ Samuel D. Jimenez

Samuel D. Jimenez, SVP and Chief Financial Officer

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2010 and 2009
(Dollars in thousands)

	2010	2009
ASSETS		
Cash and due from banks	$ 23,786	$ 36,902
Interest bearing due from banks	39,470	31,338
Cash and cash equivalents	63,256	68,240
Securities available-for-sale (including pledged collateral of $101,248 at December 31, 2010 and $55,672 at December 31, 2009)	189,235	80,062
Mortgage loans held for sale	42,995	27,288
Loans, net of the allowance for loan and lease losses of $12,841 at December 31, 2010 and $11,207 at December 31, 2009	587,865	590,023
Premises and equipment, net	9,697	9,980
Goodwill	3,695	3,727
Other real estate owned	2,288	2,880
Other assets	40,102	31,206
TOTAL ASSETS	$ 939,133	$ 813,406
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Demand noninterest bearing	$ 91,025	$ 69,447
Demand interest bearing	162,258	163,814
Savings accounts	83,652	65,414
Certificates of deposit	311,767	341,789
Total deposits	648,702	640,464
Securities sold under agreements to repurchase	13,548	9,621
Federal Home Loan Bank borrowings	141,000	70,000
Other liabilities	16,691	9,049
Junior subordinated debt payable to unconsolidated subsidiary grantor trust	15,465	15,465
Total liabilities	835,406	744,599
Commitments and contingencies (Note 23)		
Shareholders equity:		
Preferred stock (liquidation preference of $1,000 per share; issued 2008); 2,000,000 shares authorized; 17,000 shares issued and outstanding in 2010 and 2009	16,731	16,641
	42,755	9,730

Common stock, no par value; 50,000,000 shares authorized; 16,991,495 shares issued and outstanding in 2010 and 8,711,495 outstanding in 2009		
Common stock warrant	449	449
Retained earnings	41,722	39,004
Accumulated other comprehensive (loss) income, net of tax	(509)	658
Total Equity Bank of Commerce Holdings	101,148	66,482
Non controlling interest in subsidiary	2,579	2,325
Total shareholders equity	103,727	68,807
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 939,133	$ 813,406

See accompanying notes to consolidated financial statements

77

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

(Dollars in thousands, except per share data)	2010	2009	2008
Interest income:			
Interest and fees on loans	$ 37,000	$ 35,860	$ 33,582
Interest on tax-exempt securities	1,692	1,164	1,197
Interest on U.S. government securities	2,083	3,450	2,469
Interest on federal funds sold and securities purchased under agreement to resell	2	32	303
Interest on other securities	1,614	823	138
Total interest income	42,391	41,329	37,689
Interest expense:			
Interest on demand deposits	968	1,015	2,173
Interest on savings deposits	921	963	1,576
Interest on certificates of deposit	6,151	7,628	8,552
Interest on securities sold under repurchase agreements	52	51	173
Interest on FHLB borrowings	626	1,833	2,812
Interest on junior subordinated debt payable to unconsolidated subsidiary grantor trusts	680	845	1,056
Total interest expense	9,398	12,335	16,342
Net interest income	32,993	28,994	21,347
Provision for loan and lease losses	12,850	9,475	6,520
Net interest income after provision for loan and lease losses	20,143	19,519	14,827
Noninterest income:			
Service charges on deposit accounts	260	390	311
Payroll and benefit processing fees	448	452	453
Earnings on cash surrender value Bank owned life insurance	438	418	340
Net gain on sale of securities available-for-sale	1,981	2,438	628
Net loss on sale of derivative swap transaction			(225)
Net gain transfer of financial assets		341	
Gain on settlement of put reserve	1,750		
Mortgage brokerage fee income	14,214	5,327	21
Other income	727	697	1,095
Total noninterest income	19,818	10,063	2,623
Noninterest expense:			
Salaries and related benefits	15,903	10,882	7,751
Occupancy and equipment expense	3,660	3,405	2,501
Write down of other real estate owned	1,571	161	735
FDIC insurance premium	1,016	1,274	383

Data processing fees	270	282	276
Professional service fees	1,726	820	667
Deferred compensation expense	493	478	461
Stationery and supplies	258	185	262
Postage	198	147	134
Directors expenses	266	299	294
Goodwill impairment	32		
Other expenses	4,935	2,691	1,832
Total noninterest expense	30,328	20,624	15,296
Income before provision (benefit) for income taxes	9,633	8,958	2,154
Provision (benefit) for income taxes	3,159	2,690	(40)
Net income	6,474	6,268	2,194
Less: Net income attributable to non-controlling interest	254	263	
Net income attributable to Bank of Commerce Holdings	$ 6,220	$ 6,005	$ 2,194
Less: preferred dividend and accretion on preferred stock	940	942	
Income available to common shareholders	$ 5,280	$ 5,063	$ 2,194
Basic earnings per share	$ 0.35	$ 0.58	$ 0.25
Weighted average shares basic	14,950,838	8,711,495	8,712,873
Diluted earnings per share	$ 0.35	$ 0.58	$ 0.25
Weighted average shares diluted	14,950,838	8,711,495	8,774,550
Cash dividends declared	$ 0.18	$ 0.24	$ 0.29

See accompanying notes to consolidated financial statements.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
AS OF DECEMBER 31, 2010, 2009 AND 2008

		Preferred		Common	Stock	Retained	Accumulated Other Comprehensive (Loss)	Subtotal Bank of Commerce	Non Controlling Interest in	
rs in Thousands)	Comprehensive Income	Amount	Warrant	Shares	Amount	Earnings	Income	Holdings	Subsidiary	
ce at December 31, 2007				8,757	$ 9,996	$ 36,605	$ (437)	$ 46,164		$ 4
rehensive Income:										
come	$ 2,194					2,194		2,194		
Comprehensive Income:										
ized gains on securities and derivatives , net of	711									
sification adjustment for gains included in net e, net of tax	(355)									
Comprehensive Income BOCH	$ 2,550						356	356		
red stock issued		16,551						16,551		1
nts			449					449		
on cash dividends ($0.29 per share)						(2,790)		(2,790)		(
ensation expense associated with stock options					116			116		
repurchase				(59)	(504)			(504)		
options exercised				13	42			42		
ce at December 31, 2008		$ 16,551	$ 449	8,711	$ 9,650	$ 36,009	$ (81)	$ 62,578		$ 6
rehensive Income:										
come	$ 6,268					6,005		6,005	263	
Comprehensive Income:										
ized gains on securities and derivatives, net of	2,173									
sification adjustment for gains included in net e, net of tax	(1,434)									
Other Comprehensive Income	7,007									
Other Comprehensive income non-controlling t	(263)									
Comprehensive Income BOCH	$ 6,744						739	739		
ion on Preferred Stock		90				(67)		23		
on cash dividends ($0.24 per share)						(2,091)		(2,091)		(
red stock dividend						(852)		(852)		

ensation expense associated with stock options				80			80		
alue of non-controlling interest								2,062	
ce at December 31, 2009	$ 16,641	$ 449	8,711	$ 9,730	$ 39,004	$ 658	$ 66,482	$ 2,325	$ 6

79

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY *(continued)*
AS OF DECEMBER 31, 2010, 2009 AND 2008

		Preferred		Common	Stock		Accumulated Other Comprehensive (Loss)	Subtotal Bank of Commerce	Non Controlling Interest in	
lars in Thousands)	Comprehensive Income	Amount	Warrant	Shares	Amount	Retained Earnings	Income	Holdings	Subsidiary	To
nce at December 31, 2009		$ 16,641	$ 449	8,711	$ 9,730	$ 39,004	$ 658	$ 66,482	$ 2,325	$ 68,8
prehensive Income:										
Income (loss)	$ 6,474					6,220		6,220	254	6,4
r Comprehensive Income:										
ealized loss on securities and vatives, net of tax	(1)									
assification adjustment for gains uded in net income, net of tax	(1,166)									
l Other Comprehensive income	5,307									
: Other Comprehensive income controlling interest	(254)									
l Comprehensive Income-BOCH	$ 5,053						(1,167)	(1,167)		(1,
retion on preferred stock		90				(90)				
mon cash dividends ($0.18 per share)						(2,562)		(2,562)		(2,5
erred stock dividend						(850)		(850)		(8
pensation expense associated with k options					54			54		
ance of new shares, net of issuance s ($4.25 per share)				8,280	32,971			32,971		32,9
nce at December 31, 2010		$ 16,731	$ 449	16,991	$ 42,755	$ 41,722	($509)	$ 101,148	$ 2,579	$ 103,7

See accompanying notes to consolidated financial statements.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

(Dollars in thousands)	**2010**	**2009**	**2008**
Cash flows from operating activities:			
Net income	$ 6,474	$ 6,268	$ 2,194
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	12,850	9,475	6,520
Provision for depreciation and amortization	959	1,222	1,145
Goodwill impairment	32		
Compensation expense associated with stock options	54	80	116
Gain on sale of securities available-for-sale	(1,981)	(2,438)	(628)
Amortization (accretion) of investment premiums and discounts, net	492	(227)	98
Gain on transfer of financial assets		(341)	
Gross proceeds from sales of loans held for sale	764,752	449,280	
Gross originations of loans held for sale	(780,459)	(445,269)	
Gain on settlement of put reserve	(1,750)		
(Gain) loss on sale of fixed assets	(1)	1	3
Loss (gain) loss on sale of other real estate owned	126	(20)	
Write down of other real estate owned	1,571	161	735
Loss on sale of derivative			225
(Increase) decrease in deferred income taxes	(1,538)	(1,159)	29
Increase in cash surrender value of bank owned life policies	(372)	(1,564)	(286)
Increase in other assets	(4,263)	(4,250)	(9,607)
Increase in deferred compensation, net	433	449	392
(Decrease) increase in deferred loan fees	(119)	122	(128)
Increase (decrease) in other liabilities	9,406	(485)	(1,064)
Net cash provided (used) by operating activities	6,666	11,305	(256)
Cash flows from investing activities:			
Proceeds from maturities and payments of available-for-sale securities	58,978	32,699	9,126
Proceeds from sale of available-for-sale securities	79,680	78,773	44,828
Purchases of available-for-sale securities	(250,665)	(55,928)	(105,861)
Purchases of ITIN loan portfolio		(66,694)	
Purchases of home equity loan portfolio	(14,801)		
Loan originations, net of principal repayments	(332)	(33,334)	(39,056)
Maturities of held-to-maturity securities			98
Purchase of premises and equipment	(676)	(374)	(865)
Proceeds on sale of fixed assets	1	0	5
Proceeds from the sale of other real estate owned	3,454	315	1,200
Cash acquired in acquisition, net of cash consideration paid		265	
Net cash used in investing activities	(124,361)	(44,278)	(90,525)

Cash flows from financing activities:			
Net increase in demand deposits and savings accounts	38,260	7,680	31,080
Net (decrease) increase in certificates of deposit	(30,022)	77,502	50,570
Net increase (decrease) in securities sold under agreements to repurchase	3,927	(4,233)	(1,660)
Federal Home Loan Bank advances	752,000	475,140	215,000
Federal Home Loan Bank advance repayments	(681,000)	(525,140)	(155,000)
Net change in other short term borrowings		(11,810)	
Cash dividends paid on common stock	(2,575)	(2,265)	(2,790)
Cash dividends paid on preferred stock	(850)	(852)	
Proceeds from stock options exercised			42
Common stock repurchased			(504)
Proceeds from issuance of preferred stock and warrants			17,000
Net proceeds from the issuance of common stock	32,971		
Net cash provided by financing activities	112,711	16,022	153,738
Net (decrease) increase in cash and cash equivalents	(4,984)	(16,951)	62,957
Cash and cash equivalents at beginning of year	68,240	85,191	22,234
Cash and cash equivalents at end of year	$ 63,256	$ 68,240	$ 85,191

See accompanying notes to financial statements

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008 (Continued)

(Dollars in thousands)	2010	2009	2008
Supplemental disclosures of non cash investment activities:			
Cash paid during the period for:			
Income taxes	$ 3,711	$ 3,496	$ 316
Interest	$ 9,505	$12,415	$16,510
Transfer of loans to OREO	$ 4,559	$ 402	$ 4,869
Changes in unrealized (loss) gain on investment securities available for sale	$ 4,323	$ (1,255)	$ (582)
Changes in deferred tax asset related to the changes in unrealized (loss) gain on investment securities	$(1,777)	$ 516	$ 226
Changes in accumulated other comprehensive income due to changes in unrealized (loss) gain on investment securities	$(2,546)	$ 739	$ 356
Reclassification of held-to-maturity securities to available for sale			$ 8,805
Acquisition at fair value:			
Assets Acquired		$14,857	
Liabilities Assumed		$14,057	

See accompanying notes to consolidated financial statements.

82

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 1. THE BUSINESS OF THE COMPANY

Bank of Commerce Holdings (the Holding Company), is a bank holding company (BHC) with its principal offices in Redding, California. The Holding Company s wholly-owned subsidiaries are Redding Bank of Commerce[tm], and Roseville Bank of Commerce[tm], a division of Redding Bank of Commerce. The Holding Company s majority owned subsidiary is Bank of Commerce Mortgage (the Mortgage Company) (collectively the Company). The Company has an unconsolidated subsidiary in Bank of Commerce Holdings Trust and Bank of Commerce Holdings Trust II. The Bank is principally supervised and regulated by the California Department of Financial Institutions (DFI) and the Federal Deposit Insurance Corporation (FDIC). Substantially all of the Company s activities are carried out through the Bank and the Mortgage Company. The Bank was incorporated as a California banking corporation on November 25, 1981. The Bank operates four full service branches in Redding, and Roseville, California.

The Bank conducts a general commercial banking business in the counties of El Dorado, Placer, Shasta, Sacramento, and Tehama, California. The Company considers Northern California to be the major market area of the Bank. The services offered by the Bank include those traditionally offered by commercial banks of similar size and character in California, including checking, interest-bearing NOW, savings and money market deposit accounts; commercial, real estate, and construction loans; travelers checks, safe deposit boxes, collection services and electronic banking activities. The primary focus of the Bank is to provide services to the business and professional community of its major market area, including Small Business Administration loans, payroll and accounting packages, benefit administration and billing programs. The Bank does not offer trust services or international banking services and does not plan to do so in the near future. Most of the customers of the Bank are small to medium sized businesses and individuals with medium to high net worth.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America. Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities. 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. Material estimates that are particularly susceptible to significant change including the determination of the allowance for loan and lease losses, the valuation of goodwill and other real estate owned, other than temporary impairment of investment securities, share based payments, accounting for income taxes, and fair value measurements are discussed in the notes to consolidated financial statements. Actual results could differ from those estimates. Certain amounts for prior periods have been reclassified to conform to the current financial statement presentation. The results of reclassifications are not considered material and have no effect on previously reported net income and earnings per share.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Principles of Consolidation The consolidated financial statements include the accounts of the Holding Company, the Bank and Bank of Commerce Mortgage. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents For purposes of reporting cash flows, cash and cash equivalents include amounts due from correspondent banks, including interest bearing deposits in correspondent banks, and the Federal Reserve Bank, federal funds sold and securities purchased under agreements to resell. Generally, federal funds sold are 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.

Securities Purchased under Agreements to Resell The Company enters into purchases of securities under agreements to resell substantially identical securities. Securities purchased under agreements to resell consist primarily of U.S. Treasury, Agency and Municipal Securities. The amounts advanced under these agreements are reflected as assets in the consolidated balance sheet. It is the Company s policy to take possession of securities purchased under agreements to resell. Agreements with third parties specify the Company s rights to request additional collateral, based on its monitoring of the fair value of the underlying securities on a daily basis. The securities are delivered by appropriate entry into the Company s account maintained at the Federal Reserve Bank or into a third-party custodian s account designated by the Company under a written custodial agreement that explicitly recognizes the Company s interest in the securities.

Securities At the time of purchase, the Company designates the security as held-to-maturity or available-for-sale, based on its investment objectives, operational needs and intent to hold. The Company does not engage in trading activity. Securities designated as held-to-maturity are carried at cost adjusted for the accretion of discounts and amortization of premiums. The Company has the ability and intent to hold these securities to maturity. Securities designated as available-for-sale may be sold to implement the Company s asset/liability management strategies and in response to changes in interest rates, prepayment rates and similar factors. Securities designated as available-for-sale are recorded at fair value and unrealized gains or losses, net of income taxes, are reported as part of accumulated other comprehensive income (loss), a separate component of shareholders equity. Gains or losses on sale of securities are based on the specific identification method. The market value and underlying rating of the security is monitored for quality. Securities may be adjusted to reflect changes in valuation as a result of other-than-temporary declines in value. Investments with fair values that are less than amortized cost are considered impaired. Impairment may result from either a decline in the financial condition of the issuing entity or, in the case of fixed rate investments, from changes in interest rates. At each financial statement date, management assesses each investment to determine if impaired investments are temporarily impaired or if the impairment is other than temporary based upon the positive and negative evidence available. Evidence evaluated includes, but is not limited to, industry analyst reports, credit market conditions, and interest rate trends.

When an investment is other than temporarily impaired, the Company assesses whether it intends 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. If the Company intends to sell the security or if it more likely than not that the Company will be required to sell security before recovery of the amortized cost basis, the entire amount of other-than-temporary impairment is recognized in earnings.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 differences 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 other-than-temporary impairment has occurred for an investment. The Company follows a consistent and systematic process for determining and recording an other-than-temporary impairment loss. The Company has designated the ALCO Committee responsible for the other-than-temporary evaluation process.

The ALCO Committee s assessment of whether an other-than-temporary impairment loss should be recognized incorporates both quantitative and qualitative information including, but not limited to: (a) the length of time and the extent of 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.

Loans Loans are stated at the principal amounts outstanding less deferred loan fees and costs and the allowance for loan losses. Interest on commercial, installment and real estate loans is accrued daily based on the principal outstanding. Loan origination and commitment fees and certain origination costs are deferred and the net amount is amortized over the contractual life of the loans as an adjustment of their yield. A loan is impaired when, based on current information and events, management believes it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement.

Impairment is measured based upon the present value of future cash flows discounted at the loan s effective rate, the loan s observable market price, or the fair value of collateral if the loan is collateral dependent. Interest on impaired loans is recognized on a cash basis, and only when the principal is not considered impaired.

The Company s practice is to place an asset on nonaccrual status when one of the following events occurs: (1) 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), (2) management determines the ultimate collection of principal or interest to be unlikely or, (3) the terms of the loan have been renegotiated due to a serious weakening of the borrower s financial condition. Nonperforming loans may be on nonaccrual, 90 days past due and still accruing, or have been restructured. Accruals are resumed on loans only when they are brought fully current with respect to interest and principal and when the loan is estimated to be fully collectible. Restructured loans are those loans on which concessions in terms have been granted because of the borrower s financial or legal difficulties. Interest is generally accrued on such loans in accordance with the new terms, after a period of sustained performance by the borrower. One exception to the 90 days past due policy for non-accruals is the bank s pool of home equity loans and lines purchased from a private equity firm.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The purchase of this pool of loans included a put option allowing the bank to sell a portion of the loan pool back to the private equity firm in the event of default by the borrower. At 90 days past due a loan in this pool will be sold back to the private equity firm for the outstanding principal balance, unless a workout plan has been put in place with the borrower. Once this put reserve is exhausted, the bank will charge off any loans that go more than 90 days past due. In accordance to this policy, management does not expect to classify any of the loans from this pool as nonaccrual. Management believes that charging the loan off at the time it becomes impaired would be more conservative than placing it in nonaccrual status.

Allowance for Loan and Lease Losses The allowance for loan and lease losses are established through a provision charged to expense. Loans are charged off against the allowance for loan and lease losses when management believes that the collectability of the principal is unlikely. The allowance for loan and lease losses is an amount that management believes will be adequate to absorb losses inherent in existing loans and overdrafts based on evaluations of collectability and prior loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, and current economic conditions that may affect the borrowers ability to pay. Material estimates relating to the determination of the allowance for loan and lease losses are particularly susceptible to significant change in the near term. 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, the FDIC and DFI, as an integral part of their examination process, periodically review the Bank s allowance for loan losses. The FDIC or DFI may require the Bank to recognize additions to the allowance based on their judgment about information available to them at the time of their examination.

Premises and Equipment Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. Expenditures for major renewals and improvements are capitalized and those for maintenance and repairs are charged to expense as incurred.

Securities Sold under Agreements to Repurchase At December 31, 2010, and 2009, securities sold under agreements to repurchase consist of commercial repurchase agreements, where the Company has an agreement with the depositor to sell and repurchase, on a daily basis, a proportionate interest in U.S. Treasury and agency issued securities. These securities are held as collateral for non-FDIC insured deposits.

Federal Home Loan Bank Borrowings As part of its asset/liability management strategy the Company has obtained advances from the Federal Home Loan Bank (FHLB) of San Francisco. The Company has pledged collateral of commercial real estate loans, one to four family residential loans, and specific securities to support the borrowings. As a member of the FHLB system, the Company is required to maintain an investment in the capital stock of the FHLB. The investment is carried at cost. The balance of FHLB stock was $7,943,000 and $6,110,000 at December 31, 2010 and 2009, respectively. The FHLB stock is included as a component of other assets on the consolidated balance sheets.

Goodwill and Other Intangibles Goodwill is recorded in business combinations under the acquisition method of accounting when the purchase prices are higher than the fair value of net assets acquired, including identifiable intangible assets.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company will evaluate goodwill for impairment annually, and more frequently in certain circumstances. Impairment exists when the carrying amount of the goodwill exceeds its fair value.

The Company will recognize impairment losses as a charge to noninterest expense and an adjustment to the carrying value of the goodwill assets. Goodwill is formally tested for impairment annually in April.

Earnings Per Share The proceeding table illustrates basic earnings per share excluding dilution, and is computed by dividing net income available to common shareholders 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, converted into common stock, or resulted in the issuance of common stock that subsequently shared in the earnings of the entity. Diluted EPS are calculated using the weighted average diluted shares. The number of potential common shares included in annual diluted EPS is a year-to-date weighted average of the number of potential common shares included in each quarterly diluted EPS computation under the treasury stock method.

The following table reconciles the numerator and denominator used in computing both basic earnings per share and diluted earnings per share for the years ended December 31.

(Amounts in thousands, except per share data)

Earnings Per Share	**2010**	**2009**	**2008**
Basic EPS Calculation:			
Net income attributable to Bank of Commerce Holdings	$ 6,220	$ 6,005	$ 2,194
Less: dividend on preferred stock	850	852	
Less: accretion on preferred stock	90	90	
Numerator: earnings available to common shareholders	$ 5,280	$ 5,063	$ 2,194
Denominator (average common shares outstanding)	14,950,838	8,711,495	8,712,873
Basic earnings per share	$ 0.35	$ 0.58	$ 0.25
Diluted EPS Calculation:			
Net income	$ 6,220	$ 6,005	$ 2,194
Less: dividend on preferred stock	850	852	
Less: accretion on preferred stock	90	90	
Numerator: earnings available to common shareholders	$ 5,280	$ 5,063	$ 2,194
Denominator:			
Average common shares outstanding	14,950,838	8,711,495	8,712,873
Plus incremental shares from assumed conversions			
Stock options			11,677
Warrants			
	14,950,838	8,711,495	8,724,550
Diluted earnings per share	$ 0.35	$ 0.58	$ 0.25
Anti-dilutive options not included in EPS calculation	300,080	282,080	185,666

Anti-dilutive warrants not included in EPS calculation	405,405	405,405	405,405

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other Real Estate Owned Real estate acquired by foreclosure is carried at the lower of the recorded investment in the property or its fair value less estimated selling costs. Prior to foreclosure, the value of the underlying loan is written down to the fair value of the real estate to be acquired, less costs to sell, by a charge to the allowance for loan losses, if necessary.

Fair value of other real estate is generally determined based on an appraisal of the property. Any subsequent write-downs are charged against noninterest expenses. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other expenses.

Gain recognition on the disposition of real estate is dependent upon the transaction meeting certain criteria relating to the nature of the property sold and the terms of the sale. This includes the buyer s initial and continuing investment, the degree of continuing involvement by the Company with the property after the sale, and other matters. Under certain circumstances, revenue recognition may be deferred until these criteria are met.

Segment Reporting Reportable operating segments are generally defined as components of an enterprise for which discrete financial information is available, whose operating results are regularly reviewed by the organizations management and whose revenue is 10 percent or more of total revenue.

Under this definition the Company reports on two operating segments, Commercial Banking and Mortgage Brokerage Services. In the year 2008, the Company accounted for its operations as one operating segment.

Income Taxes The Company accounts for income taxes under the liability method. Under the 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.

Stock Option Plan The Company recognizes in the income statement the grant-date fair value of stock options and other equity-based forms of compensation issued to employees over their requisite service period (generally the vesting period). The fair value of options granted is determined on the date of the grant using a Black Sholes option-pricing model.

Description of Stock-Based Compensation Plan The 2008 Stock Option Plan (the Plan) was approved by the Company s shareholders on May 15, 2007. A total of 620,000 shares of the Company s common stock are reserved for grant under the Plan. At December 31, 2010, 586,500 shares were available for future grants under the Plan.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Plan provides for awards in the form of options, which may constitute incentive stock options (Incentive Options) under Section 422(a) of the Internal Revenue Code of 1986, as amended (the Code), or non-statutory stock options (NSOs) to key personnel of the Company, including directors. The Plan provides that Incentive Options under the Plan may not be granted at less than 100% of fair market value of the Company s common stock on the date of the grant. The strike price of NSOs may not be granted at less than 85% of the fair market value of the common stock on the date of the grant.

The Company s stock option plans provide for awards of incentive and nonqualified stock options. Incentive options must have an exercise price at or above fair market value of the stock at the date of the grant and a term of no more than 10 years. Options generally become exercisable over five years from the date of the grant. Nonqualified stock options must have an exercise price of no less than 85% of the fair market value of the stock at the date of the grant and for a term of no more than 10 years. Nonqualified stock options generally become exercisable over five years from the date of the grant.

The total intrinsic value, which is the amount by which the stock price exceeded the exercise price, of options exercised during the year ended December 31, 2010, 2009, and 2008 was $0, $0, and $40,863, respectively.

Comprehensive Income (Loss) Comprehensive income (loss) represents net earnings and any revenues, expenses, gains and losses that, under accounting principles generally accepted in the United States of America, are excluded from net earnings and recognized directly as a component of shareholders equity. The Company s sources of other comprehensive income (loss) include unrealized gains and losses on securities available-for-sale and unrealized gains and losses on derivative activities. Reclassification adjustments result from gains or losses on securities that were realized and included in net income of the current period that also had been included in other comprehensive income (loss) as unrealized holding gains or losses in the period in which they arose.

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 (or beneficial interests), and (3) the Company does not maintain effective control over the transferred assets or third party beneficial interests through an agreement to repurchase them before their maturity.

On April 17, 2009, the Company transferred certain nonperforming loans, without recourse, and cash in exchange for the acquisition of a pool of Individual Tax Identification Number (ITIN) residential mortgage loans. The acquired ITIN loan portfolio was initially recorded at an estimated fair value of $80.7 million. The initial fair value of the ITIN loan portfolio was measured using a Level 3 valuation approach due to the illiquid market for this type of loan portfolio. As a result of the transfer of financial assets and the acquisition of the ITIN loan portfolio, the Company recorded a gain of $340 thousand, which is included as a component of noninterest income on the consolidated statement of income.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On March 12, 2010, the Company transferred certain nonperforming loans, without recourse, and $14.8 million in exchange for the acquisition of a pool of performing residential mortgage home equity loans.

The acquired residential mortgage home equity loan portfolio was initially recorded at an estimated fair value of $21.8 million. The initial fair value of the residential home equity loan portfolio was measured based on the fair value of the assets transferred and derecognized. No gain on loss was recorded resulting from this transaction.

At the settlement date the mortgage home equity loan pool consisted of 562 loans with an average principle balance of approximately $39,200, a weighted average credit score of 744, a weighted average loan to value of 86.44%, and a weighted average yield of 7.76%. Fifty one percent of the mortgage home equity loan pool is located in the state of Michigan; the remaining balance is geographically disbursed throughout the United States.

The Company services for others, SBA loans that are sold with a principal balance of $556 thousand, and $622 thousand as of December 31, 2010 and December 31, 2009 respectively. In addition, the Company services for others, a pool of home equity loans with a principal balance of $475 thousand at December 31, 2010. The servicing agreements have not resulted in a net servicing asset or net servicing liability because the servicing fees approximate the servicing costs.

Preferred Stock The Company is authorized to issue up to 2,000,000 shares of preferred stock with no par value. Preferred shares outstanding rank senior to common shares both as to dividends and liquidation preference, but have no voting rights. The Emergency Economic Stabilization Act (EESA) authorizes the United States Department of the Treasury (Treasury) to use appropriated funds to restore liquidity and stability to the U.S. financial system.

As part of this authority, and pursuant to a Letter Agreement dated November 14, 2008, and the Securities Purchase Agreement Standard Terms, the Company issued to the Treasury 17,000 shares of Bank of Commerce Holdings Series A Fixed Rate Perpetual Preferred Stock, with no par value (Series A Preferred Stock), having a liquidation amount per share equal to $1,000 for a total price of $17 million.

Warrants As part of its purchase of the Series A Preferred Stock, the Treasury received a warrant (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 the Company s 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 the Company s common stock, and upon certain issuances of the Company s common stock at or below a specified price relative to the initial exercise price. The Warrant expires ten years from the issuance date.

Mortgages Loans Held for Sale The Company, through its majority owned subsidiary, Bank of Commerce Mortgage, originates residential mortgage loans within Bank of Commerce s footprint and on a nationwide basis. Mortgage loans 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 (FNMA), Freddie Mac (FHLMC), and Ginnie Mae (GNMA)) and to third party investors including the servicing rights.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mortgages held for sale are carried at the lower of cost or fair value. Cost generally approximates market value, given the short duration of these assets.

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 interest income upon sale of a loan. The Company generally sells all servicing rights associated with the mortgage loans. Accordingly, there are no separately recognized servicing assets or liabilities resulting from the sale of mortgage loans.

Advertising Costs For the years ending December 31, 2010, 2009, and 2008, advertising costs were $322 thousand, $265 thousand, and $326 thousand respectively. Advertising costs were expensed as incurred.

Derivative Financial Instruments and Hedging Activities

Derivative Loan Commitments The Company, through its majority owned subsidiary, Bank of Commerce Mortgage, enters into forward delivery contracts to sell residential mortgage loans at specific prices and dates in order to hedge the interest rate risk in its portfolio of mortgage loans held for sale and its residential mortgage loan commitments. Generally, the Company enters into a best efforts interest rate lock commitment (IRLC) with borrowers and forward delivery contracts with investors associated with mortgage loans receivable held for sale.

These derivative instruments consist primarily of IRLC s executed with borrowers and mandatory forward purchase commitments with investor lenders. These derivative instruments are accounted for as fair value hedges, with the changes in fair value reflected in earnings as a component of mortgage brokerage fee income.

At December 31, 2010, the Company did not maintain any open positions or any other outstanding derivative loan commitments.

Interest Rate Swap Agreements As part of the Company s risk management strategy, the Company enters into interest rate swap agreements or other derivatives to mitigate the interest rate risk inherent in certain assets and liabilities. These derivative instruments are accounted for as cash flow hedges, with the changes in fair value reflected in other comprehensive income and subsequently reclassified to earnings when gains or losses are realized on the hedged item.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Recent Accounting Pronouncements

FASB ASU No. 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20.* The amendments in this Update temporarily delay the effective date of the disclosures about troubled debt restructurings in ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* for public entities. The delay is intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, the guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. The amendments in this Update apply to all public-entity creditors that modify financing receivables within the scope of the disclosure requirements about troubled debt restructurings in Update 2010-20. The amendments in this Update do not affect nonpublic entities. The Company has adopted this Update during 2010. As this ASU is disclosure-related only, our adoption of this ASU did not impact our consolidated financial condition or results of operations.

FASB ASU No. 2010-29, *Business Combinations (Topic 805) Disclosure of Supplementary Pro Forma Information for Business Combinations.* ASU 2010-29 provides clarification regarding the acquisition date that should be used for reporting the pro forma financial information disclosures required by Topic 805 when comparative financial statements are presented. ASU 2010-29 also requires entities to provide a description of the nature and amount of material, nonrecurring pro forma adjustments that are directly attributable to the business combination. ASU 2010-29 is effective for the Company prospectively for business combinations occurring after December 31, 2010.

FASB ASU No. 2010-28, *Intangibles Goodwill and Other (Topic 350) When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts.* ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist such as if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The adoption of this Update is not expected to have a significant effect on the Company s consolidated financial statements.

FASB ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (Topic 310)*, was issued July 2010. The guidance will significantly expand the disclosures that the Company must make about the credit quality of financing receivables and the allowance for credit losses. The objectives of the enhanced disclosures are to provide financial statement users with additional information about the nature of credit risks inherent in the Company s financing receivables, how credit risk is analyzed and assessed when determining the allowance for credit losses, and the reasons for the change in the allowance for credit losses.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The disclosures as of the end of the reporting period are effective for the Company s interim and annual periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for the Company s interim and annual periods beginning on or after December 15, 2010.

The adoption of this Update required enhanced disclosures and did not have a significant effect on the Company s consolidated financial statements.

FASB ASU 2010-18, *Effect of a Loan Modification When the Loan is Part of a Pool that is Accounted for as a Single Asset (Topic 310)*, was issued April 2010 and is effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending after July 15, 2010. As a result of the amendments in this Update, modification of loans within the pool does not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a trouble debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. However, loans within the scope of Subtopic 310-30 that are accounted for individually will continue to be subject to the troubled debt restructuring accounting provisions.

The provisions of this Update will be applied prospectively with early application permitted. Upon initial adoption of the guidance in this Update, an entity may make a one-time election to terminate accounting for loans as a pool under Subtopic 310-30. The election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration.

The Company does not have any pools of loans accounted for in accordance with Subtopic 310-30, and therefore, the adoption of this Update will not have an effect on the Company s consolidated financial statements.

FASB ASU 2010-13 *Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades.* The ASU codifies the consensus reached in EITF No. 09-J. The amendments to the codification clarify that an employee share-based payment award with an exercise price in the currency of a market in which a substantial portion of the entity s equity shares trades should not be considered to contain a condition that is not market, performance or service condition. Therefore, equity would not classify such an award as a liability if it otherwise classifies as equity. As our current share-based payment awards are equity awards (exercise price is denominated in dollars in the U.S. where our stock is traded), this ASU does not have an impact on our consolidated financial condition or results of operations.

FASB ASU 2010-09 *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements* was issued on February 24, 2010. The amendments in the ASU remove the requirement for a Securities and Exchange Commission (SEC) filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. generally accepted accounting principles (U.S. GAAP).

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The FASB also clarified that if the financial statements have been revised, then an entity that is not an SEC filer should disclose both the date that the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued. The FASB believes these amendments remove potential conflicts with the SEC s literature.

All of the amendments in the ASU were effective upon issuance, except for the use of the issued date for conduit debt obligors, which will be effective for interim or annual periods ending after June 15, 2010. Our adoption of this update did not have a significant impact on our consolidated financial conditions or results of operations.

FASB ASU 2010-06 *Fair Value Measurements and Disclosures (Topic 820)*: *Improving Disclosures about Fair Value Measurements* was issued in January 2010. This ASU requires: (1) disclosure of the significant amount transferred in and out of Level 1 and Level 2 fair value measurements and the reasons for the transfers; and (2) separate presentation of purchases, sales, issuances and settlements in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures set forth in *FASB Accounting Standards Codification* (The Codification or ASC) Subtopic 820-10: (1) For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and (2) A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements.

FASB ASU 2010-06 is effective for interim and annual reporting periods beginning January 1, 2010, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning January 1, 2011, and for interim periods within those fiscal years. Our adoption of this ASU in the first quarter of 2010 did not have an impact on our consolidated financial condition or results of operations.

FASB ASU 2010-01, *Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash* was also issued in January 2010 and was issued to clarify the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate and is considered a share issuance that is reflected in earnings per share prospectively and is not a stock dividend. ASU 2010-01 is effective for interim and annual periods beginning January 1, 2010. We currently do not make distributions to shareholders with a stock component.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 3. 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 fourteen offices in two different states and licenses in California, Oregon, Washington, Idaho and Colorado. The business was formed in 1993 and 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. The earn-out is based upon the mortgage company s profits and will be paid in annual installments over the three year period. The measurement date for the earn out payments is December 31. The Company has accounted for the business combination using the acquisition method. The Company s acquisition of 51% majority ownership interest was measured at fair value based on the total consideration transferred. As a result of the acquisition, goodwill of approximately $3.7 million was recorded. The Company tested goodwill for impairment during 2010 and recorded an impairment charge of approximately $32 thousand. Goodwill is not deductible for tax purposes. No other intangible assets, other than goodwill, were recorded as a result of the business combination.

The market and income approaches were used to value the business. The total estimated fair value of the non controlling interest was estimated to be $2.06 million and was based on the following 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 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 .

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Purchase Price and Goodwill
The following table summarizes the purchase and resulting goodwill:

(Dollars in thousands)	
Cash paid at fair value	$ 1,500
Earn out payable at fair value	965
Total consideration at fair value	2,465
Fair value of non-controlling interest	2,062
	$ 4,527
Net acquisition date fair value of assets acquired	$ (800)
Goodwill at date of acquisition	$ 3,727

Total consideration paid in the acquisition consisted of $1.5 million in cash and $965 thousand in contingent consideration measured at fair value. 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, other than goodwill, were recorded as a result of the business combination.
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.

(Dollars in thousands)	
Cash and cash equivalents	$ 1,765
Accounts receivable	10
Other receivables	437
Loans held for sale	12,006
Prepaid expenses	57
Notes receivable	414
Total Current Assets:	14,689
Fixed assets	155
Other assets	13
TOTAL ASSETS	$ 14,857
Accounts payable	$ 99
Accrued expenses	232
Branch payables	191
Total Payables:	522

Current portion capital lease	39
Impounds payable	67
Mortgage warehouse lines of credit	11,810
Total Other Current Liabilities:	11,916
Total Current Liabilities:	12,438
Long term capital lease payable	15
Due to shareholder	224
Notes payable	1,380
Total Long Term Liabilities:	1,619
TOTAL LIABILITIES	$ 14,057
Net assets	$ 800

96

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The revenue and net earnings of Bank of Commerce Mortgage from the acquisition date through December 31, 2009, included in the consolidated statements of income, totaled $5.3 million and $0.5 million, respectively.

The following unaudited pro forma consolidated results of operations for the years ended December 31, 2009 and 2008 have been prepared as if the acquisition had occurred at January 1, 2009 and 2008, respectively, for each year (unaudited):

(Dollars in thousands)	**2009**	**2008**
Net interest income	$ 28,965	$ 21,283
Provision for loan and lease losses	9,475	6,520
Noninterest income	12,776	7,523
Noninterest expense	22,863	20,030
Income before income tax	9,403	2,256
Provision (benefit) for income tax	2,691	60
Net Income	6,712	2,196
Less: income attributable to non-controlling interest	481	(58)
Net income attributable to Bank of Commerce Holdings	$ 6,231	$ 2,254
Net income per common share basic	$ 0.60	$ 0.26
Net income per common share diluted	$ 0.60	$ 0.25

NOTE 4. RESTRICTIONS ON CASH AND DUE FROM BANKS

The Bank maintains compensating balances with its primary correspondent, which totaled $250,000, at December 31, 2010, and $0 at December 31, 2009. The Company did not maintain any unguaranteed balances at correspondent banks as of December 31, 2010 and 2009.

NOTE 5. SECURITIES

The amortized cost and estimated fair value of securities available for sale are summarized as follows:

(Dollars in thousands)	As of December 31, 2010			
Available for sale securities	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury and agencies	$ 26,814	$ 6	$ (489)	$ 26,331
Obligations of state and political subdivisions	67,004	82	(2,935)	64,151
Residential mortgage backed securities and collateralized mortgage obligations	65,052	446	(251)	65,247
Corporate securities	29,019	28	(90)	28,957
Other asset backed securities	4,569		(20)	4,549
Total	$ 192,458	$ 562	$ (3,785)	$ 189,235

97

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)	**As of December 31, 2009**			
Available for sale securities	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S.- Treasury and agencies	$ 18,500	$ 101	$	$ 18,601
Obligations of state and political subdivisions	32,184	547	(85)	32,646
Residential mortgage backed securities and collateralized mortgage obligations	28,278	869	(332)	28,815
Total	$ 78,962	$ 1,517	$ (417)	$ 80,062

The table below presents the maturities of investment securities at December 31, 2010:

	Available for Sale	
(Dollars in thousands)	Amortized Cost	Fair Value
AMOUNTS MATURING IN:		
One year or less	$ 7,963	$ 8,092
One year through five years	57,813	57,708
Five years through ten years	51,473	51,006
After ten years	75,209	72,429
	$ 192,458	$ 189,235

The amortized cost and fair value of collateralized mortgage obligations and mortgage-backed securities are presented by their expected average life, rather than contractual maturity, in the preceding table. Expected maturities may differ from contractual.

As of December 31, 2010, the Company held $101.2 million in securities with safekeeping institutions for pledging purposes. Of this amount, $31.5 million are currently pledged for treasury, tax and loan accounts; public funds collateral; collateralized repurchase agreements; Federal Home Loan Bank borrowings and interest rate swap contracts.

As of December 31, 2009, the Company held $55.7 million in securities with safekeeping institutions for pledging purposes. Of this amount, $35.5 million were pledged for treasury, tax and loan accounts; public funds collateral; collateralized repurchase agreements; Federal Home Loan Bank borrowings and interest rate swap contracts.

Gross realized gains and gross realized losses, respectively, on available-for-sale securities were approximately $2.0 million and $12 thousand in 2010, $2.7 million and $260 thousand in 2009, and $633 thousand and $5 thousand 2008.

Other-Than-Temporarily Impaired Debt Securities

For each security in an unrealized loss position, we assess whether we intend 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.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 the amount due to factors not credit related is recognized in other comprehensive income.

We do not have the intent to sell the securities that are temporarily impaired, and it is more likely than not that we will not have to sell those securities 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 on our evaluation, Management has determined that no investment security in our investment portfolio is other-than-temporarily impaired.

The following tables present the current fair value and associated unrealized losses on investments with unrealized losses at December 31, 2010 and December 31, 2009. The tables also illustrate whether these securities have had unrealized losses for less than 12 months or for 12 months or longer.

	As of December 31, 2010					
	Less than 12 months		**12 months or more**		**Total**	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government and agencies	$ 18,829	$ (489)	$	$	$ 18,829	$ (489)
Obligations of state and political subdivisions	52,414	(2,935)			52,414	(2,935)
Residential mortgage backed securities and collateralized mortgage obligations	26,477	(251)			26,477	(251)
Corporate securities	14,494	(90)			14,494	(90)
Other asset backed securities	4,549	(20)			4,549	(20)
Total temporarily impaired securities	$116,763	$(3,785)	$	$	$116,763	$(3,785)

	As of December 31, 2009					
	Less than 12 months		**12 months or more**		**Total**	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government and agencies	$ 3,994	$ (1)	$	$	$ 3,994	$ (1)
Obligations of state and political subdivisions	8,517	(84)	500	(1)	9,017	(85)
Residential mortgage backed securities and collateralized mortgage	7,516	(331)			7,516	(331)

obligations						
Corporate securities						
Other asset backed securities						
Total temporarily impaired securities	$20,027	$(416)	$500	$ (1)	$20,527	$(417)

At December 31, 2010 and 2009, 159 and 19 securities, respectively were in an unrealized loss position.

99

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The unrealized losses associated with debt securities of U.S. government agencies are primarily driven by changes in interest rates and not due to the credit quality of the securities. Further, securities backed by GNMA, FNMA, or FHLMC have the explicit guarantee of the full faith and credit of the U.S. Federal Government. Obligations of U.S. states and political subdivisions in our portfolio are all investment grade without delinquency history. These securities will continue to be monitored as part of our ongoing impairment analysis, but are expected to perform. As a result, we concluded that these securities were not other-than-temporarily impaired at December 31, 2010.

The unrealized losses associated with corporate securities, asset backed securities and CMO s are primarily related to securities backed by residential mortgages. All of these securities were above investment grade at December 31, 2010 and 2009, as rated by at least one major rating agency. We estimate loss projections for each security by assessing loans collateralizing the security and determining expected default rates and loss severities. Based upon our assessment of expected credit losses of each security given the performance of the underlying collateral and credit enhancements where applicable, we concluded that these securities were not other-than-temporarily impaired at December 31, 2010.

NOTE 6. LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

Outstanding loan balances consist of the following at December 31, 2010 and 2009:

(Dollars in thousands)	**2010**	**2009**
Commercial and industrial loans	$ 133,199	$ 133,080
Real estate construction loans	41,327	59,524
Real estate commercial (investor)	194,285	197,023
Real estate commercial (owner occupied)	68,055	63,001
Real estate ITIN loans	70,585	78,250
Real estate mortgage	19,299	20,525
Real estate equity lines	69,590	45,601
Installment loans	2,303	2,223
Other	2,153	2,212
	$ 600,796	601,439
Less:		
Deferred loan fees, net	90	209
Allowance for loan and lease losses	12,841	11,207
	$ 587,865	$ 590,023

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Age analysis of past due loans, segregated by class of loans, as of December 31, 2010 and 2009 were as follows:

(Dollars in thousands)	As of December 31,						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total	Recorded Investment > 90 Days and Accruing
2010							
Commercial	$ 1,625	$	$ 677	$ 2,302	$130,897	$133,199	$
Commercial real estate:							
Construction	342			342	40,985	41,327	
Other	5,168		2,520	7,688	254,652	262,340	
Residential:							
1-4 family	7,857	2,404	6,720	16,981	72,903	89,884	
Home equities	450			450	69,140	69,590	
Consumer	19			19	4,437	4,456	
Total	$15,461	$2,404	$ 9,917	$27,782	$573,014	$600,796	
2009							
Commercial	$ 237	$	$ 5	$ 242	$132,836	$133,080	$ 5
Commercial real estate:							
Construction	719		130	849	58,675	59,524	
Other			5,759	5,759	254,265	260,024	
Residential:							
1-4 family	4,236	2,221	5,047	11,504	87,272	98,775	5,047
Home equities	102	104	97	303	45,298	45,601	
Consumer					4,436	4,435	
Total	$ 5,294	$2,325	$11,038	$18,657	$582,782	$601,439	$5,052

The Company s practice is to place an asset on nonaccrual status when one of the following events occur: (1) 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), (2) management determines the ultimate collection of principal or interest to be unlikely or, (3) the terms of the loan have been renegotiated due to a serious weakening of the borrower s financial condition. Nonperforming loans may be on nonaccrual, 90 days past due and still accruing, or have been restructured. Accruals are resumed on loans only when they are brought fully current with respect to interest and principal and when the loan is estimated to be fully collectible. Restructured loans are those loans on which concessions in terms have been granted because of the borrower s financial or legal difficulties. Interest is generally accrued on such loans in accordance with the new terms, after a period of sustained performance by the borrower. One exception to the 90 days past due policy for nonaccruals is the Company s pool of home equity loans and lines purchased from a private equity firm. The purchase of this pool of loans included a put option allowing the bank to sell a portion of the loan pool back to the private equity firm in the event of default by the borrower. At 90 days past

due a loan in this pool will be sold back to the private equity firm for the outstanding principal balance, unless a workout plan has been put in place with the borrower. Once this put reserve is exhausted, the bank will charge off any loans that go more than 90 days past due.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Management believes that charging the loan off at the time it becomes impaired would be more conservative than placing it in nonaccrual status.

As of December 31, 2010 the bank had a put reserve balance of $1.2 million remaining on the portfolio of home equity loans and lines purchased from the private equity firm totaling $18.1 million.

It is the Company s policy to apply all payments received on all loans on nonaccrual status to principal until such time the loan is reclassified to accrual status. It is our policy to resume the accrual of interest on any loan on nonaccrual status when, at a minimum, six consecutive payments of the original or modified contractual terms has occurred, and it is more likely than not that contractual or modified payment amounts will continue into the foreseeable future. Had nonaccrual loans performed in accordance with their contractual terms, the Company would have recognized additional interest income, net of tax, of approximately $501 thousand in 2010, $319 thousand in 2009, and $147 thousand in 2008.

Year-end nonaccrual loans, segregated by class of loans, were as follows:

(Dollars in thousands)	**December 31,**	
	2010	**2009**
Commercial	$ 2,302	$ 237
Commercial real estate:		
Construction	342	849
Other	7,066	5,759
Residential:		
1-4 family	10,704	623
Home equities	97	199
Consumer		
Total	$ 20,511	$ 7,667

The Company considers and defines a loan as impaired when, based on current information and events, it is probable that the Company will be unable to collect all interest and principal payments due according to the contractual terms of the loan agreement. Management assesses all loans, either individually or in aggregate (homogenous retail credits), that meet the Company s definition of impairment. Management classifies all troubled debt restructures as impaired. The Company generally applies all cash payments received on impaired loans towards the reduction of outstanding principal. It is the Company s policy to recognize interest income on only those impaired loans that are also classified as troubled debt restructurings (TDRs); the following criteria is also applied on a loan-by-loan basis:

- An impairment assessment has been completed on the TDR loan, as prescribed by ASC 310, and no impairment has been identified,

- the borrower has not been delinquent 90 or more days prior to the loan modification date, and

- it is more likely than not that the modified payment amounts will continue into the foreseeable future.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Under the circumstances when a TDR loan is delinquent 90 or more days at the date of the modification, it is the Company s policy to maintain the loan on nonaccrual status and apply all cash payments received to principal until such time the TDR borrower has made a minimum six consecutive payments in conformance with the modified contractual terms, and it is more likely than not that the borrower s modified payment amounts will continue into the foreseeable future.

Year-end impaired loans are set forth in the following table. No interest income was recognized on impaired loans subsequent to their classification as impaired, other than performing TDR s as noted in the previous paragraph.

(Dollars in thousands)	**As of December 31, 2010**				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 120	$ 120	$	$ 445	$
Commercial real estate:					
Construction	718	947		2,002	2
Other	9,527	12,421		9,942	10
Residential:					
1-4 family	8,067	9,745		8,393	78
Home equities	97	105		236	
Total with no related allowance recorded	$ 18,529	$ 23,338	$	$ 21,018	$ 90
With an allowance recorded:					
Commercial	$ 2,182	$ 9,372	$ 449	$ 2,532	$
Commercial real estate:					
Construction	2,428	3,347	139	2,374	74
Other	1,160	3,022	111	923	27
Residential:					
1-4 family	8,716	9,298	599	4,562	30
Home equities	901	901	90		
Total with an allowance recorded	$ 15,387	$ 25,940	$ 1,388	$ 10,391	$ 131
Subtotal:					
Commercial	$ 2,302	$ 9,492	$ 449	$ 2,977	$
Commercial real estate	$ 13,833	$ 19,737	$ 250	$ 15,241	$ 113
Residential	$ 17,781	$ 20,049	$ 689	$ 13,191	$ 108
Total	$ 33,916	$ 49,278	$ 1,388	$ 31,409	$ 221

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)	As of December 31, 2009				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$	$	$	$ 111	$
Commercial real estate:					
Construction	672	4,576		5,483	
Other	8,740	9,172		5,273	2
Residential:					
1-4 family	623	1,087		1,143	
Home equities	199	206		150	
Total with no related allowance recorded	$ 10,234	$ 15,041	$	$ 12,160	$ 2
With an allowance recorded:					
Commercial	$ 237	$ 243	$ 130	$ 269	$
Commercial real estate:					
Construction	2,396	2,399	45	1,154	
Other	530	530	70	132	2
Residential:					
1-4 family					
Home equities					
Total with an allowance recorded	$ 3,163	$ 3,172	$ 245	$ 1,555	$ 2
Subtotal:					
Commercial	$ 237	$ 243	$ 130	$ 380	$
Commercial real estate	$ 12,338	$ 16,677	$ 115	$ 12,042	$ 4
Residential	$ 822	$ 1,293	$	$ 1,293	$
Total	$ 13,397	$ 18,213	$ 245	$ 13,715	$ 4

The tables below provide information regarding the number of loans where the contractual terms have been restructured in a manner which grants a concession to a borrower experiencing financial difficulties during 2010 and 2009.

(Dollars in thousands)	2010		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	2	$ 3,562	$ 3,562
Commercial real estate:			

Construction	5	931	931
Other	9	5,994	5,994
Residential:			
1-4 family	69	9,379	9,379
Home equities	4	215	215
Consumer			
Total	89	$ 20,081	$ 20,081

104

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)	2009		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial		$	$
Commercial real estate:			
Construction	4	12,159	12,159
Other	4	8,319	8,319
Residential:			
1-4 family			
Home equities			
Consumer			
Total	8	$ 20,478	$ 20,478

The following summarizes, as of December 31, 2010, the key modification features and concessions granted related to troubled debt restructuring:

Residential Mortgages (1-4 Family) With the exception of two loans, the concession granted was an interest rate reduction for a period of up to 5 years. The two exception loans also included an extended maturity of 10 years in conjunction with an interest rate reduction.

Commercial RE The concessions granted on the twenty loans was an interest rate reduction in combination with an interest-only period of up to 3 years.

Commercial and Industrial Loans The concessions granted on the twenty loans was an interest rate reduction in combination with an interest-only period of up to 3 years.

It is the Company s accounting policy to require a period of sustained performance (minimum of six monthly payments) on the restructured terms before returning any modified loan back to accrual status.

(Dollars in thousands)	2010	
Troubled Debt Restructurings That Subsequently Defaulted	Number of Contracts	Recorded Investment
Commercial		$
Commercial real estate:		
Construction		
Other		
Residential:		
1-4 family	10	811
Home equities		

Consumer		
Total	10	$ 811

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)	**2009**	
Troubled Debt Restructurings		
That Subsequently Defaulted	Number of Contracts	Recorded Investment
Commercial		$
Commercial real estate:		
Construction	3	4,346
Other	3	7,790
Residential:		
1-4 family		
Home equities		
Consumer		
Total	6	$ 12,136

The foundation or primary factor in determining the appropriate credit quality indicators is the degree of a debtor s willingness and ability to perform as agreed. The Company defines a performing loan as a loan where any installment of principal or interest is not 90 days or more past due, and management believes the ultimate collection of principal and interest to be likely. The Company defines a nonperforming loan as an impaired loan which may be on nonaccrual, is 90 days past due and still accruing, or has been restructured and is not in compliance with its modified terms.
Year-end performing and nonperforming loans, segregated by class of loans, are as follows:

(Dollars in thousands)		2010	
	Performing	Nonperforming	Total
Commercial	$130,897	$ 2,302	$133,199
Commercial real estate:			
Construction	40,985	342	41,327
Other	255,274	7,066	262,340
Residential:			
1-4 family	79,180	10,704	89,884
Home equities	69,493	97	69,590
Consumer	4,456		4,456
Total	$580,285	$ 20,511	$600,796

(Dollars in thousands)		2009	
	Performing	Nonperforming	Total
Commercial	$132,838	$ 242	$133,080
Commercial real estate:			
Construction	58,675	849	59,524

Other	254,265	5,759	260,024
Residential:			
1-4 family	93,105	5,670	98,775
Home equities	45,402	199	45,601
Consumer	4,435		4,435
Total	$588,720	$ 12,719	$601,439

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In conjunction with evaluating the performing versus nonperforming nature of the Company s loan portfolio, management evaluates the following credit risk and other relevant factors in determining the appropriate credit quality indicator (grade) for each loan class:

Pass Grade Borrowers classified as Pass Grades specifically demonstrate:

- Strong cashflows borrower s cashflows must meet or exceed the Company s minimum Debt Service Coverage Ratio.
- Collateral margin generally, the borrower must have pledged an acceptable collateral class with an adequate collateral margin.

Those borrowers who qualify for unsecured loans must fully demonstrate above average cashflows and strong secondary sources of repayment to mitigate the lack of unpledged collateral.

- Qualitative Factors in addition to meeting the Company s minimum cashflow and collateral requirements, a number of other quantitative and qualitative factors are also factored into assigning a pass grade including the borrower s level of leverage (Debt to Equity), prospects, history and experience in their industry, credit history, and any other relevant factors including a borrower s character.

Watch Grade Generally, borrowers classified as Watch exhibit some level of deterioration in one or more of the following:

- Adequate Cashflows borrowers in this category demonstrate adequate cashflows and Debt Service Coverage Ratios, but also exhibit one or more less than positive conditions such as declining trends in the level of cashflows, increasing or sole reliance on secondary sources of cashflows, and/or do not meet the Company s minimum Debt Service Coverage Ratio. However, cashflow remains at acceptable levels to meet debt service requirements.
- Adequate Collateral Margin the collateral securing the debt remains adequate but also exhibits a declining trend in value or expected volatility due to macro or industry specific conditions. The current collateral value, less selling costs, remains adequate to cover the outstanding debt under a liquidation scenario.
- Qualitative Factors while the borrower s cashflow and collateral margin generally remain adequate, one or more quantitative and qualitative factors may also factor into assigning a Watch Grade including the borrower s level of leverage (Debt to Equity), deterioration in prospects, limited experience in their industry, newly formed company, overall deterioration in the industry, negative trends or recent events in a borrower s credit history, deviation from core business, and any other relevant factors.

Special Mention Grade Generally, borrowers classified as Special Mention exhibit a greater level of deterioration than Watch graded loans and warrant management s close attention. If left uncorrected, the potential weaknesses could threaten repayment prospects in the future. Special Mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant an adverse risk grade.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following represents potential characteristics of a Special Mention Grade but do not necessarily generate automatic reclassification into this loan grade:

- Adequate Cashflows   borrowers in this category demonstrate adequate cashflows and Debt Service Coverage Ratios, but also reflect adverse trends in operations or continuing financial deterioration that, if does not stabilize and reverse in a reasonable timeframe, retirement of the debt may be jeopardized.
- Adequate Collateral Margin   the collateral securing the debt remains adequate but also exhibits a continuing declining trend in value or volatility due to macro or industry specific conditions. The current collateral value, less selling costs, remains adequate, but should the negative collateral trend continue, the full recovery of the outstanding debt under a liquidation scenario could be jeopardized.
- Qualitative Factors   while the borrower s cashflow and/or collateral margin continue to deteriorate but generally remain adequate, one or more quantitative and qualitative factors may also be factoring into assigning a Special Mention Grade including inadequate or incomplete loan documentation, perfection of collateral, inadequate credit structure, borrower unable or unwilling to produce current and adequate financial information, and any other relevant factors.

Substandard Grade   A Substandard credit is inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Substandard credits have a well-defined weakness or weaknesses that jeopardize the liquidation or timely collection of the debt. Substandard credits are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. However, a potential loss does not have to be recognizable in an individual credit for it to be considered a substandard credit. As such, substandard credits may or may not be classified as impaired.

The following represents, but is not limited to, the potential characteristics of a Substandard Grade and do not necessarily generate automatic reclassification into this loan grade:

- Sustained or substantial deteriorating financial trends
- Unresolved management problems
- Collateral is insufficient to repay debt; collateral is not sufficiently supported by independent sources, such as asset-based financial audits, appraisals, or equipment evaluations
- Improper perfection of lien position, which is not readily correctable
- Unanticipated and severe decline in market values
- High reliance on secondary source of repayment

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- Legal proceedings, such as bankruptcy or a divorce, which has substantially decreased the borrower s capacity to repay the debt
- Fraud committed by the borrower
- IRS liens that take precedence
- Forfeiture statutes for assets involved in criminal activities
- Protracted repayment terms outside of policy that are for longer than the same type of credit in the Company portfolio
- Any other relevant quantitative or qualitative factor that negatively affects the current net worth and paying capacity of the borrower or of the collateral pledged, if any.

Doubtful Grade A credit risk rated as Doubtful has all the weaknesses inherent in a credit classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. As such, all doubtful loans are considered impaired. The possibility of loss is extremely high, but because of certain pending factors that may work to the advantage and strengthening of the credit, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include, but are not limited to:

- Proposed merger(s)
- Acquisition or liquidation procedures
- Capital injection
- Perfecting liens on additional collateral
- Refinancing plans

Generally, a Doubtful grade does not remain outstanding for a period greater than six months. After six months, the pending events should have either occurred or not occurred. The credit grade should have improved or the principal balance charged against the allowance for loan and lease losses.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Credit grade definitions, including qualitative factors, for all credit grades are reviewed and approved annually by the Company s Loan Committee.

(Dollars in thousands)	December 31, 2010					
	Pass	Watch	Special Mention	Substandard	Doubtful	Total
Commercial	$ 99,953	$22,458	$ 2,454	$12,153	$2,181	$133,199
Commercial real estate:						
Construction	26,960	8,228	44	5,995	100	41,327
Other	221,033	29,061	1,125	8,401	2,720	262,340
Residential:						
1-4 family	58,869		11,534	18,580	901	89,884
Home equities	59,018	4,428	1,231	4,913		69,590
Consumer	3,923	362	73	98		4,456
Total	$463,756	$64,537	$16,461	$50,140	$5,902	$600,796

(Dollars in thousands)	December 31, 2009					
	Pass	Watch	Special Mention	Substandard	Doubtful	Total
Commercial	$ 95,254	$20,296	$1,902	$15,628	$	$133,080
Commercial real estate:						
Construction	43,554	8,457	2,949	4,564		59,524
Other	217,197	30,708	35	12,084		260,024
Residential:						
1-4 family	96,415	2,360				98,775
Home equities	39,294	2,051	2,886	1,370		45,601
Consumer	4,074	250	65	46		4,435
Total	$495,788	$64,122	$7,837	$33,692	$	$601,439

Allowance for Credit Losses and Recorded Investment in Financing Receivables:

(Dollars in thousands)	As of December 31,2010					
	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
Allowance for credit losses:						
Beginning balance	$ 5,306	$ 3,535	$ 35	$ 2,059	$ 272	$ 11,207
Charge-offs	(4,192)	(3,391)		(4,506)		(12,089)
Recoveries	393	154	8	318		873
Provision	2,886	3,394	3	6,690	(123)	12,850

Ending balance	$ 4,393	$ 3,692	$ 46	$ 4,561	$ 149	$ 12,841
Ending balance: individually evaluated for impairment	$ 449	$ 250	$	$ 689	$	$ 1,388
Ending balance: collectively evaluated for impairment	$ 3,944	$ 3,442	$ 46	$ 3,872	$ 149	$ 11,453
Financing receivables						
Ending balance	$133,199	$303,667	$4,456	$159,474	$	$600,796
Ending balance individually evaluated for impairment	$ 2,302	$ 13,833	$	$ 17,781	$	$ 33,916
Ending balance collectively evaluated for impairment	$130,897	$289,834	$4,456	$141,693	$	$566,880

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(*Dollars in thousands*)	As of December 31, 2009					
	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
Allowance for credit losses:						
Beginning balance	$ 3,249	$ 4,138	$ 42	$ 692	$ 308	$ 8,429
Charge-offs	(2,517)	(4,268)	(3)	(83)		(6,871)
Recoveries	170		4			174
Provision	4,404	3,665	(8)	1,450	(36)	9,475
Ending balance	$ 5,306	$ 3,535	$ 35	$ 2,059	$ 272	$ 11,207
Ending balance: individually evaluated for impairment	$ 130	$ 115	$	$	$	$ 245
Ending balance: collectively evaluated for impairment	$ 5,176	$ 3,420	$ 35	$ 2,059	$ 272	$ 10,962
Financing receivables						
Ending balance	$ 133,080	$ 319,548	$ 4,435	$ 144,376	$	$ 601,439
Ending balance individually evaluated for impairment	$ 237	$ 12,338	$	$ 822	$	$ 13,397
Ending balance collectively evaluated for impairment	$ 132,843	$ 307,210	$ 4,435	$ 143,554	$	$ 588,042

The allowance for loan and lease losses (ALLL) totaled $12.8 million or 2.14% of total loans at December 31, 2010, compared to $11.2 million 1.76% at December 31, 2009. The related allowance allocation for the ITIN portfolio was $2.9 million and $1.2 million at December 31, 2010 and 2009, respectively.

The Company has lending policies and procedures in place with the objective of optimizing loan income within an accepted risk tolerance level. Management reviews and approves these policies and procedures annually. Monitoring and reporting systems supplement the review process with regular frequency as related to loan production, loan quality, concentrations of credit, potential problem loans, loan delinquencies, and nonperforming loans.

The following is a brief summary, by loan type, of management s evaluation of the general risk characteristics and underwriting standards:

Commercial and Industrial (C&I) Loans - C&I loans are underwritten after evaluating the borrower s financial ability to maintain profitability including future expansion objectives. In addition, the borrower s qualitative qualities are evaluated, such as management skills and experience, ethical traits, and overall business acumen. C&I loans are primarily extended based on the cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The borrower s cash flow may deviate from initial projections, and the value of collateral securing these loans may vary. Most C&I loans are generally secured by the assets being financed and other business assets such as accounts receivable or inventory. Management may also incorporate a personal guarantee; however, some short-term loans may be extended on an unsecured basis. Repayment of C&I loans secured by accounts receivable may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commercial Real Estate (CRE) Loans CRE loans are subject to similar underwriting standards and processes as C&I loans. CRE loans are viewed predominantly as cash flow loans and secondarily, as loans collateralized by real estate.

Generally, CRE lending involves larger principal amounts with repayment largely dependent on the successful operation of the property securing the loan or the business conducted on the collateralized property. CRE loans tend to be more adversely affected by conditions in the real estate markets or by general economic conditions. The properties securing the Company s CRE portfolio are diverse in terms of type and primary source of repayment. This diversity helps reduce the Company s exposure to adverse economic events that affect any single industry. Management monitors and evaluates CRE loans based on occupancy status (investor versus owner-occupied), collateral, geography, and risk grade criteria.

Generally, CRE loans to developers and builders that are secured by non-owner occupied properties require the borrower to have had an existing relationship with the Company and a proven record of success. Construction loans are underwritten utilizing feasibility studies, sensitivity analysis of absorption and lease rates, and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of cost and value associated with the complete project (as-is value). These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment largely dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property, or an interim loan commitment from the Company until permanent financing is secured. These loans are closely monitored by on-site inspections, and are considered to have higher inherent risks than other CRE loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions, and the availability of long-term financing.

Consumer Loans The Company s consumer loan portfolio is generally limited to home equity loans with nominal originations in unsecured personal loans and credit cards. The Company is highly dependent on third-party credit scoring analysis to supplement the internal underwriting process. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed, jointly by management and staff personnel. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Additionally, trend and outlook reports are reviewed by management on a regular basis. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include, but are not limited to, a maximum loan-to-value percentage of 80%, collection remedies, the number of such loans a borrower can have at one time, and documentation requirements.

The Company maintains an independent loan review program that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to the Board of Directors Audit Committee. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company s policies and procedures.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company s Allowance for Loan and Lease Losses (ALLL) is a reserve established through a provision for possible loan losses charged to expense. The ALLL represents management s best estimate of probable losses that have been incurred within the existing portfolio of loans as of the financial statement date presented.

The Company s ALLL methodology significantly incorporates management s current judgments, and reflects the reserve amount that is necessary for estimated loan losses and risks inherent in the loan portfolio in accordance with ASC Topic 450 (Contingencies) and ASC Topic 310 (Receivables).

Management s continuing evaluation of all known relevant quantitative and qualitative internal and external risk factors provide the foundation for the three major components of the Company s ALLL: (1) historical valuation allowances established in accordance with ASC 450 for groups of similarly situated loan pools; (2) general valuation allowances established in accordance with ASC 450 and based on qualitative credit risk factors; and (3) specific valuation allowances established in accordance with ASC 310 and based on estimated probable losses on specific impaired loans. All three components are aggregated and constitute the Company s ALLL; while portions of the allowance may be allocated to specific credits, the entire allowance is available for any credit that management deems as loss.

It is the Company s policy to classify a credit as loss with a concurrent charge-off when management considers the credit uncollectible and of such little value that its continuance as a bankable asset is not warranted. A loss classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer recognizing the likely credit loss of a valueless asset even though partial recovery may occur in the future.

In accordance with ASC 450, historical valuation allowances are established for loan pools with similar risk characteristics common to each loan grouping. The Company s loan portfolio is evaluated by general loan class including commercial, commercial real estate (which includes construction and other real estate), residential real estate (which includes 1-4 family and home equity loans), consumer and other loans.

These loan pools are similarly risk-graded and each portfolio is evaluated by identifying all relevant risk characteristics that are common to these segmented groups of loans. These characteristics include a significant emphasis on historical losses within each loan group, inherent risks for each, and specific loan class characteristics such as trends related to nonaccrual loans, past-due loans, criticized loans, net charge-offs or recoveries, among other relevant credit risk factors. Management periodically reviews and updates its historical loss ratios based on net charge-off experience for each loan class. Other credit risk factors are also reviewed periodically and adjusted as necessary to account for any changes in potential loss exposure.

General valuation allowances, as prescribed by ASC 450, are based on qualitative factors such as changes in asset quality trends, concentrations of credit or changes in concentrations of credit, changes in underwriting standards, changes in experience or depth of lending staff or management, the effectiveness of loan grading and the internal loan review function, and any other relevant factors. Management evaluates each qualitative component quarterly to determine the associated risks to the quality of the Company s loan portfolio.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Valuation allowances specific to the ITIN and purchased Home Equity Portfolios

ITIN Portfolio During 2010, management increased the general valuation allowance for the portfolio to 4.05% of the outstanding principal balance, or $2.9 million as of December 31, 2010. The following factors were considered in determining the reserve:

- Increased delinquencies 20% of the portfolio was delinquent 30 days or more as of 12/31/2010.
- Servicer modification efforts were generally extending beyond a typical timeframe
- Mortgage insurance A small number of mortgage insurance claims have been denied and management has not been able to identify a trend regarding any potential future denials.
- Sale of other real estate owned (OREO) An emerging trend in the lengthening disposition of ITIN other real estate owned had developed, including the potential for decreased recoveries and consequently increased net charge-offs.
- Lack of loss guaranty due to settlement.

In August of 2010, the Company settled and terminated the put reserve provided on the ITIN loan pool purchase. Subsequent to the settlement of the put reserve, the ITIN portfolio has experienced approximately $640 thousand in gross charge offs. However, management has estimated that related recoveries will approximate 90% of amounts charged off. See Note 28 for further discussion pertaining to the gain on settlement of put reserve.

Home Equity Portfolio On March 12, 2010, the Company completed a loan swap transaction which included the purchase of a pool of residential mortgage home equity loans with a par value of $22.0 million. As of December 31, 2010, the Company s specific valuation allowance is $758 thousand or 4.25% of the outstanding principal balance. An accompanying $1.5 million put reserve was also part of the loan swap transaction and represents a credit enhancement. As such, management considers this put reserve in estimating potential losses in the home equity portfolio.

As of December 31, 2010, the remaining put reserve totaled $1.2 million or 6.57% of the outstanding principal balance. The put reserve is an irrevocable first loss guarantee from the seller that provides us the right to put back delinquent home equity loans to the seller that are 90 days or more delinquent, up to an aggregate amount of $1.5 million. This guarantee is backed by a seller cash deposit with the Company that is restricted for this sole purpose. The seller s cash deposit is classified as a deposit liability on the Company s consolidated balance sheet. At the end of the term of this loss guarantee, the Company is required to return the cash deposit to the seller to the extent not used to fund losses in the home equity portfolio.

During 2010, home equity loans with an approximate aggregate principal amount of $300 thousand were returned to the seller under the loss guarantee, reducing the deposit liability to approximately $1.5 million as of December 31, 2010.

Management employs its best judgment given available and relevant information in determining the adequacy of the allowance; however, there are a number of factors beyond the Company s control, including the performance of the loan portfolio, changes in interest rates, economic conditions, and regulatory views towards loan classifications.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As such, the ultimate adequacy of the allowance may differ significantly from the Company s estimation.

At December 31, 2010 and 2009, the Company had pledged approximately $267 million and $101 million, respectively, in loans as available collateral for Federal Home Loan Bank borrowings.

NOTE 7. PREMISES AND EQUIPMENT

The following table presents the major components of premises and equipment at December 31, 2010 and 2009:

(Dollars in thousands)	**2010**	**2009**
Land	$ 1,508	$ 1,508
Land improvements	189	189
Bank buildings	8,383	8,318
Furniture, fixtures and equipment	7,061	6,767
Construction in progress	2	3
Total premises and equipment	17,143	16,785
Less: Accumulated depreciation and amortization	(7,446)	(6,805)
Premises and equipment, net	$ 9,697	$ 9,980

Depreciation expense, included in net occupancy and equipment expense approximately $959 thousand, $1.2 million, and $1.1 million for the years ended December 31, 2010, 2009 and 2008, respectively. The Company applies the straight-line method of deprecation to all depreciable assets.

NOTE 8. GOODWILL

As a result of the stock purchase agreement and acquisition of 51% of the capital stock of Simonich Corporation, d.b.a. BOC Mortgage Services, the Company has recorded goodwill (See Note 2). The following table summarizes the changes in the Company s goodwill for the years ended December 31, 2010, and 2009. All recorded goodwill is related to the Mortgage Services segment.

		Mortgage Services	
(Dollars in thousands)	**Gross**	**Accumulated Impairment**	**Total**
Balance, December 31, 2008	$	$	$
Net additions	3,727		3,727
Balance, December 31, 2009	3,727		3,727
Impairment		(32)	(32)
Balance, December 31, 2010	$ 3,727	$ (32)	$ 3,695

The Company performs a goodwill impairment analysis on an annual basis as of April 30th. Additionally, the Company performs a goodwill impairment evaluation on an interim basis when events or circumstances indicate impairment potentially exists.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others, a significant decline in our expected cash flows; a sustained and significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; adverse action or assessment by regulator; and unanticipated competition.

The goodwill impairment test involves a two-step process. The first step compares the fair value of a reporting unit to its carrying value. If the reporting unit s fair value is less than its carrying value, the Company would be required to proceed to the second step.

In the second step the Company calculates the implied fair value of the reporting unit s goodwill. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination. The estimated fair value of the Company is allocated to all of the Company s assets and liabilities, based on their relative fair values, including any unrecognized identifiable intangible assets, as if the Company had been acquired in a business combination and the estimated fair value of the reporting unit is the price paid to acquire it.

Any excess of the estimated fair value of the Company over the fair value of the reporting unit s net assets represents the implied fair value of goodwill. If the carrying amount of the goodwill is greater than the implied fair value of that goodwill, an impairment loss would be recognized as a charge to earnings in an amount equal to that excess.

The Company performed its annual goodwill impairment analysis of the Mortgage Brokerage Services operating segment as of April 30, 2010. The Company engaged an independent valuation consultant to assist in determining whether and to what extent the goodwill asset was impaired.

The results of the Company s and valuation specialist s step one impairment test indicated that the reporting unit s fair value was less than its carrying value, and therefore the Company performed step two of the analysis.

In the second step of the goodwill impairment analysis, we calculated the implied fair value of the reporting unit s assets and liabilities. There were no unrecognized identifiable intangible assets associated with the reporting unit. We determined the implied fair value of goodwill pertaining to the reporting unit was less than the carrying amount of goodwill recorded. In accordance to ASC 350, the carrying amount of goodwill was written down to its implied fair value. Accordingly, the Company recognized an impairment loss of $32 thousand. There were no further indicators for impairment as of December 31, 2010.

NOTE 9. OTHER REAL ESTATE OWNED

Other real estate owned represents real estate which the Bank has taken control of in partial or full satisfaction of loans. At the time of foreclosure, other real estate owned is recorded at the fair value less costs to sell, which becomes the property s new basis. Any write-downs based on the asset s fair value at the date of acquisition are charged to the allowance for loan and lease losses.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell. Subsequent valuation adjustments are recognized within net loss on other real estate owned.

Revenue and expenses from operations and subsequent adjustments to the carrying amount of the property are included in non-interest expense in the Consolidated Statements of Income.

The following table presents the changes in other real estate owned (OREO), net of valuation allowance, for the years ended December 31, 2010, 2009, and 2008:

	Years Ended December 31,		
	2010	**2009**	**2008**
Balance at beginning of year	$ 2,880	$ 2,934	$
Additions to OREO	4,559	402	4,869
Dispositions of OREO	(3,580)	(295)	(1,200)
Valuation adjustments in the period	(1,571)	(161)	(735)
	$ 2,288	$ 2,880	$ 2,934

For the year ended December 31, 2010 the Company transferred property from twenty one loans in the amount of $4,559,002 to OREO, sold nine properties with balances of $3,580,325 for a net loss of $126,284, recorded $1,570,670 in write downs of OREO in other noninterest expense, and adjusted the balances through charges to the allowance for loan and lease losses in the amount of $246,181. The December 31, 2010 OREO balance of $2,287,963 consists of fifteen properties of which thirteen are secured with 1-4 family residential real estate in the amount of $705,583. The remaining two properties consist of vacant commercial land in the amount of $1,582,380.

NOTE 10. DERIVATIVES

As part of the Company s risk management strategy, the Company enters into interest rate swap agreements or other derivatives to mitigate the interest rate risk inherent in certain assets and liabilities. Presently, the Company does not use derivatives for trading or speculative purposes.

The primary underlying risk exposure of the derivative instruments are the timing and level of changes in interest rates counter to management s expectations. Furthermore, interest rate swap agreements involve the risk of dealing with institutional counterparties and their ability to adhere to contractual terms. The agreements are entered into with counterparties that meet established credit standards and contain master netting and collateral provisions protecting the at-risk party. Oversight of the Derivatives and Hedging Program is the responsibility of the Asset-Liability Committee of the Company s Board of Directors.

Based on adherence to the Company s credit standards and the presence of the netting and collateral provisions, the Company believes that the credit risk inherent in these contracts was not significant at December 31, 2010.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Cash flow hedges
The effective portion of unrealized changes in the fair value of derivatives accounted for as cash flow hedges are reported in other comprehensive income and subsequently reclassified to earnings when gains or losses are realized on the hedged item.
Each quarter, the Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged item or transaction. The ineffective portion of changes in the fair value of the derivatives is recognized directly in earnings.
As of December 31, 2010, the Company held derivatives with a total notional amount of $75.0 million. The total $75.0 million represents interest rate swaps designated as cash flow hedges.
The following table summarizes the notional amount, effective date and maturity dates of the forward starting interest rate contracts the Company has outstanding with counterparties as of December 31,2010.
(Dollars in thousands)

Description	Notional Amount	Effective Date	Maturity
Forward starting interest rate swap	$ 75,000	March 1, 2012	September 1, 2012
Forward starting interest rate swap	$ 75,000	September 4, 2012	September 1, 2013
Forward starting interest rate swap	$ 75,000	September 3, 2013	September 1, 2014
Forward starting interest rate swap	$ 75,000	September 2, 2014	September 1, 2015
Forward starting interest rate swap	$ 75,000	September 1, 2015	March 1, 2017

The hedge strategy converts the LIBOR based floating rate of interest on certain FHLB advances to fixed interest rates, thereby protecting the Company from floating interest rate variability.
Pursuant to the interest rate swap agreements, the Company pledged collateral to counterparties in the form of securities totaling $4.0 million with an amortized cost of $4.0 million and a fair value of $3.9 million as of December 31, 2010. No collateral was posted from counterparties to the Company as of December 31, 2010. There is the possibility that the Company may need to post additional collateral in the future in proportion to potential increases in unrealized loss positions.
As of December 31, 2010, there were no cash flows exchanged with the counterparties of the interest rate swap contracts. As such, there was no ineffectiveness. As of December 31, 2010 derivatives carried a fair value of $2.3 million, of which $1.4 million was recognized as gain in other comprehensive income. There were no reclassifications into earnings for the period ending December 31, 2010.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the type of derivative and their location on the consolidated balance sheet and the fair values of such derivatives as of December 31, 2010. The Company did not carry any derivatives as of December 31, 2009 or December 31, 2008.

(Dollars in thousands)

Underlying Risk Exposure	Description	Balance Sheet Location	December 31, 2010	Maturity
Asset Derivatives				
Interest rate contract	Forward starting interest rate swaps	Other assets	$ (22)	September 1, 2012
Interest rate contract	Forward starting interest rate swaps	Other assets	$ 198	September 1, 2013
Interest rate contract	Forward starting interest rate swaps	Other assets	$ 443	September 1, 2014
Interest rate contract	Forward starting interest rate swaps	Other assets	$ 611	September 1, 2015
Interest rate contract	Forward starting interest rate swaps	Other assets	$ 1,111	March 1, 2017
		Total	$ 2,341	

Fair values of the derivatives are obtained from a third-party pricing service; see Note 25 for further disclosures pertaining to fair value calculations of derivatives.

On February 4, 2011, the Board s Asset Liability Committee terminated the Company s forward starting swap positions and realized $3.0 million in cash from the counterparty, equal to the carrying amount of the derivative at the date of termination. Concurrent with the termination of the hedge contract, management removed the cash flow hedge designation.

The Board s Asset Liability Committee terminated the forward starting swaps due to continuing uncertainty regarding future economic conditions including the corresponding uncertainty on the timing and extent of future changes in three month Libor rate index.

The $3.0 million in cash received from the counterparty related to the cash flow hedge reflects gains to be reclassified into earnings. Although the hedge designation was removed, management believes the forecasted transaction to be probable. Accordingly, the gains will be reclassified from other comprehensive income to earnings as a credit to interest expense in the same periods during which the hedged forecasted transaction will affect earnings, as illustrated in the preceding table.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 11. OTHER ASSETS

Other assets consist of the following at December 31, 2010, and 2009:

(Dollars in thousands)

	2010	**2009**
Cash surrender value of bank owned life insurance policies	$ 9,351	$ 8,979
Deferred tax asset, net	7,928	5,574
Interest receivable on loans	2,319	2,428
Interest receivable on investment securities	1,526	624
California affordable housing credits	2,108	2,289
Prepaid FDIC deposit insurance assessments	2,408	3,331
Interest rate swap fair value	2,341	
Taxes receivable Bank	555	490
Federal Home Loan Bank stock	7,943	6,110
Investment in junior subordinated debt payable to subsidiary grantor trust	465	465
Prepaid expenses	701	419
Other	2,457	497
	$ 40,102	$ 31,206

NOTE 12. DEPOSITS

The following table presents time certificate of deposits equal to or greater than $100,000 and their associated interest expense as of December 31, 2010, 2009, and 2008:

(Dollars in thousands)

	Balance		Interest Expense
2010	$ 233,690	$	4,464
2009	$ 250,779	$	5,166
2008	$ 168,810	$	5,785

The following table presents the scheduled maturities of all time certificates of deposits as of December 31, 2010:

(Dollars in thousands)

Amounts due in:	
One year or less	$ 204,551
One to three years	98,408
Three to five years	8,808
Over five years	
Total time deposits	$ 311,767

120

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 13. OTHER LIABILITIES
Other liabilities consist of the following at December 31, 2010 and 2009:

(Dollars in thousands)

	2010	2009
Deferred compensation retired officers	$ 692	$ 818
Deferred compensation directors fees	2,935	2,803
Deferred compensation salary continuation	2,023	1,596
Accrued 401(k) match payable	62	73
Interest payable	388	458
Reserve for off-balance sheet commitments	422	422
Interest payable Junior Subordinated Debentures	70	103
Dividend payable	510	523
Note payable /earn out agreement fair value	986	965
Warehouse line of credit	4,983	
Taxes payable Mortgage Services	785	89
Other	2,835	1,199
	$ 16,691	$ 9,049

NOTE 14. WHOLESALE ADVANCES
FHLB Advances The Company had advances from the Federal Home Loan Bank of San Francisco (FHLB) totaling $141.0 million and $70.0 million as of December 31, 2010, and December 31, 2009 respectively. The Company had two fixed rate advances of $6.0 million and $120.0 million, with interest payable at maturity and monthly, respectively. In addition, the Company had one floating rate advance for $15.0 million. The floating rate adjusts quarterly to 3 month LIBOR plus 1 basis point, with interest payable quarterly.
The following table illustrates the FHLB advances outstanding as of December 31, 2010:

(Dollars in thousands)

Advance Amount	Interest Rate	Maturity
$ 120,000	0.29%	June 6, 2011
6,000	0.26%	June 6, 2011
15,000	0.31%	March 5, 2013

The borrowings are secured by an investment in FHLB stock, commercial real estate loans, and certain real estate mortgage loans which have been specifically pledged to the FHLB pursuant to their collateral requirements. In addition, certain securities held in the Bank s available for sale securities portfolio are pledged.
Based upon the level of FHLB advances, the Company was required to hold a $7.9 million investment in FHLB stock. As of December 31, 2010, the Company has pledged $267.3 million of its commercial and real estate mortgage loans, and has borrowed $135.0 million against the pledged loans.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2010, the Company held $46.7 million in securities with the FHLB for pledging purposes, and has borrowed $6.0 million against the pledged securities.

At December 31, 2010, the Company had available borrowing lines at the FHLB of $46.6 million and a federal fund borrowing line at a correspondent bank totaling $10.0 million.

FRB Advances The Company may periodically obtain secured borrowings from the Federal Reserve Bank of San Francisco (FRB). The Company did not have any FRB borrowings outstanding as of December 31, 2010, and 2009. The FRB s discount window credit facility is limited to overnight borrowings. At December 31, 2010 the Company has pledged $72.9 million in commercial and industrial loans as collateral, and had available borrowing lines at the FRB of $44.5 million.

NOTE 15. PREFERRED STOCK AND WARRANTS

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. 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. 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.

The preferred stock proceeds from the Treasury Department were allocated based upon the relative fair value of the warrant as compared with the fair value of the preferred stock.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The fair value of the warrant was determined using a Black-Sholes pricing model incorporating assumptions including our common stock price, dividend yield, stock price volatility and risk-free interest rate.

We determined the fair value of the preferred stock based on assumptions regarding the discount rate (market rate) on the preferred stock which was estimated to be approximately 9.0% at the date of issuance. The discount on the preferred stock is being accreted to par value over a five-year term which is the expected life of the preferred stock. The proceeds of $17.0 million were allocated between the preferred stock and warrant with $16.6 million allocated to preferred stock and $449,000 allocated to the warrant based on their relative fair value at the time of issuance.

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.

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 Company may opt out by repaying the capital without raising additional capital subject to consultation with the appropriate Federal regulator.

NOTE 16. JUNIOR SUBORDINATED DEBTENURES

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.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 three month London Interbank Offered Rate (LIBOR) plus 3.30%. The rate at December 31, 2010 was 3.60%. The rate increase is capped at 2.75% annually and the lifetime cap is 12.5%. The final maturity on the trust notes 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 simultaneously issued $310,000 common securities to the Company. The fixed rate terms expired in September 2010, and have transitioned to floating rate for the remainder of the term.

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. The Trust Preferred Securities require quarterly distributions by the Trust to the holder of the Trust Preferred Securities at a rate that resets quarterly to equal three month LIBOR plus 1.58%. The interest rate at December 31, 2010 was 1.88%.

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.

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 were used by the Company for general corporate purposes, including funding the growth of the Company s various financial services. During September 2008, an additional $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 which resets on a quarterly basis to three 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.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, and may be redeemed at the Company s option at any. The Company may redeem the Notes for their aggregate principal amount, plus accrued interest, if any.

NOTE 17. 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 fourteen offices in two different states. Furthermore, the subsidiary is licensed in California, Oregon, Washington, Idaho and Colorado. Mortgages that are originated are sold, servicing included, in the secondary market or directly to correspondent financial institutions.

The following tables represent a reconciliation of the Company s reportable segments income and expenses to the Company s consolidated net income as of December 31, 2010, and 2009. The Company did not have multiple operating segments in 2008.

(Dollars in thousands)	**Year ended December 31, 2010**				
	Bank	**Mortgage**	**Parent**	**Elimination**	**Consolidated**
Net interest income (expense)	$ 33,886	$ (1)	$ (440)	$ (452)	$ 32,993
Provision for loan and lease losses	12,850				12,850
Total noninterest income	5,621	13,745		452	19,818
Total noninterest expense	18,117	11,640	571		30,328
Income before provision for income taxes	8,540	2,104	(1,011)		9,633
Provision for income taxes	2,042	1,116	1		3,159
Net income	6,498	988	(1,012)		6,474
Less: net income attributable to non-controlling interest		254			254
Net income attributable to Bank of Commerce Holdings	$ 6,498	$ 734	$ (1,012)	$	$ 6,220

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)	Year ended December 31, 2009				
	Bank	**Mortgage**	**Parent**	**Elimination**	**Consolidated**
Net interest income (expense)	$ 29,552	$ (13)	$ (545)	$	$ 28,994
Provision for loan and lease losses	9,475				9,475
Total noninterest income	4,770	5,293			10,063
Total noninterest expense	15,908	4,415	301		20,624
Income before provision for income taxes	8,939	865	(846)		8,958
Provision for income taxes	2,363	326	1		2,690
Net income	6,576	539	(847)		6,268
Less: net income attributable to non-controlling interest		263			263
Net income attributable to Bank of Commerce Holdings	$ 6,576	$ 276	$ (847)	$	$ 6,005

The following table represents financial information about the Company s reportable segments at December 31, 2010 and 2009:

(Dollars in thousands)	Year Ended December 31, 2010				
	Bank	Mortgage	Parent	Elimination	Consolidated
Total assets	$ 923,832	$ 23,912	$ 118,173	$ (126,784)	$ 939,133
Total portfolio loans, gross	$ 606,646	$	$ 2,289	$ (8,139)	$ 600,796
Total deposits	$ 655,802	$	$	$ (7,100)	$ 648,702

(Dollars in thousands)	Year Ended December 31, 2009				
	Bank	Mortgage	Parent	Elimination	Consolidated
Total assets	$ 807,216	$ 15,001	$ 83,532	$ (92,343)	$ 813,406
Total portfolio loans, gross	$ 606,682	$	$ 2,469	$ (7,712)	$ 601,439
Total deposits	$ 643,581	$	$	$ (3,117)	$ 640,464

NOTE 18. INCOME TAXES

Provision (benefit) for income taxes consists of the following:

(Dollars in thousands)	Years Ended December 31,		
	2010	**2009**	**2008**
Current:			
Federal	$ 3,948	$ 3,070	$ 158
State	749	779	(227)

Total current provision (benefit)	$ 4,697	$ 3,849	$ (69)
Deferred:			
Federal	(1,421)	(784)	103
State	(117)	(375)	(74)
Total deferred (benefit) provision	(1,538)	(1,159)	29
Total provision (benefit) for income taxes	$ 3,159	$ 2,690	$ (40)

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In October 2006, the Company invested in the California Affordable Housing Fund -2006 I, LLC. The investment provides funding for low income housing projects in our local markets in return for federal and state tax credits. As of December 31, 2010 the original commitment of $2.5 million has been fully funded. The tax benefit summary provided by the California Affordable Housing Fund 2006 I, LLC was $158 thousand, for federal and $110 thousand for state as of December 31, 2010.

Income tax expense attributable to income before income taxes differed from the amounts computed by applying the U.S. federal income tax rate of 34 percent to income before income taxes.

The following table presents a reconciliation of income taxes computed at the Federal statutory rate to the actual effective rate for the years ended December 31:

	2010	**2009**	**2008**
Income tax at the Federal statutory rate	34.00%	34.00%	34.00%
State franchise tax, net of Federal tax benefit	3.58%	2.98%	-12.16%
Tax-exempt interest	-5.58%	-4.07%	-15.79%
Officer life insurance	-1.29%	-1.53%	-4.51%
Affordable housing credits	-0.99%	-1.95%	-7.39%
Other	3.07%	0.59%	4.02%
Effective Tax Rate	32.79%	30.02%	-1.83%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities consist of the following as of December 31:

(Dollars in thousands)	**2010**	**2009**
Deferred tax assets:		
State franchise taxes	$ 143	$ 127
Deferred compensation	2,533	2,3339
Loan loss reserves	5,851	5,130
Unrealized (gains) losses other comprehensive income	356	(460)
Other	328	223
Total deferred tax assets	$ 9,211	$ 7,359
Deferred tax liabilities:		
Depreciation	(106)	(591)
Deferred loan origination costs	(351)	(466)
Deferred state taxes	(672)	(572)
Other California Affordable Housing	(154)	(156)
Total deferred tax liabilities	$ (1,283)	$ (1,785)
Net deferred tax asset	$ 7,928	$ 5,574

Additionally, the Company has no unrecognized tax benefits at December 31, 2010 and 2009. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company does not anticipate providing a reserve for uncertain tax positions in the next twelve months. During the years ended December 31, 2010, 2009, and 2008 the Company recognized no interest and penalties associated with uncertain tax positions.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and the State of California. With few exceptions, the Company is no longer subject to U.S. Federal or State and local income tax examinations by tax authorities for the years before 2007.

NOTE 19. STOCK OPTION PLAN

On May 1, 2008 the 1998 Stock Option Plan which was approved by the Company s shareholders on April 21, 1998 expired and was replaced by the 2008 Stock Option Plan (the Plan) which was approved by the Company s shareholders on May 15, 2007. The Plan provides for awards in the form of options, which may constitute incentive stock options (Incentive Options) under Section 422(a) of the Internal Revenue Code of 1986, as amended (the Code), or non-statutory stock options (NSOs) to key personnel of the Company, including directors. The Plan provides that Incentive Options under the Plan may not be granted at less than 100% of fair market value of the Company s common stock on the date of the grant. NSOs may not be granted at less than 85% of the fair market value of the common stock on the date of the grant.

Generally, all options under the plan will vest at 20% per year from the date of the grant. Vesting may be accelerated in case of an optionee s death, disability, and retirement or in case of a change of control.

For the years ended December 31, 2010, 2009 and 2008 stock option compensation expense was $54 thousand ($32 thousand, net of tax), $81 thousand ($47 thousand, net of tax), and $116 thousand ($69 thousand, net of tax), respectively. At December 31, 2010, 2009 and 2008 there were $60 thousand, $91 thousand, and $272 thousand respectively, of total unrecognized compensation costs related to non-vested share based payments. The unrecognized compensation costs are expected to be recognized over a weighted average period of two years.

Activity in stock-based compensation plan

The following table presents the changes in outstanding stock options for the periods indicated:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term
Options outstanding December 31, 2008	298,080	$ 8.64	$	5.77
Granted	4,000	$ 5.00		
Exercised				
Forfeited	(20,000)	$ 10.40		
Options outstanding December 31, 2009	282,080	$ 8.46		4.70
Granted	18,000	$ 3.62	$ 11,340	
Exercised				
Forfeited				
Options outstanding December 31, 2010	300,080	$ 8.17		4.07
Exercisable at December 31, 2010	245,620	$ 8.44	$ 11,340	

At December 31, 2010, 586,500 shares were available for future grants under the Plan.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2010, 2009, and 2008, 245,620 shares, 221,960 shares, and 209,485 shares, respectively, were available to be exercised.

The fair value of the options granted is estimated on the date of grant using a Black Sholes option-pricing model and includes the following assumptions:

	2010	2009	2008
Volatility	58.53%	67.60%	32.10%
Risk free interest rate	1.18%	1.82%	2.97%
Expected dividends	$ 0.21	$ 0.30	$ 0.32
Annual dividend rate	5.80%	4.53%	4.56%
Assumed forfeiture rate	0	0	0
Expected Life	7	7	7

Volatility represents the historical volatility in the Company s common stock price, for a period consistent with the expected life of the option. The risk free rate was derived from the U.S. Treasury rate at the time of the grant, which coincides with the expected life of the option. The annual dividend rate is the ratio of the expected annual dividends to the Company s common stock price on the grant date. The expected option life is estimated based on the history of the Company s stock option holders and expectations regarding future forfeitures.

The grant date fair value per share of the 2010, 2009 and 2008 awards was $1.20, $1.91 and $1.38, respectively.

NOTE 20. CAPITAL STOCK

The Company paid a quarterly cash dividend of $0.06, $0.06, $0.06 and $0.03 on January 14, 2010, March 24, 2010, July 7, 2010 and October 7, 2010, respectively, to shareholders of record as of December 31, 2009, March 31, 2010, June 30, 2010 and September 30, 2010, respectively.

On April 20,1999, the Board of Directors authorized 2,000,000 shares of preferred stock. As of December 31, 2008, 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 Company paid preferred cash dividends of $850 thousand during fiscal year 2010.

On March 23, 2010, the Company filed a Form S-1/A Registration Statement (the Registration Statement) with the SEC to offer 7,200,000 shares of our common stock in an underwritten public offering (Offering). In the Registration Statement, we set out our intent to use the net proceeds of the Offering for general corporate purposes, including contributing additional capital to the Bank, supporting our ongoing and future anticipated growth, which may include opportunistic acquisitions of all or parts of other financial institutions, including FDIC-assisted transactions, and positioning us for eventual redemption of our Series A Preferred Stock issued to the Treasury

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On March 29, 2010 the Company announced the successful closing of the Offering. The Company received net proceeds from the offering of approximately $28.8 million, after underwriting discounts and commissions and estimated expenses.

On April 14, 2010 the Company announced that the underwriters of the public offering of common shares fully exercised their over-allotment option, which resulted in the issuance of an additional 1,080,000 shares of common stock, and approximately $4.4 million in additional net proceeds. The option was granted in connection with the Company s public offering of 7,200,000 shares of common stock at a public offering price of $4.25 per share. Pursuant to the Offering the Company incurred $460 thousand of capitalized Offering costs that were directly related to the issuance of the common stock.

With the additional proceeds from the exercise of the over-allotment option, the Company realized total net proceeds from the offering of approximately $33.0 million, after deducting the underwriting discount and offering expenses. The exercise of the over-allotment option brings the total number of shares of common stock sold by the Company in the offering to 8,280,000

NOTE 21. RETIREMENT BENEFITS

Profit sharing plan In 1985, the Company adopted a profit sharing 401(k) plan for eligible employees to be funded out of the earnings of the Company. The employees contributions are limited to the maximum amount allowable under IRS Section 402(G). The Company s contributions include a matching contribution of 100% of the first 3% of salary deferred and 50% of the next 2% of salary deferred. Discretionary contributions are also permitted. The Company made matching contributions aggregating $249 thousand, $240 thousand, and $234 thousand for the years ended December 31, 2010, 2009 and 2008, respectively. No discretionary contributions were made over the three year reporting period.

Salary continuation plan In April 2001, the Board of Directors approved the implementation of the Supplemental Executive Retirement Plan (SERP), which is a non-qualified executive benefit plan in which the Bank agrees to pay certain executives covered by the SERP plan additional benefits in the future in return for continued satisfactory performance by the executives.

Benefits under the salary continuation plan include a benefit generally payable commencing upon a designated retirement date for a fixed period of ten to twenty years; disability or termination of employment, and a death benefit for the participants designated beneficiaries. Key-man life insurance policies were purchased as an investment to provide for the Bank s contractual obligation to pay pre-retirement death benefits and to recover the Bank s cost of providing benefits. The executive is the insured under the policy, while the Bank is the owner and beneficiary.

The assets of the SERP, under Internal Revenue Service Regulations, are the property of the Company and are available to the Company s general creditors. The insured executive has no claim on the insurance policy, its cash value or the proceeds thereof.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The retirement benefit is derived from accruals to a benefit account during the participant s employment. Compensation expense under the salary continuation plan totaled $343 thousand, $324 thousand, and $179 thousand for 2010, 2009 and 2008, respectively. As of December 31, 2010, 2009 and 2008, the vested benefit payable was $2.0 million, $1.6 million, and $1.2 million respectively.

Retired employees deferred compensation Effective April 1, 1990, the Board of Directors approved an Employee Deferred Compensation plan for two executives, which is a non-qualified plan in which the selected employees may elect to defer all or any part of their compensation to be payable to the employee upon retirement over a period not to exceed fifteen years. Interest on retired employees deferred compensation is fixed at ten percent (10%) per the plan. Participants in this plan have since retired and funds are being disbursed. As of December 31, 2010, 2009 and 2008, the vested benefit payable was $691 thousand, $818 thousand and $932 thousand, respectively.

Directors deferred fee compensation Effective January 1, 1993, the Board of Directors approved the implementation of the Directors Deferred Fee Compensation Plan, which is a non-qualified plan in which a Director may elect to defer the payment of all or any part of the fee compensation in which such director would otherwise be entitled to as director s fees or committee fees to be payable upon retirement of the director in a lump sum distribution or over a period not to exceed fifteen years. Directors are granted the option of having their deferred payments accrue interest at a rate of prime plus 3.25% or a fixed rate of 10%.

Deferred compensation expense totaled $493 thousand, $478 thousand, and $462 thousand at December 31, 2010, 2009, and 2008 respectively. As of December 31, 2010, 2009 and 2008, the vested benefit payable was $2.9 million, $2.8 million, and $2.6 million respectively.

NOTE 22. RELATED PARTY TRANSACTIONS

Some of the directors, officers and principal shareholders of the Company and their associates were customers of and had banking transactions with the Bank in the ordinary course of the Bank s business during 2010, and the Bank expects to have such transactions in the future. All deposits, loans and commitments to loans included in such transactions were made in compliance with the applicable laws on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar creditworthiness

The following table presents a summary of aggregate activity involving related party borrowers for the years ended December 31, 2010 and 2009:

(Dollars in thousands)	**2010**	**2009**
Balance at beginning of year	$ 9,469	$ 7,911
New loan additions	1,248	1,418
Advances on existing lines of credit	15,704	11,497
Principal repayments	(17,017)	(11,642)
Reclassifications (1)	(176)	285
Balance at end of year	$ 9,228	$ 9,469

(1) Represents existing loans that were added or subtracted from the balances because their related party classification was changed.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
At December 31, 2010 and 2009, deposits of related parties amounted to $18.4 million and $16.2 million, respectively. As of December 31, 2010 and 2009 there were no related party loans, which were past due or classified. At December 31, 2010 and 2009 there was $4.6 million, and $3.2 million respectively, in outstanding loan commitments to related parties. In the opinion of the Company, these transactions did not involve more than a normal risk of collectability or present other unfavorable terms.

NOTE 23. COMMITMENTS AND CONTINGENCIES

Lease Commitments The Company leases certain facilities where it conducts its operations. Future minimum lease commitments under all non-cancelable operating leases as of December 31, 2010 are below:

(Dollars in thousands) **Amounts due in:**	
2011	$ 775
2012	606
2013	488
2014	499
2015	164
Thereafter	270
Total	$2,802

Rental expense, net of rental income for the years ended December 31, 2010, 2009 and 2008 was $1.2 million, $530 thousand and $540 thousand respectively.

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 letter of credits, 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.

The off-balance sheet credit risk exposure of the Company is the contractual amount of commitments to extend credit and stand-by letters of credit. The Company applies the same credit standards to these contracts as it uses for loans recorded on the balance sheet.

(Dollars in thousands)	**December 31,**	
	2010	**2009**
Off-balance sheet commitments:		
Commitments to extend credit	$ 146,915	$ 122,872
Standby letters of credit	3,509	4,844
Guaranteed commitments outstanding	1,299	1,325
	$ 151,723	$ 129,041

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. 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 has mortgage loan purchase agreements with various mortgage bankers. The Company is obligated to perform certain procedures in accordance with these agreements. The agreements provide for conditions whereby the Company may be required to repurchase mortgage loans for various reasons among which are either (1) a mortgage loan is originated in violation of the mortgage banker s requirement, (2) the Company breaches any term of the agreement and (3) an early payment default occurs from a mortgage originated by the Company. The mortgage loan repurchase agreements are consistent with the standard representations and warranties of the loan sales agreements and the impact is considered immaterial to the consolidated financial statements.

The Company entered into a mandatory forward loan volume commitment agreement with a purchaser of mortgage loans. Under the agreement, the Company is committed to deliver $264 million in loan volume over the period from March 1, 2010 through February 28, 2011. Upon failure to deliver minimum loan volume quarterly, the Company is responsible to pay a non-delivery fee to the purchaser. As of December 31, 2010, the Company met the volume commitments. The Company has not negotiated any new forward loan volume commitments beyond February 28, 2011.

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

NOTE 24. REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that if undertaken, could have a direct material effect on the Company s and Consolidated Financial Statements.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

The capital amounts and the Bank s prompt corrective action classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Prompt corrective action provisions are not applicable to Bank Holding Companies. Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets and of Tier 1 capital to average assets. Management believes as of December 31, 2010 that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2010, 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.

The principal sources of cash for the Holding Company are dividends from the Bank. 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. As of December 31, 2010, the maximum amount available for dividend distribution under this restriction was approximately $11,435,417.

The Bank is subject to certain restrictions under the Federal Reserve Act, including restrictions on the extension of credit to affiliates. In particular, it is prohibited from lending to an affiliated company unless the loans are secured by specific types of collateral. Such secured loans and other advances from the subsidiaries are limited to 10 percent of the subsidiary s equity. No such loans or advances were outstanding during 2010 or 2009.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company s and the Bank s actual capital amounts and ratios as of December 31, 2010 and 2009 are presented in the following table.

(Dollars in thousands)

	Actual		For Capital Adequacy Purposes		To be Well Capitalized	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
At December 31, 2010:						
Company						
Leverage capital (to average assets)	$115,541	12.48%	$37,036	4.00%	n/a	n/a
Tier 1 capital (to risk-weighted assets)	$115,541	13.74%	$33,631	4.00%	n/a	n/a
Total capital (to risk-weighted assets)	$126,085	15.00%	$67,262	8.00%	n/a	n/a
Bank						
Leverage capital (to average assets)	$106,747	11.60%	$36,820	4.00%	$46,025	5.00%
Tier 1 capital (to risk-weighted assets)	$106,747	13.34%	$32,013	4.00%	$48,020	6.00%
Total capital (to risk-weighted assets)	$116,791	14.59%	$64,026	8.00%	$80,033	10.00%
At December 31, 2009:						
Company						
Leverage capital (to average assets)	$ 79,422	9.89%	$32,168	4.00%	n/a	n/a
Tier 1 capital (to risk-weighted assets)	$ 79,422	12.06%	$26,347	4.00%	n/a	n/a
Total capital (to risk-weighted assets)	$ 87,697	13.31%	$52,693	8.00%	n/a	n/a
Bank						
Leverage capital (to average assets)	$ 76,262	9.37%	$32,603	4.00%	$40,754	5.00%
Tier 1 capital (to risk-weighted assets)	$ 76,262	11.57%	$26,366	4.00%	$39,549	6.00%
Total capital (to risk-weighted assets)	$ 84,543	12.83%	$52,732	8.00%	$65,915	10.00%

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 25. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table presents estimated fair values of the Company s financial instruments as of December 31, 2010 and December 31, 2009, excluding financial instruments recorded at fair value on a recurring basis (summarized in a separate table), whether or not recognized or recorded at fair value in the consolidated balance sheets.

Non-financial assets and non-financial liabilities defined by the Codification (ASC 820-10-15-1A), such as Bank premises and equipment, deferred taxes and other liabilities are excluded from the table. In addition, we have not disclosed the fair value of financial instruments specifically excluded from disclosure requirements of the Financial Instruments Topic of the Codification (ASC 825-10-50-8), such as Bank-owned life insurance policies.

	December 31, 2010		**December 31, 2009**	
(Dollars in thousands)	**Carrying Amounts**	**Fair Value**	**Carrying Amounts**	**Fair Value**
Financial assets				
Cash and cash equivalents	$ 63,256	$ 63,256	$ 68,240	$ 68,240
Portfolio loans, net	587,865	595,442	590,023	611,099
Mortgages held for sale	42,995	42,995	27,288	27,288
Interest receivable	3,845	3,845	3,087	3,087
Financial liabilities				
Deposits	648,702	650,200	640,465	642,917
Securities sold under agreement to repurchase	13,548	13,548	9,621	9,621
Federal home loan borrowings	141,000	141,000	70,000	70,000
Subordinated debenture	15,465	6,411	15,465	6,978
Interest payable	388	388	495	495

Off balance sheet financial instruments:	**Contract Amount**	**Contract Amount**
Commitments to extend credit	$146,915	$122,872
Standby letters of credit	$ 3,509	$ 4,844
Guaranteed commitments outstanding	$ 1,299	$ 1,325

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

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. The carrying amount is a reasonable estimate of fair value because of the relatively short term between the origination of the instrument and its expected realization.

Portfolio loans receivable 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 allowance for loan and lease losses is considered to be a reasonable estimate of loan discount for credit quality concerns.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Interest receivable and payable The carrying amount of interest receivable and payable approximates its fair value.

Mortgage loans held for sale Mortgage loans held for sale are carried at the lower of cost or fair value. Cost generally approximates fair value, given the short duration of these assets.

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 the subordinated debenture is estimated by discounting the future cash flows (interest payments at a rate of 7.34% and 7.39% for Bank of Commerce Holdings Trust, and Bank of Commerce Holdings Trust II, respectively) using current market rates at which similar bonds would be issued with similar credit ratings as ours and similar remaining maturities. We have used the average spread of the twenty two and twenty four year BBB rated U.S. Bank Composite to calculate this credit-risk-related discount of future cash flows.

Deposit liabilities The fair values disclosed for demand deposits (e.g., interest and noninterest checking, savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., carrying amounts). The fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation applying interest rates currently 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.

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

Earn out payable The fair value of the earn out payable is estimated by discounting the contractual cash flows expected to be paid out, under the assumption the mortgage subsidiary meets the targeted results.

Commitments Loan commitments and standby letters of credit generate ongoing fees, which are recognized over the term of the commitment period. In situations where the borrower s credit quality has declined, we record a reserve for these off-balance sheet commitments. Given the uncertainty in the likelihood and timing of a commitment being drawn upon, a reasonable estimate of the fair value of these commitments is the carrying value of the related unamortized loan fees plus the reserve, which is not material. As such, no disclosures are made on the fair value of commitments.

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available-for-sale securities, derivatives, and the earn out payable are recorded at fair value on a recurring basis. From time to time, the Company may be required to record at fair value other assets on a non recurring basis, such as collateral dependent impaired loans and certain other assets including other real estate owned and goodwill. These non recurring fair value adjustments involve the application of lower-of-cost-or-market accounting or write-downs of individual assets.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Hierarchy

Level 1 valuations utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 valuations utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 valuations 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 valuations are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

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 maximizes the use of observable inputs and minimizes the use of unobservable inputs when developing fair value measurements.

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 December 31, 2010 and 2009 respectively, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

(Dollars in thousands)	Fair Value at December 31, 2010			
Recurring basis	**Total**	**Level 1**	**Level 2**	**Level 3**
Available for sale securities				
Obligations of states and political subdivisions	$ 64,151	$	$ 64,151	$
Corporate securities	28,957		28,957	
Other investment securities (1)	96,127		96,127	
Derivatives	2,341		2,341	
Total assets measured at fair value	$ 191,576	$	$ 191,576	$
Earn out payable	986			986
Total liabilities measured at fair value	$ 986	$	$	$ 986

(1) Principally represents U.S. Treasury and agencies or residential mortgage-backed securities issued or guaranteed by governmental agencies.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)	Fair Value at December 31, 2009			
Recurring basis	**Total**	**Level 1**	**Level 2**	**Level 3**
Available for sale securities				
Obligations of states and political subdivisions	$ 32,646	$	$ 32,646	$
Corporate securities				
Other investment securities (1)	47,416		47,416	
Total assets measured at fair value	$ 80,062	$	$ 80,062	$
Earn out payable	965			965
Total liabilities measured at fair value	$ 965	$	$	$ 965

(1) Principally represents U.S. Treasury and agencies or residential mortgage-backed securities issued or guaranteed by governmental agencies.

The following table provides a reconciliation of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the year ended December 31, 2010 and 2009. The amount included in the Transfer into Level 3 column represents the beginning balance of an item in the period (interim quarter) for which it was designated as a Level 3 fair value measure.

(Dollars in thousands)	**2010**	**2009**
Beginning Balance	$965	$
Transfers into Level 3		965
Transfers out of Level 3		
Total losses		
Included in earnings (or changes in net liabilities)	(21)	
Included in other comprehensive income		
Purchases, issuances, sales, and settlements		
Purchases		
Issuances		
Sales		
Settlements		
Ending balance	$986	$965

The available for sale securities amount above represent securities that have been adjusted to their fair value. 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.

The derivative amount above represent the fair value of the Company s interest rate swaps. The valuation of the Company s interest rate swaps are obtained from a third-party pricing service. The fair values are determined by using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. The Company has determined that the source of the derivative fair values fall with Level 2 of the fair value hierarchy.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The earn out payable amount above represents the fair value of the Company s earn out incentive agreement with the Bank of Commerce Mortgage subsidiary. The mortgage subsidiary will earn certain cash payments from the Company, based on targeted results. The fair value of the earn out payable is estimated by using a discounted cash flow model whereby discounting the contractual cash flows expected to be paid out, under the assumption the mortgage subsidiary meets the target results. The expected contractual cash flows are discounted using the three year treasury rate over a term of three years. As such, the Company has determined that the fair values fall with Level 3 of the fair value hierarchy.

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. No liabilities were measured at fair value on a non recurring basis at December 31, 2010 or December 31, 2009.

(Dollars in thousands)	**Fair Value at December 31, 2010**				**Total**
Non recurring basis	**Total**	**Level 1**	**Level 2**	**Level 3**	**(Losses)**
Impaired loans	$12,982	$	$	$12,982	$(6,726)
Other real estate owned	1,994			1,994	(1,571)
Goodwill	3,695			3,695	(32)
Total assets measured at fair value	$18,671	$	$	$18,671	$(8,329)

(Dollars in thousands)	**Fair Value at December 31, 2009**				**Total**
Non recurring basis	**Total**	**Level 1**	**Level 2**	**Level 3**	**(Losses)**
Impaired loans	$5,278	$	$	$5,278	$(1,289)
Other real estate owned	2,880			2,880	(125)
Total assets measured at fair value	$8,158	$	$	$8,158	$(1,414)

For the year ending December 31, 2010:

Collateral dependent impaired loans with a carrying amount of $19.7 million were written down to their fair value of $13.0 million resulting in a $6.7 million adjustment to the allowance for loan and lease losses.

Other real estate owned with a carrying amount of $3.6 million was written down to fair value of $2.0 million resulting in a loss of $1.6 million which was included in earnings for the period.

Goodwill with a carrying amount of $3.7 million was written down to the fair value of $3.69 million resulting in an impairment charge of $32 thousand which was included in earnings for the period.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The loans and leases amount above represents impaired, collateral dependent loans that have been adjusted to fair value. When we identify a collateral dependent loan as impaired, we measure the impairment using the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external appraisals. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we recognize this impairment and adjust the carrying value of the loan to fair value through the allowance for loan and lease losses.

The loss represents charge-offs or impairments on collateral dependent loans for fair value adjustments based on the fair value of collateral. The carrying value of loans fully charged-off is zero. When the fair value of the collateral is based on a current appraised value, 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.

The other real estate owned amount above represents impaired real estate that has been adjusted to fair value. Other real estate owned represents real estate which the Bank has taken control of in partial or full satisfaction of loans. At the time of foreclosure, other real estate owned is recorded at the fair value less costs to sell, which becomes the property s new basis. Any write-downs based on the asset s fair value at the date of acquisition are charged to the allowance for loan and lease losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell. Fair value adjustments on other real estate owned are recognized within net loss on real estate owned. The loss represents impairments on other real estate owned for fair value adjustments based on the fair value of the real estate. The Company records other real estate owned as a nonrecurring Level 3.

The Goodwill amount above represents goodwill that has been adjusted to fair value. The fair value of goodwill is estimated using a market and income approach, and is provided to the Company by a third party independent valuation consultant. See Note 8 for further disclosure pertaining to the goodwill impairment analysis. The Company records goodwill as a non-recurring Level 3 when impairment is recorded.

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.

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.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTE 26. PARENT COMPANY ONLY FINANCIAL STATEMENTS

(Dollars in thousands)	**Years Ended December 31, 2010**	**2009**
Condensed Balance Sheets		
Assets:		
Cash	$ 4,246	$ 977
Participation loans, net of allowance for loan and lease losses of $38,850 in 2010 and 2009	2,250	2,431
Investment in subsidiaries	110,177	80,124
Other assets	1,500	
Total assets	$ 118,173	$ 83,532
Liabilities:		
Junior subordinated debt payable to unconsolidated subsidiary grantor trust	$ 15,465	$ 15,465
Other liabilities	1,560	1,585
Equity:		
Shareholders equity	101,148	66,482
Total liabilities and shareholders equity	$ 118,173	$ 83,532

(Dollars in thousands)	**Years Ended December 31, 2010**	**2009**	**2008**
Condensed Statements of Income			
Income:			
Interest income	$ 239	$ 300	$ 1,097
Dividends from subsidiaries	1,033	2,503	1,497
	1,272	2,803	2,594
Expenses:	1,250	1,146	1,011
Income before income taxes and equity in undistributed net income of subsidiaries	22	1,657	1,583
Provision for income taxes	1	1	1
Income before equity in undistributed net income of subsidiaries	21	1,656	1,582

Equity in undistributed net income of subsidiaries	6,453	4,612	612
Net income	$ 6,474	$ 6,268	$ 2,194
Less: Net income attributable to non-controlling interest	254	263	
Net income attributable to Bank of Commerce Holdings	$ 6,220	$ 6,005	$ 2,194

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)	Years Ended December 31, 2010	2009	2008
Statements of Cash Flows			
Cash flows from operating activities:			
Net income	$ 6,474	$ 6,268	$ 2,194
Adjustments to reconcile net income to net cash provided by operating activities:			
Compensation associated with stock options	34	34	33
Effect of changes in:			
Other Assets	(1,500)	80	79
Other Liabilities	(12)	(71)	45
Equity in undistributed net income of subsidiaries	(6,453)	(4,612)	(612)
Net cash (used) provided by operating activities	(1,457)	1,699	1,739
Cash flows from investing activities:			
Investment in subsidiaries	(25,000)		(14,200)
Participation loan payments	180	631	2,935
Participation loan purchased		1,578	(2,400)
Cash paid in acquisition of mortgage subsidiary		(1,500)	
Net cash (used) provided by investing activities	(24,820)	709	(13,665)
Cash flows from financing activities:			
Net proceeds from issuance of common stock	32,971		
Equity transactions, net		22	15,183
Cash dividends paid on common stock	(2,575)	(2,265)	(2,790)
Cash dividends paid on preferred stock	(850)	(852)	
Net cash provided (used) by financing activities	29,546	(3,095)	12,393
Increase (decrease) in cash and cash equivalents	3,269	(687)	467
Cash and cash equivalents at beginning of year	977	1,664	1,197
Cash and cash equivalents at end of year	$ 4,246	$ 977	$ 1,664

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 27. UNAUDITED QUARTERLY RESULTS
UNAUDITED QUARTERLY STATEMENTS OF INCOME DATA

(Dollars in thousands, except per share data)	For the Quarter Ended			
	March 31, 2010	**June 30, 2010**	**September 30, 2010**	**December 31, 2010**
Net interest income	$ 7,517	$ 8,172	$ 8,640	$ 8,664
Provision for loan losses	2,250	1,600	4,450	4,550
Noninterest income	3,942	3,337	5,683	6,856
Noninterest expense	7,185	7,510	7,293	8,340
Income before taxes	2,024	2,399	2,580	2,630
Provision for income tax	744	750	916	749
(Less) Income non-controlling interest	(255)	144	105	260
Net income	1,535	1,505	1,559	1,621
(Less) Preferred dividend and accretion on preferred stock	235	236	235	234
Income available to common shareholders	$ 1,300	$ 1,269	$ 1,324	$ 1,387
Per common share:				
Basic earnings per share	$ 0.15	$ 0.08	$ 0.08	$ 0.08
Diluted earnings per share	$ 0.15	$ 0.08	$ 0.08	$ 0.08
Dividends declared per share	$ 0.06	$ 0.06	$ 0.03	$ 0.03

(Dollars in thousands, except per share data)	For the Quarter Ended			
	March 31, 2009	**June 30, 2009**	**September 30, 2009**	**December 31, 2009**
Net interest income	$ 6,400	$ 7,498	$ 7,406	$ 7,690
Provision for loan losses	1,425	3,056	1,844	3,150
Noninterest income	865	3,195	2,944	3,059
Noninterest expense	3,960	4,893	5,654	6,117
Income before taxes	1,880	2,744	2,852	1,482
Provision for income tax	610	1,027	1,010	43
(Less) Income non-controlling interest		101	129	33
Net income	1,270	1,616	1,713	1,406
(Less) Preferred dividend and accretion on preferred stock	237	235	235	235
Income available to common shareholders	$ 1,033	$ 1,381	$ 1,478	$ 1,171
Per common share:				

Basic earnings per share	$	0.12	$	0.16	$	0.17	$	0.13
Diluted earnings per share	$	0.12	$	0.16	$	0.17	$	0.13
Dividends declared per share	$	0.06	$	0.00	$	0.12	$	0.06

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 28. GAIN ON SETTLEMENT OF PUT RESERVE

In August of 2010, the Company settled and terminated the put reserve provided on the ITIN loan pool purchase. Prior to the release, the put reserve carried a balance of $2.1 million; and the Company received $1.8 million in cash and returned $0.3 million in cash to the seller from the deposit account. Accordingly, the Company recognized a gain upon settlement. As such, no portion of the remaining outstanding principal balance of the ITIN loan portfolio has an accompanying loss guarantee. Management has considered the impact of the lack of loss guarantee in estimating the allowance for loan and lease losses related to the ITIN loan portfolio at December 31, 2010.

The put reserve was part of the April 17, 2009 loan swap transaction in which the Company purchased a pool of Individual Tax Identification Number (ITIN) residential mortgages in exchange for a combination of certain nonperforming loans and cash. The put reserve was an irrevocable first loss guarantee from the seller that provided us the right to put back delinquent ITIN loans to the seller that were 90 days or more delinquent up to an aggregate amount of $3.5 million. This guarantee was backed by a seller cash deposit with the Company that was restricted for this sole purpose. The seller s cash deposit was classified as a deposit liability in the Company s balance sheet. At the end of the term of this loss guarantee, the Company was required to return the cash deposit to the seller to the extent not used to fund losses in the ITIN portfolio.

During the period from March 2010 to September 2010, thirteen ITIN loans with an aggregate principal amount of $1.4 million were returned to the seller under the loss guarantee, reducing the deposit liability to approximately $2.1 million prior to reaching the settlement with the seller to eliminate the loss guarantee arrangement.

Table of Contents

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in or disagreements with accountants or auditors on accounting and financial disclosure.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of the Company s management, including its President and Chief Executive Officer and its Chief Financial Officer, of the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that these disclosure controls and procedures were effective.

Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity s disclosure objectives. The likelihood of achieving such objectives is affected by limitations inherent in disclosure controls and procedures. These include the fact that human judgment in decision-making can be faulty and that breakdowns in internal controls can occur because of human failures such as simple errors, mistakes or intentional circumvention of the established processes.

Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Company s Chief Executive Officer and the Chief Financial Officer and implemented by the Company s Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

The Company s internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Table of Contents

On a quarterly basis, we carry out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer (whom is also our Principal Accounting Officer) of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934. As of December 31, 2010, our management, including our Chief Executive Officer, and Principal Financial Officer, concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us that is required to be included in our periodic SEC filings.

Although we change and improve our internal controls over financial reporting on an ongoing basis, we do not believe that any such changes occurred in the fourth quarter 2010 that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

This annual report includes an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

The registrant must disclose under this item any information required to be disclosed in a report on Form 8-K during the fourth quarter of the year covered by this Form 10-K, but not reported.

None to report.

Table of Contents

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The response to this item is incorporated by reference to Bank of Commerce Holdings Proxy Statement for the 2011 annual meeting of shareholders under the captions Annual Meeting Business , Information About Directors and Executive Officers , Corporate Governance Overview and Section 16(a) Beneficial Ownership Reporting Compliance.

ITEM 11. EXECUTIVE COMPENSATION.

The response to this item is incorporated by reference to the Proxy Statement, under the captions Compensation Discussion and Analysis and Executive Compensation Decisions.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The response to this item is incorporated by reference to the Proxy Statement, under the caption Security Ownership of Certain Beneficial Owners .

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The response to this item is incorporated by reference to the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The response to this item is incorporated by reference to the Proxy Statement.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this Form 10-K:

(1) Financial Statements:

Reference is made to the Index to Consolidated Financial Statements under Item 8 in Part II of this Form 10-K.

(2) Financial Statement Schedules:

All schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3) Exhibits:

Exhibit Number	Description of Document
3.1	Articles of Incorporation, as amended, incorporated by reference to EX-3.1 of the Form 10-12G filed 12/4/1998.
3.2	Bylaws, as amended, incorporated by reference to EX-3.1 of the Form 8-K filed 05/15/2007.
4.1	Specimen Common Stock Certificate, incorporated by reference to EX-4.1 of the Form 10-12G filed 12/4/1998.
4.2	Certificate of determination for the Series A Preferred Stock, incorporated by reference to EX-4.1 of the Form 8-K filed 11/19/2008.
4.3	Form of Certificate for the Series A Preferred Stock, incorporated by reference to EX-4.2 of the Form 8-K filed 11/19/2008.
4.4	Warrant for purchase of shares of Common stock, incorporated by reference to EX-4.3 of the Form 8-K filed 11/19/2008.
10.1	Letter Agreement, dated November 14, 2008, between Bank of Commerce Holdings and the United States Department of the Treasury, which includes the Securities Purchase Agreement Standard terms attached thereto, with respect to the issuance of the Series A Preferred Stock and Warrant, incorporated by reference to EX-10.1 of the Form 8-K filed 11/19/2008.
10.2	Office Building Lease between Gairn Partnership/First Avenue Square and Redding Bank of Commerce dated July 16, 1998, incorporated by reference to EX-10.2 of the Form 10-12G filed 12/4/1998.
10.3	1998 Stock Option Plan, incorporated by reference to EX-10.3 of the Form 10-12G filed 12/4/1998.
10.4	Form of Incentive Stock Option Agreement used in connection with 1998 Stock Option Plan, incorporated by reference to EX-10.4 of the Form 10-12G filed 12/4/1998.
10.5	Form of Non-statutory Stock Option Agreement used in connection with 1998 Stock Option Plan, incorporated by reference to EX-10.5 of the Form 10-12G filed 12/4/1998.

10.7	Directors Deferred Compensation Plan, incorporated by reference to EX-10.7 of the Form 10-12G filed 12/4/1998.
10.8	Form of Deferred Compensation Agreement Used In Connection With Directors Deferred Compensation Plan, incorporated by reference to EX-10.8 of the Form 10-12G filed 12/4/1998.
10.10	Employment contracts dated April 2001, incorporated by reference to EX-10.10 of the Form 8-K filed 9/27/2001.
10.11	Affiliated Business Arrangement Agreement, incorporated by reference to EX-10.11 of the Form 8-K filed 8/20/2004.
10.12	Office building lease by and between Waybright #3 Partners and Redding Bank of Commerce dated 9/23/2005 incorporated by reference to EX-99.1 of the Form 8-K filed 9/26/2005.
10.13	Amendment to Employment contracts dated April 2001, incorporated by reference to EX-99.1 &99.2 of the Form 8-K filed 12/21/2005.
10.14	Change in Control Agreements, incorporated by reference to EX-99.1-99.4 of the Form 8-K filed 12/21/2005.
10.15	Salary Continuation Blais, incorporated by reference to EX-10.15 of the Form 8-K filed 12/19/2006.
10.16	Salary Continuation Moty, incorporated by reference to EX-10.16 of the Form 8-K filed 12/19/2006.
10.17	Salary Continuation Eslick, incorporated by reference to EX-10.17 of the Form 8-K filed 12/19/2006.
10.19	Employment Agreement Miles, incorporated by reference to EX-10.19 of the Form 8-K filed 1/03/2007.
10.21	Salary Continuation Miles, incorporated by reference to EX-10.21 of the Form 8-K filed 1/03/2007.

Exhibit Number	Description of Document
10.22	Employment Agreement Moty, incorporated by reference to EX-10.22 of the Form 8-K filed 9/27/2007.
10.23	Salary Continuation Moty, incorporated by reference to EX-10.23 of the Form 8-K filed 9/28/2007.
10.24	Employment contracts dated October 14, 2008, incorporated by reference to EX-10.22 of the Form 8-K filed 10/17/2008.
10.25	Employment Agreement Matranga, incorporated by reference to EX-10.22 of the Form 8-K filed 11/26/2008.
14.0	Bank of Commerce Code of Ethics, incorporated by reference to EX-10.12 of the Form 8-K filed 2/26/2003.
21.1	Subsidiaries of the Company, incorporated by reference to EX-21.1 of the Form 10-12G filed 12/4/1998.
23.1	Consent of Moss Adams LLP
24.1	Power of Attorney-see page 151.
31.1	Certification of Patrick J. Moty pursuant to Exchange Act Rule 13a-14(a) or 15d 14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Samuel D. Jimenez pursuant to Exchange Act Rule 13a-14(a) or 15d 14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to Section 1350.
99.1	Certification of Chief Executive Officer Pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008
99.2	Certification of Chief Financial Officer Pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 04, 2011.

BANK OF COMMERCE HOLDINGS

By /s/ *Patrick J. Moty*

Patrick J. Moty
President, Chief Executive
Officer and Director of Redding Bank of
Commerce

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Patrick J. Moty and Samuel D. Jimenez, and each of them, his true and lawful attorneys-in-fact, each with full power of substitution, for him in any and all capacities, to sign any amendments to this report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact or their substitute or substitutes may do or cause to be done by virtue hereof.

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated:

Name	Title	Date
/s/ Patrick J. Moty	President, Chief Executive Officer and	March 04, 2011
/s/ Samuel D. Jimenez	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 04, 2011
/s/ Kenneth R. Gifford, Jr.	Chairman of the Board	March 04, 2011
/s/ Russell L. Duclos	Director	March 04, 2011
/s/ David H. Scott	Director	March 04, 2011
/s/ Lyle L. Tullis	Director	March 04, 2011
/s/ Jon Halfhide	Director	March 04, 2011
/s/ Orin Bennett	Director	March 04, 2011
/s/ Gary Burks	Director	March 04, 2011
/s/ Joseph Gibson	Director	March 04, 2011

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description of Document
3.1	Articles of Incorporation as amended, incorporated by reference to EX-3.1 of the Form 10-12G filed 12/4/1998.
3.2	Bylaws as amended, incorporated by reference to EX-3.1 of the Form 8-K filed 05/15/2007.
4.1	Specimen Common Stock Certificate, incorporated by reference to EX-4.1 of the Form 10-12G filed 12/4/1998.
4.2	Certificate of determination for the Series A Preferred Stock, incorporated by reference to EX-4.1 of the Form 8-K filed 11/19/2008.
4.3	Form of Certificate for the Series A Preferred Stock, incorporated by reference to EX-4.2 of the Form 8-K filed 11/19/2008.
4.4	Warrant for purchase of shares of Common stock, incorporated by reference to EX-4.3 of the Form 8-K filed 11/19/2008.
10.1	Letter Agreement, dated November 14, 2008, between Bank of Commerce Holdings and the United States Department of the Treasury, which includes the Securities Purchase Agreement Standard terms attached thereto, with respect to the issuance of the Series A Preferred Stock and Warrant, incorporated by reference to EX-10.1 of the Form 8-K filed 11/19/2008.
10.2	Office Building Lease between Gairn Partnership/First Avenue Square and Redding Bank of Commerce dated July 16, 1998, incorporated by reference to EX-10.2 of the Form 10-12G filed 12/4/1998.
10.3	1998 Stock Option Plan, incorporated by reference to EX-10.3 of the Form 10-12G filed 12/4/1998.
10.4	Form of Incentive Stock Option Agreement used in connection with 1998 Stock Option Plan, incorporated by reference to EX-10.4 of the Form 10-12G filed 12/4/1998.
10.5	Form of Non-statutory Stock Option Agreement used in connection with 1998 Stock Option Plan, incorporated by reference to EX-10.5 of the Form 10-12G filed 12/4/1998.
10.7	Directors Deferred Compensation Plan, incorporated by reference to EX-10.7 of the Form 10-12G filed 12/4/1998.
10.8	Form of Deferred Compensation Agreement Used In Connection With Directors Deferred Compensation Plan, incorporated by reference to EX-10.8 of the Form 10-12G filed 12/4/1998.

10.10	Employment contracts dated April 2001, incorporated by reference to EX-10.10 of the Form 8-K filed 9/27/2001.
10.11	Affiliated Business Arrangement Agreement, incorporated by reference to EX-10.11 of the Form 8-K filed 8/20/2004.
10.12	Office building lease by and between Waybright #3 Partners and Redding Bank of Commerce dated 9/23/2005 incorporated by reference to EX-99.1 of the Form 8-K filed 9/26/2005.
10.13	Amendment to Employment contracts dated April 2001, incorporated by reference to EX-99.1 &99.2 of the Form 8-K filed 12/21/2005.
10.14	Change in Control Agreements, incorporated by reference to EX-99.1-99.4 of the Form 8-K filed 12/21/2005.
10.15	Salary Continuation Blais, incorporated by reference to EX-10.15 of the Form 8-K filed 12/19/2006.
10.16	Salary Continuation Moty, incorporated by reference to EX-10.16 of the Form 8-K filed 12/19/2006.
10.17	Salary Continuation Eslick, incorporated by reference to EX-10.17 of the Form 8-K filed 12/19/2006.
10.19	Employment Agreement Miles, incorporated by reference to EX-10.19 of the Form 8-K filed 1/03/2007.
10.21	Salary Continuation Miles, incorporated by reference to EX-10.21 of the Form 8-K filed 1/03/2007.
10.22	Employment Agreement Moty, incorporated by reference to EX-10.22 of the Form 8-K filed 9/27/2007.
10.23	Salary Continuation Moty, incorporated by reference to EX-10.23 of the Form 8-K filed 9/28/07.
10.24	Employment contracts dated October 14, 2008, incorporated by reference to EX-10.22 of the Form 8-K filed 10/17/2008.
10.25	Employment Agreement Matranga, incorporated by reference to EX-10.22 of the Form 8-K filed 11/26/2008.
14.0	Bank of Commerce Code of Ethics, incorporated by reference to EX-10.12 of the Form 8-K filed 2/26/2003.
21.1	Subsidiaries of the Company, incorporated by reference to EX-21.1 of the Form 10-12G filed 12/4/1998.
23.1	Consent of Moss Adams LLP

24.1	Power of Attorney-see page 151.
31.1	Certification of Patrick J. Moty pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Samuel D. Jimenez pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to Section 1350.
99.1	Certification of Chief Executive Officer Pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008
99.2	Certification of Chief Financial Officer Pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008