Bank of Commerce Holdings
Form 10-Q
May 08, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from ___________________to________________________

Commission file number 0-25135

Bank of Commerce Holdings

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

Registrant's telephone number, including area code: (530) 722-3952

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 No

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 No

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 definition of "accelerated filer, large accelerated filer and smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check One)

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

Outstanding shares of Common Stock, no par value, as of April 20, 2014: 13,336,978

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets (Unaudited)

March 31, 2015 and December 31, 2014

(Amounts in thousands)	**March 31, 2015**	**December 31, 2014**
Assets:		
Cash and due from banks	$ 19,309	$ 43,949
Interest bearing due from banks	10,802	14,473
Total cash and cash equivalents	30,111	58,422
Securities available-for-sale, at fair value	166,890	186,986
Securities held-to-maturity, at amortized cost	36,609	36,806
Loans, net of deferred fees and costs	699,544	661,055
Allowance for loan and lease losses	(11,296)	(10,820)
Net loans	688,248	650,235
Premises and equipment, net	11,903	12,295
Other real estate owned	1,502	502
Life insurance	22,009	21,844
Deferred tax asset	10,041	10,231
Other assets	18,089	19,871
Total assets	$ 985,402	$ 997,192
Liabilities and shareholders' equity:		
Liabilities:		
Demand - noninterest bearing	$ 150,056	$ 157,557

Demand - interest bearing	266,552	298,160
Savings accounts	92,088	88,569
Certificates of deposit	253,280	244,749
Total deposits	761,976	789,035
Federal Home Loan Bank of San Francisco borrowings	90,000	75,000
Junior subordinated debentures	10,310	10,310
Other liabilities	17,679	19,245
Total liabilities	879,965	893,590
Commitments and contingencies (Note 12)		
Shareholders' Equity:		
Preferred stock, no par value, 2,000,000 shares authorized: Series B (liquidation preference $1,000 per share) issued and outstanding: 20,000 as of March 31, 2015 and December 31, 2014	19,931	19,931
Common stock, no par value, 50,000,000 shares authorized; 17,081,780 issued; 13,336,978 outstanding as of March 31, 2015 and 13,294,777 outstanding as of December 31, 2014	24,105	23,891
Retained earnings	61,217	59,867
Accumulated other comprehensive income (loss)	184	(87)
Total shareholders' equity	105,437	103,602
Total liabilities and shareholders' equity	$985,402	$997,192

See accompanying notes to consolidated financial statements.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

For the three months ended March 31, 2015 and 2014

	For the Three Months Ended March 31,	
(Amounts in thousands, except per share information)	**2015**	**2014**
Interest income:		
Interest and fees on loans	$7,911	$7,094
Interest on taxable securities	944	1,114
Interest on tax-exempt securities	599	652
Interest on interest bearing due from banks	72	140
Total interest income	9,526	9,000
Interest expense:		
Interest on demand deposits	116	121
Interest on savings deposits	54	57
Interest on certificates of deposit	591	662
Interest on other borrowings	396	(13)
Total interest expense	1,157	827
Net interest income	8,369	8,173
Provision for loan and lease losses	—	—
Net interest income after provision for loan and lease losses	8,369	8,173
Noninterest income:		
Service charges on deposit accounts	49	44
Payroll and benefit processing fees	148	135
Earnings on cash surrender value - life insurance	165	126
Gain (loss) on investment securities, net	215	(245)
Other income	277	304
Total noninterest income	854	364
Noninterest expense:		
Salaries and related benefits	3,910	3,680
Premise and equipment	734	642
Write down of other real estate owned	—	290
Federal Deposit Insurance Corporation insurance premium	207	191
Data processing fees	233	194
Professional service fees	422	264

Deferred compensation	71	57
Other expenses	1,016	2,322
Total noninterest expense	6,593	7,640
Income before provision for income taxes	2,630	897
Provision for income taxes	829	332
Net income	$1,801	$565
Less: Preferred dividends	50	50
Income available to common shareholders	$1,751	$515
Basic earnings per share	$0.13	$0.04
Average basic shares	13,303	13,942
Diluted earnings per share	$0.13	$0.04
Average diluted shares	13,340	13,987

See accompanying notes to consolidated financial statements.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

For the three months ended March 31, 2015 and 2014

	For the Three Months Ended March 31,	
(Amounts in thousands)	**2015**	**2014**
Net income	$1,801	$565
Available-for-sale securities:		
Unrealized gains arising during the period	747	2,830
Reclassification adjustments for net (gain) loss realized in earnings (net of tax expense (benefit) of $90 and $(101) for the three months ended March 31, 2015 and 2014 respectively.	(125)	144
Income tax expense related to unrealized gains	(307)	(1,165)
Net change in unrealized gains	315	1,809
Held-to-maturity securities:		
Accretion of held-to-maturity other comprehensive income to municipal yield	(23)	(23)
Net change in unrealized gains	(23)	(23)
Derivatives:		
Unrealized losses arising during the period	(35)	(55)
Reclassification adjustments for net gains realized in earnings (net of tax expense of $62 for the three months ended March 31, 2014)	—	(88)
Income tax benefit related to unrealized losses	14	23
Net change in unrealized losses	(21)	(120)
Other comprehensive income	271	1,666
Comprehensive income – Bank of Commerce Holdings	$2,072	$2,231

See accompanying notes to consolidated financial statements.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

For the twelve months ended December 31, 2014 and for the three months ended March 31, 2015 (Unaudited)

(Dollars and shares in thousands)	**Preferred Amount**	**Common Shares**	**Common Stock Amount**	**Retained Earnings**	**Accumulated Other Comp-Income (Loss) Net of Tax**	**Total**
Balance at January 1, 2014	$ 19,931	13,977	$ 28,304	$ 55,944	$ (2,392)	$ 101,787
Net Income	—	—	—	5,727	—	5,727
Other comprehensive income, net of tax	—	—	—	—	2,305	2,305
Comprehensive income	—	—	—	—	—	8,032
Dividend on preferred stock	—	—	—	(200)	—	(200)
Repurchase of common stock	—	(700)	(4,562)	—	—	(4,562)
Dividend on common stock ($0.12 per share)	—	—	—	(1,604)	—	(1,604)
Common stock issued under employee plans and related tax benefit	—	17	66	—	—	66
Stock options exercised	—	—	23	—	—	23
Compensation expense associated with stock options	—	—	60	—	—	60
Balance at December 31, 2014	$ 19,931	13,294	$ 23,891	$ 59,867	$ (87)	$ 103,602

(Dollars and shares in thousands)	**Preferred Amount**	**Common Shares**	**Common Stock Amount**	**Retained Earnings**	**Accumulated Other Comp-Income (Loss) Net of Tax**	**Total**
Balance at January 1, 2015	$ 19,931	13,294	$ 23,891	$ 59,867	$ (87)	$ 103,602
Net income	—	—	—	1,801	—	1,801

Other comprehensive income, net of tax	—	—	—	—	271	271
Comprehensive income	—	—	—	—	—	2,072
Dividend on preferred stock	—	—	—	(50)	—	(50)
Dividend on common stock ($0.03 per share)	—	—	—	(401)	—	(401)
Common stock issued under employee plans and related tax benefit	—	7	36	—	—	36
Stock options exercised	—	36	146	—	—	146
Compensation expense associated with stock options	—	—	12	—	—	12
Compensation expense associated with restricted stock	—	—	20	—	—	20
Balance at March 31, 2015	$ 19,931	13,337	$ 24,105	$ 61,217	$ 184	$ 105,437

See accompanying notes to consolidated financial statements.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

For the three months ended March 31, 2015 and March 31, 2014

(Amounts in thousands)	**For the Three Months Ended March 31, 2015**	**2014**
Cash flows from operating activities:		
Net income	$1,801	$565
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation and amortization	370	281
Compensation expense associated with stock options	12	17
Compensation expense associated with restricted stock	20	—
Net (gain) loss on sale of securities available-for-sale	(215)	245
Amortization of investment premiums and accretion of discounts, net	471	414
Amortization of held-to-maturity fair value adjustment	(39)	(39)
Write down of fixed assets	149	—
Write down of other real estate owned	—	290
(Gain) on sale of other real estate owned	(15)	—
Increase in cash surrender value of life insurance	(165)	(126)
Increase in deferred compensation	213	100
Increase in deferred loan costs	(158)	(17)
Decrease in other assets	560	2,238
Decrease in other liabilities	(1,790)	(648)
Net cash provided by operating activities	1,214	3,320
Cash flows from investing activities:		
Proceeds from maturities and payments of available-for-sale securities	7,443	3,088
Proceeds from sale of available-for-sale securities	25,215	36,686
Purchases of available-for-sale securities	(12,330)	(24,773)
Proceeds from maturities and payments of held-to-maturity securities	240	—
Purchases of held-to-maturity securities	—	(244)
Cash paid for low income housing investments	(462)	(298)
Net redemption of Federal Home Loan Bank of San Francisco stock	1,263	58
Loan originations, net of principal repayments	(19,954)	(757)
Purchase of loan pools	(20,587)	(12,721)

Purchase of premises and equipment, net	(127)	(1,151)
Proceeds from the sale of other real estate owned	1,701	—
Proceeds from settlement of note to former mortgage subsidiary	—	686
Net cash (used) provided by investing activities	(17,598)	574

See accompanying notes to consolidated financial statements.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited) Continued

	For the Three Months Ended March 31,	
(Amounts in thousands)	**2015**	**2014**
Cash flows from financing activities:		
Net decrease in demand deposits and savings accounts	$(35,590)	$(3,613)
Net increase in certificates of deposit	8,531	19,031
Advances on term debt	65,000	—
Repayment of term debt	(50,000)	—
Proceeds from stock options exercised	146	20
Stock issued under employee plans	36	66
Repurchase of common stock	—	(2,876)
Cash dividends paid on preferred stock	(50)	(50)
Cash dividends paid on common stock	—	(419)
Net cash (used) provided by financing activities	(11,927)	12,159
Net (decrease) increase in cash and cash equivalents	(28,311)	16,053
Cash and cash equivalents at beginning of year	58,422	58,515
Cash and cash equivalents at end of period	$30,111	$74,568

See accompanying notes to consolidated financial statements.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited) (Continued)

For the three months ended March 31, 2015 and March 31, 2014

(Amounts in thousands)	**For the Three Months Ended March 31, 2015**	**2014**
Supplemental disclosures of cash flow activity:		
Cash paid during the period for:		
Income taxes	$1,400	$—
Interest	$1,160	$951
Supplemental disclosures of non cash investing activities:		
Transfer of loans to other real estate owned	$2,686	$—
Changes in unrealized gain on investment securities available-for-sale	$535	$3,075
Changes in net deferred tax asset related to changes in unrealized gain on investment securities available-for-sale	(220)	(1,266)
Changes in accumulated other comprehensive income due to changes in unrealized gain on investment securities available-for-sale	$315	$1,809
Changes in unrealized (loss) on derivatives	$(35)	$(55)
Changes in net deferred tax asset related to changes in unrealized loss on derivatives	14	23
Changes in accumulated other comprehensive income due to changes in unrealized loss on derivatives	$(21)	$(32)
Reclassification of earnings from gains on derivatives	$—	$(150)
Changes in net deferred tax asset related to reclassification of earnings from gains on derivatives	—	62
Changes in accumulated other comprehensive income due to reclassification of earnings from gain on derivatives	$—	$(88)
Accretion of held-to-maturity from other comprehensive income to interest income	(39)	(39)
Changes in deferred tax related to accretion of held-to-maturity investment securities	16	16
Changes in accumulated other comprehensive income due to accretion of held-to-maturity investment securities	$(23)	$(23)
Supplemental disclosures of non cash financing activities:		
Cash dividend declared on common shares and payable after period-end	$401	$409

Cash dividend declared on preferred shares and payable after period-end	$50	$50

See accompanying notes to consolidated financial statements.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bank of Commerce Holdings (the "Holding Company"), is a bank holding company ("BHC") with its principal offices in Redding, California. The Holding Company's principal business is to serve as a holding company for Redding Bank of Commerce (the "Bank" and together with the Holding Company, the "Company") which operates under two separate names (Redding Bank of Commerce and Sacramento Bank of Commerce, a division of Redding Bank of Commerce). The Company has an unconsolidated subsidiary in Bank of Commerce Holdings Trust II. The balance sheet as of March 31, 2015 and December 31, 2014, which has been derived from the unaudited interim consolidated financial statements and audited consolidated financial statements, has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included and the disclosures made are adequate to make the information not misleading.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and with prevailing practices within the banking and securities industries. In preparing such consolidated financial statements, management is required to make certain estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses for the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan and lease losses ("ALLL"), the valuation of Other Real Estate Owned ("OREO"), and fair value measurements. 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. Subsequent to the issuance of the Company's 2014 Annual Report on Form 10-K, the Company identified an error in the "pass" and "watch" classifications disclosed in the internal risk ratings table. Loans previously reported in the "watch" classification that are subject to enhanced monitoring but did not meet the regulatory definition of "watch" should have been reported in the "pass" classification. The revision reclassifies loans from the "watch" classification to the "pass" classification. There is no effect on the *Consolidated Balance Sheets* or *Consolidated Statements of Operations*. There is also no impact on the Company's criticized or classified assets. See Note 6, *Loans in the Notes to Unaudited Consolidated Financial* Statements for further discussion. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in Bank of Commerce Holdings 2014 Annual Report on Form 10-K. The consolidated results of operations and cash flows for the 2015 interim periods shown in this report are not necessarily indicative of the results for any future interim period or the entire fiscal year.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Holding Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. As of December 31, 2014, the Company had one wholly-owned trust ("Trust") formed 2005 to issue trust preferred securities and related common securities. The Company has not consolidated the accounts of the Trust in its Consolidated Financial Statements in accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB") ASC 810, *Consolidation* ("ASC 810"). As a result, the junior subordinated debentures issued by the Company to the Trust are reflected on the Company's *Consolidated Balance Sheets*.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In November 2014, the FASB issued ASU No. 2014-16*, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity*. For hybrid financial instruments issued in the form of a share, an entity (an issuer or an investor) should determine the nature of the host contract by considering all stated and implied substantive terms and features of the hybrid financial instrument, weighing each term and feature on the basis of relevant facts and circumstances. That is, an entity should determine the nature of the host contract by considering the economic characteristics and risks of the entire hybrid financial instrument, including the embedded derivative feature that is being evaluated for separate accounting from the host contract. In evaluating the stated and implied substantive terms and features, the existence or omission of any single term or feature does not necessarily determine the economic characteristics and risks of the host contract. Although an individual term or feature may weigh more heavily in the evaluation on the basis of facts and circumstances, an entity should use judgment based on an evaluation of all the relevant terms and features. For example, the presence of a fixed-price, noncontingent redemption option held by the investor in a convertible preferred stock contract is not, in and of itself, determinative in the evaluation of whether the nature of the host contract is more akin to a debt instrument or more akin to an equity instrument. Rather, the nature of the host contract depends on the economic characteristics and risks of the entire hybrid financial instrument. The effects of initially adopting the amendments in this Update should be applied on a modified retrospective basis to existing hybrid financial instruments issued in the form of a share as of the beginning of the fiscal year for which the amendments are effective. Retrospective application is permitted to all relevant prior periods. The amendments in this Update are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption, including adoption in an interim period, is permitted. If an entity early adopts the amendments in an interim period, any adjustments shall be reflected as of the beginning of the fiscal year that includes that interim period. The Company does not expect the ASU to have a material impact on the Company's Consolidated Financial Statements.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

In August 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.* The amendments in the ASU are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company does not expect the ASU to have a material impact on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which creates Topic 606 and supersedes Topic 605, Revenue Recognition. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In general, the new guidance requires companies to use more judgment and make more estimates than under current guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard is effective for public entities for interim and annual periods beginning after December 15, 2016; early adoption is not permitted. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company is currently evaluating the provisions of the ASU to determine the potential impact the new standard will have on the Company's consolidated financial statements.

NOTE 3. NOTE RECEIVABLE

Pursuant to the terms of a note receivable held by the Company in conjunction with the Company's disposal of the former mortgage subsidiary, the Company received note payments (the "Note") that commenced in 2013 and were due quarterly over a consecutive five year period. The Note carried a zero rate of interest and the obligation was guaranteed by the continuing shareholder of the Mortgage Company. As of March 31, 2014, the Company had received all principal amounts due through that date under the original Note agreement, and the Note carried an outstanding principal balance of $2.7 million.

During the first quarter of 2014, the Company's management became increasingly concerned about whether remaining principal due under the original terms of the Note would be collectible. As a result, during April 2014, the Company executed a promissory note compromise settlement agreement (the "Agreement") with the Mortgage Company. The Agreement settled and determined all the respective rights and obligations under the Note.

Under the terms of the Agreement, the Mortgage Company paid cash in the amount of $686 thousand and transferred a 1-4 family mortgage note with a principal balance of $560 thousand to the Company. Simultaneously, the Company applied a portion of the cash proceeds to pay off the outstanding balance of the Mortgage Company's warehouse line of credit held with the Bank. The Mortgage Company's line of credit was subsequently closed during 2014. As a result of the Agreement, the Company recognized a loss of $1.4 million in full and complete satisfaction of the Note.

The table below presents the details of the closing transaction:

(Amounts in thousands)	**Amount**
Proceeds:	
Cash received	$ 686
1-4 family mortgage note (fair value)	560
Net proceeds received	1,246
Assets derecognized:	
Note due from the mortgage company	2,753
Warehouse line of credit	259
Discount on the note	(374)
Total assets derecognized	2,638
Loss on settlement of the note	$ 1,392

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

NOTE 4. EARNINGS PER SHARE

Basic Earnings Per Share ("EPS") is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that subsequently shared in the earnings of the entity.

The following is a computation of basic and diluted EPS for the three months ended March 31, 2015 and 2014.

(Amounts in thousands, except per share data)	**For the Three Months Ended March 31,**	
Earnings Per Share	**2015**	**2014**
Numerators:		
Net income	$1,801	$565
Less:		
Preferred cash dividends	50	50
Net income available to common shareholders	$1,751	$515
Denominators:		
Weighted average number of common shares outstanding - basic	13,303	13,942
Effect of potentially dilutive common shares (1)	37	45
Weighted average number of common shares outstanding - diluted	13,340	13,987
Earnings per common share:		
Basic	$0.13	$0.04
Diluted	$0.13	$0.04
Anti-dilutive options not included in earnings per share calculation	124,200	123,437

On March 20, 2014, the Company announced that its Board of Directors authorized the purchase of up to 700,000 or 5% of its outstanding shares over a 12 month period. The stock repurchase plan authorized the Company to conduct open market purchases or privately negotiated transactions from time to time when, at management's discretion, it was determined that market conditions and other factors warranted such purchases. Pursuant to the plan, the Company repurchased and subsequently retired 700,000 common shares during the six months ended June 30, 2014.

NOTE 5. SECURITIES

Securities are classified as available-for-sale if the Company intends and has the ability to hold those securities for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available-for-sale are carried at fair value. Unrealized holding gains or losses are included in other comprehensive income (loss) as a separate component of shareholders' equity, net of tax. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings. Premiums and discounts are amortized or accreted over the life of the related investment security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

Debt securities are classified as held-to-maturity if the Company has both the intent and ability to hold those securities to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the effective interest method over their contractual lives.

Transfers of securities from available-for-sale to held-to-maturity are accounted for at fair value as of the date of the transfer. The difference between the fair value and the amortized cost at the date of transfer is considered a premium or discount and is accounted for accordingly. Any unrealized gain or loss at the date of the transfer is reported in other comprehensive income (loss), and is amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount, and will offset or mitigate the effect on interest income of the amortization of the premium or discount for that held-to-maturity security. The Company did not have any transfers in or out of the various securities classifications for the three months ended March 31, 2015 and twelve months ended December 31, 2014.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

The following table presents the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities as of March 31, 2015, and December 31, 2014:

	As of March 31, 2015			
(Amounts in thousands)	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
U.S. government & agencies	$6,290	$ 132	$ —	$6,422
Obligations of state and political subdivisions	51,365	2,134	(8)	53,491
Residential mortgage backed securities and collateralized mortgage obligations	41,603	415	(167)	41,851
Corporate securities	31,128	578	(46)	31,660
Commercial mortgage backed securities	6,808	47	(56)	6,799
Other asset backed securities	26,572	278	(183)	26,667
Total	$163,766	$ 3,584	$ (460)	$166,890
Held-to-maturity securities:				
Obligations of state and political subdivisions	$36,609	$ 952	$ (336)	$37,225

	As of December 31, 2014			
(Amounts in thousands)	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
U.S. government & agencies	$6,351	$ 58	$ (16)	$6,393
Obligations of state and political subdivisions	52,629	1,788	(54)	54,363
Residential mortgage backed securities and collateralized mortgage obligations	46,727	457	(169)	47,015
Corporate securities	37,392	475	(133)	37,734

Commercial mortgage backed securities	10,402	60	(73)	10,389
Other asset backed securities	30,896	393	(197)	31,092
Total	$184,397	$ 3,231	$ (642)	$186,986
Held-to-maturity securities:				
Obligations of state and political subdivisions	$36,806	$ 712	$ (400)	$37,118

The amortized cost and estimated fair value of available-for-sale and held-to-maturity securities as of March 31, 2015, are shown below. The amortized cost and fair value of residential mortgage backed, collateralized mortgage obligations and commercial mortgage securities are presented by their expected average life, rather than contractual maturity, in the following table. Expected maturities may differ from contractual.

(Amounts in thousands)	**Available-For-Sale**		**Held-To-Maturity**	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Amounts maturing in:				
One year or less	$3,328	$3,330	$—	$—
One year through five years	57,795	58,605	1,489	1,508
Five years through ten years	41,652	42,536	15,476	15,878
After ten years	60,991	62,419	19,644	19,839
Total	$163,766	$166,890	$36,609	$37,225

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The Company held $49.2 million in securities with safekeeping institutions for pledging purposes. Of this amount, $19.9 million were pledged as of March 31, 2015. The following table presents the fair value of the securities held, segregated by purpose, as of March 31, 2015:

(Amounts in thousands)	**Amount**
Public funds collateral	$24,721
Federal Home Loan Bank of San Francisco borrowings	20,177
Interest rate swap contracts	4,339
Total securities held for pledging purposes	$49,237

The following table presents the cash proceeds from sales of securities and their associated gross realized gains and gross realized losses that have been included in earnings for the three months ended March 31, 2015 and 2014.

	Three Months Ended March 31,	
(Amounts in thousands)	**2015**	**2014**
Proceeds from sales of securities	$25,215	$36,686
Gross realized gains on sales of securities:		
U.S. government & agencies	$32	$—
Obligations of state and political subdivisions	13	157
Residential mortgage backed securities and collateralized mortgage obligations	82	6
Corporate securities	4	141
Commercial mortgage backed securities	93	—

Other asset backed securities	—	23
Total gross realized gains on sales of securities	224	327
Gross realized losses on sales of securities:		
Obligations of state and political subdivisions	—	(90)
Residential mortgage backed securities and collateralized mortgage obligations	(9)	(469)
Commercial mortgage backed securities	—	(1)
Other asset backed securities	—	(12)
Total gross realized losses on sales of securities	(9)	(572)
Gain (loss) on investment securities, net	$215	$(245)

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The following tables present the current fair value and associated unrealized losses on investments with unrealized losses as of March 31, 2015, and December 31, 2014. The tables also illustrate whether these securities have had unrealized losses for less than 12 months or for 12 months or longer.

	As of March 31, 2015					
	Less Than 12 Months		**12 Months or More**		**Total**	
(Amounts in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Available-for-sale securities:						
Obligations of states and political subdivisions	$2,152	$ (8)	$—	$ —	$2,152	$ (8)
Residential mortgage backed securities and collateralized mortgage obligations	6,233	(70)	5,242	(97)	11,475	(167)
Corporate securities	3,016	(15)	3,777	(31)	6,793	(46)
Commercial mortgage backed securities	2,106	(10)	1,986	(46)	4,092	(56)
Other asset backed securities	2,670	(6)	6,045	(177)	8,715	(183)
Total temporarily impaired securities	$16,177	$ (109)	$17,050	$ (351)	$33,227	$ (460)
Held-to-maturity securities:						
Obligations of states and political subdivisions	$5,801	$ (62)	$5,291	$ (274)	$11,092	$ (336)

	As of December 31, 2014					
	Less Than 12 Months		**12 Months or More**		**Total**	
(Amounts in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Available-for-sale securities:						
U.S. government & agencies	$—	$ —	$1,269	$ (16)	$1,269	$ (16)
Obligations of states and political subdivisions	3,952	(34)	2,078	(20)	6,030	(54)
	10,193	(66)	5,365	(103)	15,558	(169)

Residential mortgage backed securities and collateralized mortgage obligations						
Corporate securities	7,058	(36)	6,542	(97)	13,600	(133)
Commercial mortgage backed securities	4,912	(14)	1,542	(59)	6,454	(73)
Other asset backed securities	4,891	(16)	6,088	(181)	10,979	(197)
Total temporarily impaired securities	$31,006	$ (166)	$22,884	$ (476)	$53,890	$ (642)
Held-to-maturity securities:						
Obligations of states and political subdivisions	$1,556	$ (14)	$12,726	$ (386)	$14,282	$ (400)

At March 31, 2015, 50 securities were in unrealized loss positions and at December 31, 2014, 73 securities were in unrealized loss positions.

The available-for-sale residential mortgage backed securities, commercial backed securities, and collateralized mortgage obligations portfolio in an unrealized loss position at March 31, 2015, were issued by both public and private agencies. The unrealized losses on residential mortgage backed securities and collateralized mortgage obligations were caused by changes in market interest rates and or the widening of market spreads subsequent to the initial purchase of these securities, and not by the underlying credit of the issuers or the underlying collateral. It is expected that these securities will not be settled at a price less than the amortized cost of each investment. Because the decline in fair value is attributable to changes in interest rates and or widening market spreads and not credit quality, and because the Company does not intend to sell the securities in this class, and it is more likely than not the Company will not be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, these investments are not considered other-than-temporarily impaired.

For the three months ended March 31, 2015, the Company did not recognize impairment losses. For the year ended December 31, 2014, the Company recognized an OTTI of $22 thousand for securities that were in a loss position at December 31, 2014 and sold in January of 2015.

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NOTE 6. LOANS

Outstanding loan balances consist of the following at March 31, 2015, and December 31, 2014:

(Amounts in thousands)	**March 31, 2015**	**December 31, 2014**
Commercial	$ 153,044	$ 153,957
Real estate – construction loans	29,127	30,099
Real estate – commercial (investor)	235,404	215,114
Real estate – commercial (owner occupied)	127,259	115,389
Real estate – ITIN loans	52,043	52,830
Real estate – mortgage	12,304	13,156
Real estate – equity lines	45,750	44,981
Consumer	44,283	35,210
Other	15	162
Gross loans	699,229	660,898
Deferred fees and costs	315	157
Loans, net of deferred fees and costs	699,544	661,055
Allowance for loan and lease losses	11,296	10,820
Net loans	$ 688,248	$ 650,235

Gross loan balances in the table above include net purchase discounts of $1.8 million and $998 thousand as of March 31, 2015, and December 31, 2014, respectively.

Loans are reported as past due when any portion of the principal and interest are not received on the due date. The days past due will continue to increase for each day until full principal and interest are received (i.e. if payment is not received within 30 days of the due date, the loan will be considered 30 days past due; if payment is not received within 60 days of the due date, the loan will be considered 60 days past due, etc). Loans that become 90 days past due will be placed in nonaccrual status unless well secured and in the process of collection.

Age analysis of past due loans, segregated by class of loans, as of March 31, 2015, and December 31, 2014, were as follows:

(Amounts in thousands) **March 31, 2015**	**30-59 Days Past Due**	**60-89 Days Past Due**	**Greater Than 90 Days Past Due**	**Total Past Due**	**Current**	**Total**	**Recorded Investment > 90 Days and Accruing**
Commercial	$329	$—	$2,510	$2,839	$150,205	$153,044	$ —
Commercial real estate:							
Construction	—	—	—	—	29,127	29,127	—
Other	36	—	6,988	7,024	355,639	362,663	—
Residential:							
1-4 family	1,012	150	2,925	4,087	60,260	64,347	—
Home equities	236	—	24	260	45,490	45,750	—
Consumer	110	73	30	213	44,085	44,298	—
Total	$1,723	$223	$12,477	$14,423	$684,806	$699,229	$ —

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(Amounts in thousands) **December 31, 2014**	**30-59 Days Past Due**	**60-89 Days Past Due**	**Greater Than 90 Days Past Due**	**Total Past Due**	**Current**	**Total**	**Recorded Investment > 90 Days and Accruing**
Commercial	$2,421	$301	$2,161	$4,883	$149,074	$153,957	$ —
Commercial real estate:							
Construction	—	—	—	—	30,099	30,099	—
Other	—	—	8,464	8,464	322,039	330,503	—
Residential:							
1-4 family	1,080	122	3,597	4,799	61,187	65,986	—
Home equities	145	99	24	268	44,713	44,981	—
Consumer	158	57	23	238	35,134	35,372	23
Total	$3,804	$579	$14,269	$18,652	$642,246	$660,898	$ 23

A loan is considered impaired when based on current information and events, the Company determines it is probable that it will not be able to collect all amounts due according to the original loan contract, including scheduled interest payments. Generally, when the Company identifies a loan as impaired, it measures the loan for potential impairment using discounted cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, the current fair value of collateral is used, less selling costs.

The starting point for determining the fair value of collateral is through obtaining external appraisals. Generally, external appraisals are updated every six to twelve months. The Company obtains appraisals from a pre-approved list of independent, third party, local appraisal firms. Approval and addition to the list is based on experience, reputation, character, consistency and knowledge of the respective real estate market. At a minimum, it is ascertained that the appraiser is: (1) currently licensed in the state in which the property is located, (2) is experienced in the appraisal of properties similar to the property being appraised, (3) is actively engaged in the appraisal work, (4) has knowledge of current real estate market conditions and financing trends, (5) is reputable, and (6) is not on Freddie Mac's nor the Bank's Exclusionary List of appraisers and brokers. In most cases appraisals will be reviewed by another independent third party to ensure the quality of the appraisal and the expertise and independence of the appraiser.

Upon receipt and review, an external appraisal is utilized to measure a loan for potential impairment. The Company's impairment analysis documents the date of the appraisal used in the analysis, whether the officer preparing the report deems it current, and, if not, allows for internal valuation adjustments with justification. Typical justified adjustments might include discounts for continued market deterioration subsequent to appraisal date, adjustments for the release of collateral contemplated in the appraisal, or the value of other collateral or consideration not contemplated in the appraisal. An appraisal over one year old in most cases will be considered stale dated and an updated or new appraisal will be required. Any adjustments from appraised value to net realizable value are detailed and justified in the impairment analysis, which is reviewed and approved by the Company's Chief Credit Officer.

Although an external appraisal is the primary source to value collateral dependent loans, the Company may also utilize values obtained through purchase and sale agreements, negotiated short sales, broker price opinions, or the sales price of the note. These alternative sources of value are used only if deemed to be more representative of value based on updated information regarding collateral resolution. Impairment analyses are updated, reviewed and approved on a quarterly basis at or near the end of each reporting period. Based on these processes, the Company does not believe there are significant time lapses for the recognition of additional provision for loan and lease loss or charge offs from the date they become known.

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The following table summarizes impaired loans by loan class as of March 31, 2015, and December 31, 2014:

	As of March 31, 2015		
(Amounts in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance recorded:			
Commercial	$3,917	$ 8,134	$ —
Commercial real estate:			
Other	7,666	9,916	—
Residential:			
1-4 family	8,443	11,068	—
Home equities	201	202	—
Total with no related allowance recorded	$20,227	$ 29,320	$ —
With an allowance recorded:			
Commercial	$996	$ 1,023	$ 247
Commercial real estate:			
Other	2,563	3,211	415
Residential:			
1-4 family	3,341	3,448	569
Home equities	574	574	287
Consumer	34	34	14
Total with an allowance recorded	$7,508	$ 8,290	$ 1,532
Subtotal:			
Commercial	$4,913	$ 9,157	$ 247
Commercial real estate	10,229	13,127	415
Residential	12,559	15,292	856
Consumer	34	34	14
Total impaired loans	$27,735	$ 37,610	$ 1,532

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	As of December 31, 2014		
(Amounts in thousands)	**Recorded Investment**	**Principal Balance**	**Related Allowance**
With no related allowance recorded:			
Commercial	$4,298	$ 8,461	$ —
Commercial real estate:			
Other	8,287	12,309	—
Residential:			
1-4 family	8,714	11,381	—
Home equities	201	202	—
Total with no related allowance recorded	$21,500	$ 32,353	$ —
With an allowance recorded:			
Commercial	$2,299	$ 2,317	$ 314
Commercial real estate:			
Other	3,466	4,064	432
Residential:			
1-4 family	3,529	3,640	506
Home equities	579	579	289
Consumer	35	35	15
Total with an allowance recorded	$9,908	$ 10,635	$ 1,556
Subtotal:			
Commercial	$6,597	$ 10,778	$ 314
Commercial real estate	11,753	16,373	432
Residential	13,023	15,802	795
Consumer	35	35	15
Total impaired loans	$31,408	$ 42,988	$ 1,556

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’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 the original 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.

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 original contractual principal and interest is likely. Nonperforming loans are loans which may be on nonaccrual, 90 days past due and still accruing, or have been restructured and is not in compliance with its modified terms, and our ultimate collection of original contractual principal and interest is uncertain. 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 where 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 Bank's pool of home equity loans and lines that were purchased from a private equity firm. For this specific home equity loan pool, the Bank will charge off any loans that go more than 90 days past due. Management believes that at the time these loans become 90 days past due, it is likely that the Company will not collect the remaining principal balance on the loan. In accordance with this policy, management does not expect to classify any of the loans from this pool as nonaccrual.

Had nonaccrual loans performed in accordance with their contractual terms, the Company would have recognized additional interest income, net of tax, of approximately $163 thousand and $188 thousand for the three months ended March 31, 2015 and 2014, respectively.

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Nonaccrual loans, segregated by loan class, were as follows at March 31, 2015 and December 31, 2014:

(Amounts in thousands)	**March 31, 2015**	**December 31, 2014**
Commercial	$3,908	$ 5,112
Commercial real estate:		
Other	8,182	9,696
Residential:		
1-4 family	6,365	6,782
Home equities	24	24
Consumer	34	35
Total	$18,513	$ 21,649

The following table summarizes average recorded investment and interest income recognized on impaired loans by loan class for the three months ended March 31, 2015 and 2014:

	March 31, 2015		**March 31, 2014**	
(Amounts in thousands)	**Average Recorded Investment**	**Interest Income Recognized**	**Average Recorded Investment**	**Interest Income Recognized**
Commercial	$5,363	$ 20	$6,738	$ 1
Commercial real estate:				
Other	10,997	32	20,343	107
Residential:				
1-4 family	12,033	33	12,204	24
Home equities	776	7	1,250	9

Consumer	35	—	—	—
Total	$29,204	$ 92	$40,535	$ 141

The impaired loans for which these interest income amounts were recognized primarily relate to accruing restructured loans. Loans are reported as troubled debt restructurings when the Bank grants a concession(s) to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include a reduction in the loan rate, forgiveness of principal or accrued interest, extending the maturity date(s) significantly, or providing a lower interest rate than would be normally available for a loan of similar risk. As a result of these concessions, restructured loans are impaired as the Bank will not collect all amounts due, both principal and interest, in accordance with the terms of the original loan agreement. Impairment reserves on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows of the restructured loans, discounted at the effective interest rate of the original loan agreement. These impairment reserves are recognized as a specific component to be provided for in the ALLL.

The types of modifications offered can generally be described in the following categories:

Rate – A modification in which the interest rate is modified.

Maturity – A modification in which the maturity date, timing of payments or frequency of payments is modified.

Payment deferral – A modification in which a portion of the principal is deferred.

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The following tables present the period ended balances of newly restructured loans and the types of modifications that occurred during the three months ended March 31, 2015 and 2014, respectively:

	For the Three Months Ended March 31, 2015		**For the Three Months Ended March 31, 2014**	
(Amounts in thousands)	**Payment Deferral**	**Total**	**Rate & Maturity**	**Total**
Commercial	$787	$787	$695	$695
Residential:				
1-4 family	274	274	—	—
Total	$1,061	$1,061	$695	$695

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 for the three months ended March 31, 2015 and 2014.

	For the Three Months Ended March 31, 2015			**For the Three Months Ended March 31, 2014**		
		Pre-Modification Outstanding	**Post-Modification Outstanding**		**Pre-Modification Outstanding**	**Post-Modification Outstanding**

(Amounts in thousands) **Troubled Debt Restructurings**	**Number of Contracts**	**Recorded Investment**	**Recorded Investment**	**Number of Contracts**	**Recorded Investment**	**Recorded Investment**
Commercial	1	$ 823	$ 823	1	$ 700	$ 700
Residential:						
1-4 family	3	259	275	—	—	—
Total	4	$ 1,082	$ 1,098	1	$ 700	$ 700

At March 31, 2015 and December 31, 2014, impaired loans of $8.7 million and $9.2 million were classified as performing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms.

In order for a restructured loan to be on accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must demonstrate the ability to make payments from a verified source of cash flow. The Company had no obligations to lend additional funds on the restructured loans as of March 31, 2015 and December 31, 2014.

As of March 31, 2015, the Company had $21.4 million in troubled debt restructurings compared to $23.5 million as of December 31, 2014. As of March 31, 2015, the Company had 121 loans that qualified as troubled debt restructurings, of which 99 loans were performing according to their restructured terms. Troubled debt restructurings represented 3.06% of gross loans as of March 31, 2015, compared with 3.55% at December 31, 2014.

The following tables represent loans modified as troubled debt restructurings within the previous 12 months for which there was a payment default during the three months ended March 31, 2015. There were no troubled debt restructurings within the previous 12 months for which there was a payment default during the three months ended March 31, 2014:

	For the Three Months Ended March 31, 2015	
(Amounts in thousands) **Troubled Debt Restructurings That Subsequently Defaulted**	**Number of Contracts**	**Recorded Investment**
1-4 family	1	$ 52
Total	1	$ 52

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 original contractual principal and interest is likely. The Company defines a nonperforming loan as an impaired loan which may be on nonaccrual, 90 days past due and still accruing, or has been restructured and is not in compliance with its modified terms, and our ultimate collection of original contractual principal and interest is uncertain.

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Performing and nonperforming loans, segregated by class of loans, are as follows at March 31, 2015 and December 31, 2014:

	March 31, 2015		
(Amounts in thousands)	**Performing**	**Nonperforming**	**Total**
Commercial	$149,136	$ 3,908	$153,044
Commercial real estate:			
Construction	29,127	—	29,127
Other	354,481	8,182	362,663
Residential:			
1-4 family	57,982	6,365	64,347
Home equities	45,726	24	45,750
Consumer	44,264	34	44,298
Total	$680,716	$ 18,513	$699,229

	December 31, 2014		
(Amounts in thousands)	**Performing**	**Nonperforming**	**Total**
Commercial	$148,845	$ 5,112	$153,957
Commercial real estate:			
Construction	30,099	—	30,099
Other	320,807	9,696	330,503
Residential:			
1-4 family	59,204	6,782	65,986
Home equities	44,957	24	44,981
Consumer	35,314	58	35,372
Total	$639,226	$ 21,672	$660,898

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 Cash Flows – borrower's cash flows 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 cash flows and strong secondary sources of repayment to mitigate the lack of unpledged collateral.

Qualitative Factors – in addition to meeting the Company's minimum cash flow and collateral requirements, a number of other 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 Cash Flows – borrowers in this category demonstrate adequate cash flows and debt service coverage ratios, but also exhibit one or more less than positive conditions such as declining trends in the level of cash flows, increasing or sole reliance on secondary sources of cash flows, and/or do not meet the Company's minimum debt service coverage ratio. However, cash flow 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.

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Qualitative Factors – while the borrower's cash flow 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.

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

Adequate Cash Flows – borrowers in this category demonstrate adequate cash flows and debt service coverage ratios, but also reflect adverse trends in operations or continuing financial deterioration that, if it 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 cash flow 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,
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,

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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 ALLL.

Credit grade definitions, including qualitative factors, for all credit grades are reviewed and approved annually by the Company’s Loan Committee. During the current year, the Company determined that certain amounts in the “pass” and “watch” classifications disclosed in the internal risk ratings table included in the Company's 2014 Form 10-K were incorrect. Accordingly, $46.9 million have been reclassified from “watch” to “pass” in the December 31, 2014 table below. The following table summarizes internal risk rating by loan class as of March 31, 2015, and December 31, 2014:

	As of March 31, 2015					
(Amounts in thousands)	**Pass**	**Watch**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Commercial	$126,455	$15,052	$ 3,547	$ 7,990	$ —	$153,044
Commercial real estate:						
Construction	29,088	39	—	—	—	29,127
Other	343,744	5,678	2,097	11,144	—	362,663
Residential:						
1-4 family	52,312	—	—	12,035	—	64,347
Home equities	42,405	1,103	1,271	971	—	45,750
Consumer	44,211	3	14	70	—	44,298
Total gross loans	$638,215	$21,875	$ 6,929	$ 32,210	$ —	$699,229

	As of December 31, 2014					
	Pass	**Watch**	**Special**			
(Amounts in thousands)	**(Restated)**	**(Restated)**	**Mention**	**Substandard**	**Doubtful**	**Total**
Commercial	$124,986	$ 14,116	$ 4,018	$ 10,837	$ —	$153,957
Commercial real estate:						
Construction	30,056	43	—	—	—	30,099
Other	309,140	7,817	869	12,677	—	330,503
Residential:						
1-4 family	53,490	—	—	12,496	—	65,986
Home equities	41,624	2,380	—	977	—	44,981
Consumer	35,279	3	18	72	—	35,372
Total gross loans	$594,575	$ 24,359	$ 4,905	$ 37,059	$ —	$660,898

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The following tables summarize the ALLL and recorded investment in financing receivables as of March 31, 2015, and December 31, 2014:

	For the three months ended March 31, 2015					
(Amounts in thousands)	**Commercial**	**Commercial Real Estate**	**Consumer**	**Residential**	**Unallocated**	**Total**
ALLL:						
Beginning balance	$3,552	$ 4,825	$ 450	$ 1,671	$ 322	$10,820
Charge offs	(52)	—	(112)	(15)	—	(179)
Recoveries	26	594	—	35	—	655
Provision	—	—	—	—	—	—
Ending balance	$3,526	$ 5,419	$ 338	$ 1,691	$ 322	$11,296

	As of March 31, 2015					
Ending balance: individually evaluated for impairment	$247	$415	$14	$856	$—	$1,532
Ending balance: collectively evaluated for impairment	$3,279	$5,004	$324	$835	$322	$9,764
Financing receivables:						
Ending balance	$153,044	$391,790	$44,298	$110,097	$—	$699,229
Ending balance: individually evaluated for impairment	$4,913	$10,229	$34	$12,559	$—	$27,735
Ending balance: collectively evaluated for impairment	$148,131	$381,561	$44,264	$97,538	$—	$671,494

	For the twelve months ended December 31, 2014					
(Amounts in thousands)	**Commercial**	**Commercial Real Estate**	**Consumer**	**Residential**	**Unallocated**	**Total**
ALLL:						
Beginning balance	$7,057	$ 2,784	$ 35	$ 2,493	$ 1,803	$14,172
Charge offs	(4,242)	(2,699)	(2)	(376)	—	(7,319)
Recoveries	582	1	—	209	—	792
Provision	155	4,739	417	(655)	(1,481)	3,175
Ending balance	$3,552	$ 4,825	$ 450	$ 1,671	$ 322	$10,820

	As of December 31, 2014					
Ending balance: individually evaluated for impairment	$314	$432	$15	$795	$—	$1,556
Ending balance: collectively evaluated for impairment	$3,238	$4,393	$435	$876	$322	$9,264
Financing receivables:						
Ending balance	$153,957	$360,602	$35,372	$110,967	$—	$660,898
Ending balance: individually evaluated for impairment	$6,597	$11,753	$35	$13,023	$—	$31,408
Ending balance: collectively evaluated for impairment	$147,360	$348,849	$35,337	$97,944	$—	$629,490

The ALLL totaled $11.3 million or 1.62% of total gross loans at March 31, 2015 and $10.8 million or 1.64% at December 31, 2014. In addition, as of March 31, 2015, the Company had $199.0 million in commitments to extend credit, and recorded a reserve for unfunded commitments of $695 thousand in *other liabilities* in the *Consolidated Balance Sheets*.

During the three months ended March 31, 2015, the Company realized net recoveries of $476 thousand compared with net charge offs of $6.5 million in the period ended December 31, 2014. The net recoveries and the increase in the ALLL in the current quarter are primarily due to commercial real estate from one classified loan that was transferred to OREO and sold during the three months ended March 31, 2015.

The ALLL is based upon estimates of loan and lease losses and is maintained at a level considered adequate to provide for probable losses inherent in the outstanding loan portfolio. The Company's ALLL methodology significantly incorporates management's current judgments, and reflects the reserve amount that is necessary for estimated loan and lease losses and risks inherent in the loan portfolio in accordance with ASC Topic 450 *Contingencies* and ASC Topic 310 *Receivables.*

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The allowance is increased by provisions charged to expense and reduced by net charge offs. In periodic evaluations of the adequacy of the allowance balance, management considers our past loan and lease loss experience by type of credit, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, current economic conditions and other factors. We formally assess the adequacy of the ALLL on a monthly basis. These assessments include the periodic re-grading of classified loans based on changes in their individual credit characteristics including delinquency, seasoning, recent financial performance of the borrower, economic factors, changes in the interest rate environment and other factors as warranted. Loans are initially graded when originated. They are reviewed as they are renewed, when there is a new loan to the same borrower and/or when identified facts demonstrate heightened risk of default. Confirmation of the quality of our grading process is obtained by independent reviews conducted by outside consultants specifically hired for this purpose and by periodic examination by various bank regulatory agencies.

Management monitors delinquent loans continuously and identifies problem loans to be evaluated individually for impairment testing. For loans that are determined impaired, formal impairment measurement is performed at least quarterly on a loan-by-loan basis.

Our method for assessing the appropriateness of the allowance includes specific allowances for identified problem loans, an allowance factor for categories of credits and allowances for changing environmental factors (e.g., portfolio trends, concentration of credit, growth, economic factors). Allowances for identified problem loans are based on specific analysis of individual credits. Loss estimation factors for loan categories are based on analysis of local economic factors applicable to each loan category. Allowances for changing environmental factors are management's best estimate of the probable impact these changes have had on the loan portfolio as a whole.

Management believes that the ALLL was adequate as of March 31, 2015. There is, however, no assurance that future loan and lease losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review.

As of March 31, 2015, approximately 72% of our gross loan portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the ALLL. The recent U.S. recession, the housing market downturn, and low real estate values in our markets have negatively impacted aspects of our residential development, commercial real estate, commercial construction and commercial loan portfolios. Continued deterioration in our markets may adversely affect our loan portfolio and may lead to additional charges to the provision for loan and lease losses.

All impaired loans are individually evaluated for impairment. If the measurement of each impaired loans' value 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 ALLL. This can be accomplished by charging-off the impaired portion of the loan or establishing a specific component within the ALLL. If the Bank determines the sources of repayment will not result in a reasonable probability that the carrying value of a loan can be recovered, the amount of a loan's specific impairment is charged off against the ALLL. Impairment reserves on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value. These impairment reserves are recognized as a specific component to be provided for in the ALLL.

The unallocated portion of ALLL provides for coverage of credit losses inherent in the loan portfolio but not captured in the credit loss factors that are utilized in the risk rating-based component, or in the specific impairment reserve component of the ALLL, and acknowledges the inherent imprecision of all loss prediction models. As of March 31, 2015, the unallocated allowance amount represented 4% of the ALLL, compared to 3% at December 31, 2014. December 31, 2014. The ALLL composition should not be interpreted as an indication of specific amounts or loan categories in which future charge offs may occur.

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 Loans – Commercial 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. Commercial 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.

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Most commercial 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 commercial loans secured by accounts receivable may be substantially dependent on the ability of the borrower to collect amounts due from its customers. In addition, the Company maintains a commercial loan with its former mortgage subsidiary in which mortgage loans are pledged as collateral.

Commercial Real Estate ("CRE") Loans – CRE loans are subject to similar underwriting standards and processes as commercial 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 sensitivity 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. 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 and 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.

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, Contingencies (“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, Receivables (“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 allowance net of specific reserves is available for the remaining credits 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.

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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.

NOTE 7. 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, OREO is recorded at fair value less costs to sell, which becomes the property’s new cost basis. Any write-down based on the asset’s fair value at the date of acquisition are charged or credited to the ALLL. Any write-up in the fair value of the asset at the date of acquisition is reported as noninterest income unless there has been a prior charge off, in which case a recovery is credited to the ALLL. After foreclosure, management periodically performs valuations and the property is carried at the lower of the cost or fair value less expected selling costs.

Subsequent valuation adjustments are recognized under the line item *Write down of other real estate owned* in the *Consolidated Statements of Operations*. Revenue and expenses incurred from OREO property are recorded in *noninterest income* or *noninterest expense*, in the *Consolidated Statements of Operations*, respectively.

At March 31, 2015, and December 31, 2014, the recorded investment in OREO was $1.5 million and $502 thousand, respectively. For the three months ended March 31, 2015, the Company transferred foreclosed property from eight loans in the amount of $2.7 million to OREO. During the three months ended March 31, 2015 the Company sold two properties with a balance of $1.7 million for a net gain of $15 thousand. The March 31, 2015 OREO balance consists of 12 properties, of which five properties are secured with 1-4 family residential real estate in the amount of $370 thousand and seven are nonfarm nonresidential properties in the amount of $1.1 million. The recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure is $1.7 million.

NOTE 8. ACCOUNTING FOR INCOME TAX AND UNCERTAINTIES

The Company's provision for income taxes includes both federal and state income taxes and reflects the application of federal and state statutory rates to the Company's income before taxes. The principal difference between statutory tax rates and the Company's effective tax rate is the benefit derived from investing in tax-exempt securities; bank owned life insurance, federal tax credits afforded through the Company’s participation in qualified affordable housing project investments.

Income taxes are accounted for using the asset and liability method. Under this method a deferred tax asset or liability is determined based on the enacted tax rates which will be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in the Company’s income tax returns. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established to reduce the net carrying amount of deferred tax assets if it is determined to be more likely than not, that all or some portion of the potential deferred tax asset will not be realized.

The Company applies the provisions of FASB ASC 740, *Income Taxes*, relating to the accounting for uncertainty in income taxes. The Company periodically reviews its income tax positions based on tax laws and regulations, and financial reporting considerations, and records adjustments as appropriate. This review takes into consideration the status of current taxing authorities’ examinations of the Company’s tax returns, recent positions taken by the taxing authorities on similar transactions, if any, and the overall tax environment. The Company’s uncertain tax positions were nominal in amount as of March 31, 2015.

The Company’s effective income tax rate was 32% for the three months ended March 31, 2015, compared with 37% for the same period a year ago.

NOTE 9. QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS

The Company’s investment in Qualified Affordable Housing Projects that generate Low Income Housing Tax Credits (“LIHTC”) at March 31, 2015 was $5.3 million. These investments are recorded in other assets with a corresponding funding obligation of $1.9 million recorded in other liabilities. The Company has invested in four separate LIHTC projects which provide the Company with CRA credit. Additionally, the investment in LIHTC projects provide the Company with tax credits and with operating loss tax benefits over an approximately 16 year period. None of the original investments will be repaid. The tax credits and the operating loss tax benefits that are generated by each of the properties are expected to exceed the total value of the investment made by the Company and provides returns on the investments between 4.28% and 7.14%. The investment in LIHTC projects is being accounted for using the proportional amortization method, under which the Company amortizes the initial cost of the investment in proportion to the amount of the tax credits and other tax benefits received and recognizes the net investment performance in the *Consolidated Statements of Operations* as a component of income tax expense.

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The following table presents the Company's original investment in the LIHTC projects accounted for using the proportional amortization method, the current recorded investment balance, and the unfunded liability balance of each investment at March 31, 2015 and December 31, 2014. In addition, the table reflects the tax credits and tax benefits recorded by the Company during 2015 and 2014, the amortization of the investment and the net impact to the Company's income tax provision for 2015 and 2014:

(Amounts in thousands)	**Original**	**Current**	**Unfunded**	**Tax Credits**	**Amortization**	**Net**
Qualified Affordable Housing Projects at	**Investment**	**Recorded**	**Liability**	**and**	**of**	**Income Tax**
March 31, 2015	**Value**	**Investment**	**Obligation**	**Benefits (1)**	**Investments (2)**	**Benefit**
Raymond James California Housing Opportunities Fund II	$ 2,000	$ 1,692	$ 628	$ 57	$ 46	$ 11
WNC Institutional Tax Credit Fund 38, L.P.	1,000	862	302	35	26	9
Merritt Community Capital Corporation Fund XV, L.P.	2,500	1,992	923	69	58	11
California Affordable Housing Fund	2,454	803	—	48	48	—
Total – investments in qualified affordable housing projects	$ 7,954	$ 5,349	$ 1,853	$ 209	$ 178	$ 31

(Amounts in thousands)	**Original**	**Current**	**Unfunded**	**Tax Credits**	**Amortization**	**Net**
Qualified Affordable Housing Projects at	**Investment**	**Recorded**	**Liability**	**and**	**of**	**Income Tax**
December 31, 2014	**Value**	**Investment**	**Obligation**	**Benefits (1)**	**Investments (2)**	**Benefit**
Raymond James California Housing Opportunities Fund II	$ 2,000	$ 1,846	$ 736	$ 160	$ 154	$ 31

WNC Institutional Tax Credit Fund 38, L.P.	1,000	888	314	105	112	26
Merritt Community Capital Corporation Fund XV, L.P.	2,500	2,050	1,374	340	450	58
California Affordable Housing Fund	2,454	852	—	209	187	22
Total – investments in qualified affordable housing projects	$ 7,954	$ 5,636	$ 2,424	$ 814	$ 903	$ 137

(1) The amounts reflected in this column represent both the tax credits, as well as the tax benefits generated by the Qualified Affordable Housing Projects operating loss.
(2) This amount reduces the tax credits and benefits generated by the Qualified Affordable Housing Projects.

The Company’s investments in affordable housing projects generated tax credits recorded by the Company of $164 thousand for the quarter ended March 31, 2015 and $120 thousand for the quarter ended March 31, 2014. Additional tax benefits from the operating losses generated by the projects were $48 thousand and $38 thousand for the quarter ended March 31, 2015 and 2014 respectively. The tax credits and benefits were partially offset by the amortization of the principal investment balances of $178 thousand and $74 thousand for the quarters ended March 31, 2015 and 2014 respectively.

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The following table reflects the anticipated net income tax benefit at March 31, 2015 that is expected to be recognized by the Company over the remaining life of the investment:

(Amounts in thousands) **Qualified Affordable Housing Projects**	**Raymond James** **California Housing Opportunities Fund II**	**WNC Institutional Tax Credit Fund 38, L.P.**	**Merritt Community Capital Corporation Fund XV, L.P**	**California Affordable Housing Fund**	**Total Net Income Tax Benefit**
Anticipated net income tax benefit less amortization of investments:					
2015	$ 35	$ 26	$ 35	$ —	$ 96
2016	46	37	47	1	131
2017	46	36	45	1	128
2018	45	35	45	—	125
2019 and thereafter	263	156	238	1	658
Total	$ 435	$ 290	$ 410	$ 3	$ 1,138

NOTE 10. FEDERAL FUNDS PURCHASED AND LINES OF CREDIT

At March 31, 2015 and December 31, 2014, the Company had no outstanding federal funds purchased balances. The Bank had available lines of credit with the Federal Home Loan Bank (“FHLB”) totaling $192.1 million at March 31, 2015. At March 31, 2015 the Bank had available lines of credit with the Federal Reserve totaling $30.0 million subject to certain collateral requirements, namely the amount of certain pledged loans.

The Bank had uncommitted federal funds line of credit agreements with three financial institutions totaling $40.0 million at March 31, 2015. If the Bank had borrowed from these lines at March 31, 2015, interest rates would have ranged from .30% to 1.15%. Availability of the lines is subject to federal funds balances available for loan, continued borrower eligibility and are reviewed and renewed periodically throughout the year. These lines are intended to support short-term liquidity needs, and the agreements may restrict consecutive day usage.

NOTE 11. TERM DEBT

The Bank had outstanding secured advances from the Federal Home Loan Bank of San Francisco (“FHLB”) at March 31, 2015 and December 31, 2014 of $90.0 million and $75.0 million, respectively.

Future contractual maturities of FHLB term advances at March 31, 2015 are as follows:

(Amounts in thousands)

Year	**Amount**
2015	$ 90,000
Thereafter	—
Total Federal Home Loan Bank of San Francisco advances	$ 90,000

The maximum amount outstanding from the FHLB under term advances at any month end during the three months ended March 31, 2015, and the year ended December 31, 2014 was $90.0 million and $75.0 million, respectively. The average balance outstanding on FHLB term advances during the three months ended March 31, 2015 and year ended December 31, 2014 was $84.0 million and $77.5 million, respectively. The weighted average interest rate on the borrowings at March 31, 2015 and December 31, 2014 was 0.25% and 0.24%, respectively.

The FHLB borrowings are secured by an investment in FHLB stock, certain real estate mortgage loans which have been specifically pledged to the FHLB pursuant to their collateral requirements, and securities held in the Bank’s investment securities portfolio. As of March 31, 2015, based upon the level of FHLB advances, the Company was required to hold an investment in FHLB stock of $4.5 million. Furthermore, the Company has pledged $327.2 million of its commercial and real estate mortgage loans, and has borrowed $90.0 million against the pledged loans. As of March 31, 2015, the Company held $19.2 million (amortized cost) in securities with the FHLB for pledging purposes. All of the securities pledged to the FHLB were unused as collateral as of March 31, 2015.

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NOTE 12. COMMITMENTS AND CONTINGENCIES

Lease Commitments – The Company leases four sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term.

Rent expense for the three months ended March 31, 2015 and 2014 was $142 thousand and $140 thousand, respectively. Rent expense was offset by rent income of $4 thousand for both the three months ended March 31, 2015 and 2014.

The following table sets forth, as of March 31, 2015, the future minimum lease payments under non-cancelable operating leases:

(Amounts in thousands)	
Amounts due in:	
2015	$445
2016	608
2017	549
2018	431
Thereafter	1,698
Total	$3,731

Financial Instruments with Off-Balance Sheet Risk – The Company’s consolidated financial statements do not reflect various commitments and contingent liabilities that arise in the normal course of the Bank’s business and involve elements of credit, liquidity, and interest rate risk.

The following table presents a summary of the Bank's commitments and contingent liabilities at March 31, 2015 and December 31, 2014:

(Amounts in thousands)	**March 31, 2015**	**December 31, 2014**
Commitments to extend credit	$ 192,988	$ 200,991
Standby letters of credit	2,329	2,731
Guaranteed commitments outstanding	3,357	1,864
Total commitments	$ 198,674	$ 205,586

The Bank is a party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. Those instruments involve elements of credit and interest rate risk similar to the amounts recognized in the *Consolidated Balance Sheets*. The contract or notional amounts of those instruments reflect the extent of the Bank's involvement in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and financial guarantees written, is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any covenant or condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

While most standby letters of credit are not utilized, a significant portion of such utilization is on an immediate payment basis. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral varies but may include cash, accounts receivable, inventory, premises and equipment and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including international trade finance, commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

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The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary. The Bank was not required to perform on any financial guarantees for the three months ended March 31, 2015, and the year ended December 31, 2014. At March 31, 2015 approximately $133 thousand of standby letters of credit expire within one year, and $2.2 million expire thereafter.

The reserve for unfunded commitments, which is included in other liabilities on the *Consolidated Balance Sheets*, was $695 thousand at March 31, 2015 and $695 thousand December 31, 2014. The adequacy of the reserve for unfunded commitments is reviewed on a quarterly basis, based upon changes in the amount of commitments, loss experience, and economic conditions. During the three months ended March 31, 2015, the Company made no additional provision to the reserve for unfunded commitments.. When a provision is necessary, the expense is recorded in other noninterest expense in the *Consolidated Statements of Operations.*

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

Concentrations of Credit Risk –The Company grants real estate construction, commercial, and installment loans to customers throughout northern California. In management’s judgment, a concentration exists in real estate-related loans, which represented approximately 72% and 71% of the Company’s gross loan portfolio at March 31, 2015 and December 31, 2014.

Commercial real estate concentrations are managed to assure wide geographic and business diversity. Although management believes such concentrations have no more than the normal risk of collectability, a substantial decline in the economy in general, material increases in interest rates, changes in tax policies, tightening credit or refinancing markets, or a decline in real estate values in the Company’s primary market areas in particular, could have an adverse impact on the repayment of these loans. Personal and business incomes, proceeds from the sale of real property, or proceeds from refinancing, represent the primary sources of repayment for a majority of these loans.

The Bank recognizes the credit risks inherent in dealing with other depository institutions. Accordingly, to prevent excessive exposure to other depository institutions in aggregate or to any single correspondent, the Bank has established general standards for selecting correspondent banks as well as internal limits for allowable exposure to other depository institutions in aggregate or to any single correspondent. In addition, the Bank has an investment policy that sets forth limitations that apply to all investments with respect to credit rating and concentrations with an issuer.

NOTE 13. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents activity in accumulated other comprehensive income for the three months ended March 31, 2015:

(Amounts in thousands)	**Unrealized Gains on Securities**	**Unrealized Losses on Derivatives**	**Accumulated Other Comprehensive (Loss) Income**
Accumulated other comprehensive loss as of December 31, 2014	$ 1,810	$ (1,897)	$ (87)
Comprehensive income three months ended March 31, 2015	292	(21)	271
Accumulated other comprehensive loss as of March 31, 2015	$ 2,101	$ (1,917)	$ 184

The following table presents activity in accumulated other comprehensive income for the three months ended March 31, 2014:

(Amounts in thousands)	**Unrealized (Losses) Gains on Securities**	**Unrealized Losses on Derivatives**	**Accumulated Other Comprehensive (Loss) Income**
Accumulated other comprehensive income as of December 31, 2013	$ (1,809)	$ (583)	$ (2,392)
Comprehensive income three months ended March 31, 2014	1,786	(120)	1,666
Accumulated other comprehensive loss as of March 31, 2014	$ (23)	$ (703)	$ (726)

Accumulated other comprehensive income is reported net of related tax effects. Detailed information on the tax effects of the individual components of comprehensive income are presented in the *Consolidated Statements of Comprehensive Income*.

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NOTE 14. DERIVATIVES

In the normal course of business the Company is subject to risk from adverse fluctuations in interest rates. To mitigate interest rate risk and market risk, we enter into interest rate swaps with counterparties. Derivative instruments are used to manage interest rate risk relating to specific groups of assets and liabilities, and are presently being used to hedge interest expenses associated with certain FHLB wholesale borrowings. The Company does not use derivative instruments for trading or speculative purposes. The counterparties to the interest rate swaps and forwards are major financial institutions.

The Company's objective in managing exposure to market risk is to limit the impact on earnings and cash flow. The extent to which the Company uses such instruments is dependent on its access to these contracts in the financial markets.

Derivative financial instruments contain an element of credit risk if counterparties are unable to meet the terms of the agreements. Credit risk associated with derivative financial instruments is measured as the net replacement cost should the counterparties that owe us under the contract completely fail to perform under the terms of those contracts, assuming no recoveries of underlying collateral as measured by the market value of the derivative financial instrument.

ASC 815-10, *Derivatives and Hedging* ("ASC 815") requires companies to recognize all derivative instruments as assets or liabilities at fair value in the *Consolidated Balance Sheets*. In accordance with ASC 815, the Company designates interest rate swaps as cash flow hedges of forecasted variable rate FHLB advances.

No components of the hedging instruments are excluded from the assessment of hedge effectiveness. All changes in fair value of outstanding derivatives in cash flow hedges, except any ineffective portion, are recorded in other comprehensive income until earnings are impacted by the hedged transaction. Classification of the gain or loss in the *Consolidated Statements of Operations* upon release from other comprehensive income is the same as that of the underlying exposure.

When the Company discontinues hedge accounting because it is no longer probable that an anticipated transaction will occur in the originally expected period, or within an additional two-month period thereafter, changes to fair value accumulated in other comprehensive income are recognized immediately in earnings.

During August 2010, the Company entered into five forward starting interest rate swap contracts ("IR"), to hedge interest rate risk associated with forecasted variable interest rate payments from FHLB advances. The hedge strategy converted the LIBOR based floating rate of interest on certain forecasted FHLB advances to fixed interest rates, thereby protecting the Company from floating interest rate variability. Contracts outstanding at February 3, 2011, had effective dates and maturities ranging from March 1, 2012 through March 1, 2017.

On February 4, 2011, the Company terminated the forward starting interest rate 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. In addition, upon termination of the hedge contract, the Company received the full amount of the collateral posted pursuant to the hedge contract. Concurrent with the termination of the hedge contract, management removed the cash flow hedge designation, but continued to conclude the forecasted FHLB advances as probable.

The Company performed on the first three legs of the forecasted transactions by executing forecasted FHLB advances of $75.0 million, with maturities that aligned with the respective terminated IR's. During June 2014, the Company concluded the remaining hedged forecasted FHLB advances associated with the final two legs of the IR's were no longer probable. Accordingly, the remaining gains recorded in other comprehensive income relating to the final two legs of the IR's were immediately recognized in earnings. As a result of the transaction, the Company reclassified $952 thousand from other comprehensive income to earnings, which was included in other noninterest income in the *Consolidated Statement of Operations*.

Net gains of $88 thousand were reclassified out of accumulated other comprehensive income and netted with other borrowing interest expense during the three months ended March 31, 2014.

During August 2011, the Company entered into four IR contracts, to hedge interest rate risk associated with forecasted variable rate FHLB advances. The hedge strategy converted the LIBOR based floating rate of interest on certain forecasted FHLB advances to fixed interest rates, thereby protecting the Company from floating interest rate variability.

The following table summarizes the notional amount, effective dates, maturity dates and the maximum length of time over which the existing IR contracts are outstanding with counterparties as of March 31, 2015.

(Amounts in thousands)

Description	**Notional Amount**	**Effective Date**	**Maturity**
Forward starting interest rate swap	$ 75,000	August 1, 2014	August 3, 2015
Forward starting interest rate swap	$ 75,000	August 3, 2015	August 1, 2016
Forward starting interest rate swap	$ 75,000	August 1, 2016	August 1, 2017

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The following table summarizes the types of derivatives, separately by assets and liabilities, their locations on the *Consolidated Balance Sheets*, and the fair values of such derivatives as of March 31, 2015, and December 31, 2014. See Note 15, *Fair Values* in these *Notes to Unaudited Consolidated Financial Statements* for additional detail on the valuation of the Company's derivatives. The contracts are made with a single issuer and include the right of offset however, all of the outstanding IR contracts have a liability position as of March 31, 2015 and December 31, 2014.

		Asset Derivatives		**Liability Derivatives**	
(Amounts in thousands)	**Balance Sheet**	**March 31,**	**December 31,**	**March 31,**	**December 31,**
Description	**Location**	**2015**	**2014**	**2015**	**2014**
Forward starting interest rate swaps [1]	Other liabilities	$ —	$ —	$395	$ 880
Forward starting interest rate swaps [1]	Other liabilities	—	—	1,496	1,298
Forward starting interest rate swaps [1]	Other liabilities	—	—	1,368	1,046
Total		$ —	$ —	$3,259	$ 3,224

(1) Designated as hedging instrument.

The following table summarizes the types of derivatives, their locations within the *Consolidated Statements of Operations*, and the (loss) gains recorded for the three months ended March 31, 2015 and 2014:

(Amounts in thousands)		**Three Months Ended March 31,**	
Description	**Consolidated Statement of Operations Location**	**2015**	**2014**

Forward starting interest rate swaps [1]	Interest on Federal Home Loan Bank of San Francisco	$(295)	$—
Forward starting interest rate swaps [2]	Interest on Federal Home Loan Bank of San Francisco	—	150
Total		$(295)	$150

(1) Cash flow hedge designation. Loss represents net settlement on active interest rate swap.

(2) Cash flow hedge designation removed. Gains represent tax adjusted amounts reclassified from accumulated OCI pertaining to the terminated forward starting interest rate swap.

The following table summarizes the derivatives that have a right of offset as of March 31, 2015 and December 31, 2014.

(Amounts in thousands)	**Gross Amounts of Recognized Assets / (Liabilities)**	**Gross Amounts Offset In The Consolidated Balance Sheets**	**Net Amounts of Assets / (Liabilities) Presented In The Consolidated Balance Sheets**	**Gross Amounts Not Offset In The Consolidated Balance Sheets** Collateral Posted	**Net Amount**
March 31, 2015					
Derivative liabilities					
Interest rate swaps	$ (3,259)	$ —	$(3,259)	$ 4,339	$ 1,080
December 31, 2014					
Derivative liabilities					
Interest rate swaps	$ (3,224)	$ —	$(3,224)	$ 3,533	$ 309

The Company has agreements with its derivative counterparties that contain a provision where if the Company fails to maintain its status as a well/adequately capitalized institution, then the counterparty could terminate the derivative positions and the Company would be required to settle its obligations under the agreements. Similarly, the Company could be required to settle its obligations under certain of its agreements if specific regulatory events occur, such as if the Company were issued a prompt corrective action directive or a cease and desist order, or if certain regulatory ratios fall below specified levels.

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The Company has minimum collateral posting thresholds with certain of its derivative counterparties, and has been required to post collateral against its obligations under these agreements of $3.3 million as of March 31, 2015. Accordingly, the Company pledged three mortgage backed securities with an aggregate par value of $4.1 million and an aggregate fair value of $4.3 million. If the Company had breached any of these provisions at March 31, 2015, it could have been required to settle its obligations under the agreements at the termination value. The collateral posted by the Company exceeds the aggregate fair value of additional assets that would be required to be posted as collateral if the instrument were to be settled immediately.

NOTE 15. FAIR VALUES

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The following table presents estimated fair values of the Company's financial instruments as of March 31, 2015, and December 31, 2014, whether or not recognized or recorded at fair value in the *Consolidated Balance Sheets*. The table indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

Non-financial assets and non-financial liabilities defined by the FASB ASC 820, *Fair Value Measurement*, 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 FASB ASC 825, *Financial Instruments*, such as Bank-owned life insurance policies.

(Amounts in thousands)	**Carrying**	**Fair Value Measurements Using**			
March 31, 2015	**Amounts**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets :					
Cash and cash equivalents	$30,111	$30,111	$—	$—	$30,111
Securities available-for-sale	$166,890	$—	$166,890	$—	$166,890
Securities held-to-maturity	$36,609	$—	$37,225	$—	$37,225
Net loans	$688,248	$—	$—	$697,925	$697,925
Federal Home Loan Bank of San Francisco stock	$4,465	$4,465	$—	$—	$4,465
Financial liabilities:					
Deposits	$761,976	$—	$763,975	$—	$763,975
Federal Home Loan Bank of San Francisco advances	$90,000	$—	$90,000	$—	$90,000
Subordinated debenture	$10,310	$—	$5,076	$—	$5,076
Derivatives	$3,259	$—	$3,259	$—	$3,259

(Amounts in thousands)	**Carrying**	**Fair Value Measurements Using**			
December 31, 2014	**Amounts**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets :					
Cash and cash equivalents	$58,422	$58,422	$—	$—	$58,422
Securities available-for-sale	$186,986	$2,571	$184,415	$—	$186,986
Securities held-to-maturity	$36,806	$—	$37,118	$—	$37,118
Net loans	$650,235	$—	$—	$661,126	$661,126
Federal Home Loan Bank of San Francisco stock	$5,728	$5,728	$—	$—	$5,728
Financial liabilities:					
Deposits	$789,035	$—	$790,068	$—	$790,068
Federal Home Loan Bank of San Francisco advances	$75,000	$—	$75,000	$—	$75,000
Subordinated debenture	$10,310	$—	$4,932	$—	$4,932
Derivatives	$3,224	$—	$3,224	$—	$3,224

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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 methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value:

Cash and cash equivalents – The carrying amounts reported in the *Consolidated Balance Sheet*s 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. Therefore, the Company believes the measurement of fair value of cash and cash equivalents is derived from Level 1 inputs.

Securities – Investment securities fair values are based on quoted market prices, where available, and are classified as Level 1. If quoted market prices are not available, fair values are estimated using quoted market prices or matrix pricing, which is a mathematical technique, used widely by the industry that relies on the securities relationship to other benchmark securities, and are classified as Level 2.

Portfolio loans, net – For variable rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values. For fixed rate loans, projected cash flows are discounted back to their present value based on specific risk adjusted spreads to the U.S. Treasury Yield Curve, with the rate determined based on the timing of the cash flows. The ALLL is considered to be a reasonable estimate of loan discount for credit quality concerns. Given that there are commercial loans with specific terms that are not readily available; the Company believes the fair value of loans is derived from Level 3 inputs.

FHLB stock – The carrying value of FHLB stock approximates fair value as the shares can only be redeemed by the issuing institution at par. The Company measures the fair value of FHLB stock using Level 1 inputs.

Deposits – The Company measures fair value of maturing deposits using Level 2 inputs. The fair values of deposits were derived by discounting their expected future cash flows based on the FHLB yield curves, and maturities. The Company obtained FHLB yield curve rates as of the measurement date, and believes these inputs fall under Level 2 of the fair value hierarchy. Deposits with no defined maturities, the fair values are the amounts payable on demand at the respective reporting date.

FHLB advances – For variable rate FHLB borrowings, the carrying value approximates fair value. The Company measures the fair value of FHLB advances using Level 2 inputs.

Subordinated debenture – The fair value of the subordinated debenture is estimated by discounting the future cash flows using market rates at the reporting date, of which similar debentures would be issued with similar credit ratings as ours and similar remaining maturities. At March 31, 2015, future cash flows were discounted at 6.12%. The Company measures the fair value of subordinated debentures using Level 2 inputs.

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 unfunded 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 and derivatives 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 nonrecurring basis, such as collateral dependent impaired loans and certain other assets including OREO. These nonrecurring fair value adjustments involve the application of lower of cost or fair value accounting or write downs of individual assets.

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The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value, as of March 31, 2015 and December 31, 2014.

(Amounts in thousands)	**Fair Value at March 31, 2015**			
Recurring Basis	**Total**	**Level 1**	**Level 2**	**Level 3**
Available-for-sale securities:				
U.S. government and agencies	$6,422	$ —	$6,422	$ —
Obligations of states and political subdivisions	53,491	—	53,491	—
Residential mortgage backed securities and collateralized mortgage obligations	41,851	—	41,851	—
Corporate securities	31,660	—	31,660	—
Commercial mortgage backed securities	6,799	—	6,799	—
Other investment securities (1)	26,667	—	26,667	—
Total assets measured at fair value	$166,890	$ —	$166,890	$ —
Derivatives – forward starting interest rate swap	$3,259	$ —	$3,259	$ —
Total liabilities measured at fair value	$3,259	$ —	$3,259	$ —

(Amounts in thousands)	**Fair Value at December 31, 2014**			
Recurring Basis	**Total**	**Level 1**	**Level 2**	**Level 3**
Available-for-sale securities:				
U.S. government and agencies	$6,393	$—	$6,393	$ —
Obligations of states and political subdivisions	54,363	—	54,363	—
Residential mortgage backed securities and collateralized mortgage obligations	47,015	—	47,015	—
Corporate securities	37,734	1,467	36,267	—
Commercial mortgage backed securities	10,389	1,104	9,285	—
Other investment securities (1)	31,092	—	31,092	—
Total assets measured at fair value	$186,986	$2,571	$184,415	$ —
Derivatives – forward starting interest rate swap	$3,224	$—	$3,224	$ —

Total liabilities measured at fair value	$3,224	$—	$3,224	$ —

(1) Principally consists of residential mortgage backed securities issued by both by governmental and nongovernmental agencies, and SBA pool securities.

Recurring Items

Debt Securities – The available-for-sale securities amount in the recurring fair value table above represents securities that have been adjusted to their fair values. 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 Company has determined that the source of these fair values falls within Level 2 of the fair value hierarchy.

Forward starting interest rate swaps – The valuation of the Company's interest rate swaps were obtained from third party pricing services. The fair values of the interest rate swaps were determined by using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis was 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 these derivatives' fair values falls within Level 2 of the fair value hierarchy.

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Sensitivity of the Level 3 Fair Value Measurements

There were no assets or liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis at March 31, 2015 or at December 31, 2014. There were no transfers in or out of level 3 during the three months ended March 31, 2015 or the year ended December 31, 2014.

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These adjustments to fair value generally result from the application of lower of cost or fair value accounting or write-downs of individual assets due to impairment. The following table presents information about the Company's assets and liabilities at March 31, 2015 and December 31, 2014 measured at fair value on a nonrecurring basis for which a nonrecurring change in fair value has been recorded during the reporting period. The amounts disclosed below represent the fair values at the time the nonrecurring fair value measurements were made, and not necessarily the fair values as of the date reported upon.

(Amounts in thousands)	**Fair Value at March 31, 2015**			
Nonrecurring basis:	**Total**	**Level 1**	**Level 2**	**Level 3**
Collateral dependent impaired loans	$479	$ —	$ —	$479
Other real estate owned	51	—	—	51
Total assets measured at fair value	$530	$ —	$ —	$530

(Amounts in thousands)	**Fair Value at December 31, 2014**			
Nonrecurring basis:	**Total**	**Level 1**	**Level 2**	**Level 3**

Collateral dependent impaired loans	$10,319	$ —$	—$	10,319
Other real estate owned	166	—	—	166
Total assets measured at fair value	$10,485	$ —$	—$	10,485

The following table presents the losses resulting from nonrecurring fair value adjustments for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,	
(Amounts in thousands)	**2015**	**2014**
Collateral dependent impaired loans	$52	$4,609
Other real estate owned	15	290
Total	$67	$4,899

During the three months ended March 31, 2015, collateral dependent impaired loans with a carrying amount of $532 thousand were written down to their fair value of $479 thousand resulting in a $52 thousand adjustment to the ALLL. One OREO property was transferred in with an aggregate carrying value of $66 thousand was written down to its fair value of $51 thousand, resulting in a $15 thousand adjustment to the ALLL.

The loan amounts above represent impaired, collateral dependent loans that have been adjusted to fair value during the respective reporting period. 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 ALLL.

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 OREO amount above represents impaired real estate that has been adjusted to fair value during the respective reporting period. The loss represents impairments on OREO for fair value adjustments based on the fair value of the real estate. The determination of fair value is based on recent appraisals of the foreclosed properties, which take into account recent sales prices adjusted for unobservable inputs, such as opinions provided by local real estate brokers and other real estate experts. The Company records OREO as a nonrecurring Level 3.

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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. 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 16. PURCHASE OF FINANCIAL ASSETS

On February 27, 2015, the Company purchased $6.4 million of commercial real estate loans. The loans are being serviced by the Company and were purchased without recourse. The Company purchased a total par value of $6.4 million in loans with accrued interest at the settlement date of $17 thousand at a net premium of $91 thousand in exchange for a cash payment of $6.5 million. The fair value was equal to the price paid to acquire the portfolio as the difference between par value and cash purchase price represents the fair value adjustment.

On September 23, 2014, the Company purchased $18.1 million of owner-occupied commercial real estate loans secured by first deeds of trust originated under the SBA 504 loan program. The loans are serviced by the Company and were purchased without recourse. The Company purchased a total par value of $18.1 million in loans with accrued interest at the settlement date of $77 thousand at a net premium of $377 thousand in exchange for a cash payment of $18.5 million. The Company initially measured the acquired loan portfolio at fair value of $18.1 million. The fair value was equal to the price paid to acquire the portfolio as the difference between the par value and cash purchase price represents the fair value adjustment.

On May 12, 2014, the Company agreed to purchase $40.0 million of unsecured consumer home improvement loans. The loans were purchased without recourse or servicing rights. The agreement calls for purchases up to $4.0 million per month up to a maximum par value of $40.0 million. As of March 31, 2015 the Company has recorded a total par value of $38.6 million in loans at a net discount of $2.3 million in exchange for cash payments totaling $36.3 million net of $7.2 million in loan repayments. The Company initially measured the acquired loan portfolio at a fair equal to the price paid to acquire the portfolio as the difference between the par value and cash purchase price represents the fair value adjustment.

On February 27, 2014, the Company purchased a pool of residential solar panel loans secured by UCC filing with a par value of $12.9 million for a cash payment of $12.7 million. The loans and the related servicing were purchased without recourse. The Company initially measured the acquired loan portfolio at fair value of $12.7 million. The fair value was equal to the price paid to acquire the portfolio as the difference between the par value and cash purchase price represents the fair value adjustment.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements and Risk Factors

This Report contains certain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbor for “forward-looking statements” provided by the Private Securities Litigation Reform Act of 1995. These statements may include statements that expressly or implicitly predict future results, performance or events. Statements other than statements of historical fact are forward-looking statements. You can find many of these statements by looking for words such as “anticipates,” “expects,” “believes,” “estimates” and “intends” and words or phrases of similar meaning. We ma forward-looking statements regarding projected sources of funds, use of proceeds, availability of acquisition and growth opportunities, dividends, adequacy of our allowance for loan and lease losses (“ALLL”) and provision for loan losses, our commercial real estate portfolio and subsequent charge offs, among others. Forward-looking statements involve substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. There are many factors that could cause actual results to differ materially from those contemplated by these forward-looking statements. Risks and uncertainties include those set forth in our filings with the Securities and Exchange Commission (“SEC”), and the following factors that might cause actual results to differ materially from those presented:

- Our ability to attract new deposits and loans
- Demand for financial services in our market areas
- Competitive market pricing factors
- Deterioration of economic conditions that could result in increased loan losses
- Risks associated with concentrations of real estate related loans
- Market interest rate volatility
- Stability of funding sources and continued availability of borrowing
- Changes in legal or regulatory requirements or the results of regulatory examinations that could restrict growth
- Our ability to recruit and maintain key management staff
- Our ability to raise capital and incur debt on reasonable terms
- Regulatory limits on the Bank’s ability to pay dividends to the Company
- The impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) and related rules and regulations on the Company’s business operations and competitiveness, including the impact of executive compensation restrictions, which may affect the Company’s ability to retain and recruit executives in competition with firms in other industries who do not operate under those restrictions

The impact of the Dodd-Frank Act on the Company’s interchange fee revenue, interest expense, FDIC deposit insurance assessments and regulatory compliance expense

Continued consolidation in the financial services industry resulting in larger financial institutions that may have greater resources could change the competitive landscape

There are many factors that could cause actual results to differ materially from those contemplated by these forward-looking statements. We do not intend to update these forward-looking statements. Readers should consider any forward-looking statements in light of this explanation, and we caution readers about relying on forward-looking statements.

For additional information concerning risks and uncertainties related to the Company and its operations please refer to the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 under the heading “Risk factors”. The Company undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The following sections discuss significant changes and trends in the financial condition, capital resources and liquidity of the Company from December 31, 2014 to March 31, 2015. Also discussed are significant trends and changes in the Company’s results of operations for the three months ended March 31, 2015, compared to the same period in 2014. The consolidated financial statements and related notes appearing elsewhere in this report are unaudited. The following discussion and analysis is intended to provide greater detail of the Company's financial condition and results.

GENERAL

Bank of Commerce Holdings (“Company,” “Holding Company,” “we,” or “us”) is a corporation organized under the laws of California and a bank holding company (“BHC”) registered under the Bank Holding Company Act of 1956, as amended (“BHC Act”). The Holding Company’s principal business is to serve as a holding company for Redding Bank of Commerce (the “Bank” and together with the Holding Company, the “Company”) which operates under two separate names (Redding Bank of Commerce and Sacramento Bank of Commerce, a division of Redding Bank of Commerce). The Company has an unconsolidated subsidiary in Bank of Commerce Holdings Trust II, which was organized in connection with our prior issuance of trust preferred securities. Our common stock is traded on the NASDAQ Global Market under the symbol “BOCH.”

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 retail customers which are competitive with those traditionally offered by banks of similar size in California.

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

Executive Overview

Significant items for the three months ended March 31, 2015 were as follows:

Net income available to common shareholders of $1.8 million for the three months ended March 31, 2015 was a $1.2 million (240%) improvement over $515 thousand net income available to common shareholders earned during the first quarter of 2014; and a $118 thousand (7%) improvement over $1.6 million available to common shareholders earned during the previous quarter.
Gross loans at March 31, 2015 totaled $699.2 million, an increase of $92.2 million (15%) since March 31, 2014; and an increase of $38.3 million (23% annualized) since December 31, 2014.
Nonperforming assets at March 31, 2015 totaled $20.0 million, a decrease of $5.3 million compared to March 31, 2014; and a decrease of $2.2 million compared to December 31, 2014.
The company's tax equivalent net interest margin improved to 3.86% for the quarter ended March 31, 2015 from 3.78% for the first quarter of 2014 and 3.81% for the fourth quarter of 2014.
Net loan loss recoveries of $476 thousand during the quarter ended March 31, 2015 negated the need for a provision for loan and lease losses.
Noninterest bearing demand deposits for the quarter ended March 31, 2015 averaged $148.9 million, an increase of $17.4 million (13%) since the first quarter of 2014; and a decrease of $4.1 million (11% annualized) since the fourth quarter of 2014.
The company's tangible book value increased to $6.41 per common share at March 31, 2015 from $5.97 per common share at March 31, 2014 (7%); and from $6.29 per common share at December 31, 2014 (8% annualized).

Summary of Critical Accounting Policies

Our significant accounting policies are described in Note 2 of the *Notes to the Consolidated Financial Statements* included in the Form 10-K for the year ended December 31, 2014 filed with the SEC on March 10, 2015. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. Management believes that the following policies would be considered critical under the SEC's definition.

Valuation of Investments and Impairment of 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 the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses.

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If the Company intends to sell the security or if it is 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 ("OTTI") is recognized in earnings.

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

The ALCO Committee's assessment of whether OTTI loss should be recognized incorporates both quantitative and qualitative information including, but not limited to: (1) the length of time and the extent of which the fair value has been less than amortized cost, (2) the financial condition and near term prospects of the issuer, (3) 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, (4) whether the debtor is current on interest and principal payments, and (5) general market conditions and industry or sector specific outlook.

Allowance for Loan and Lease Losses

ALLL is based upon estimates of loan and lease losses and is maintained at a level considered adequate to provide for probable losses inherent in the outstanding loan portfolio. The allowance is increased by provisions charged to expense and reduced by net charge offs. In periodic evaluations of the adequacy of the allowance balance, management considers our past loan and lease loss experience by type of credit, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, current economic conditions and other factors. Management reviews the ALLL on a monthly basis and conducts a formal assessment of the adequacy of the ALLL on a quarterly basis. These assessments include the periodic re-grading of classified loans based on changes in their individual credit characteristics including delinquency, seasoning, recent financial performance of the borrower, economic factors, changes in the interest rate environment and other factors as warranted. Loans are initially graded when originated. They are reviewed as they are renewed, when there is a new loan to the same borrower and/or when identified facts demonstrate heightened risk of default. Confirmation of the quality of our grading process is obtained by independent reviews conducted by outside consultants specifically hired for this purpose and by periodic examination by various bank regulatory agencies. Management monitors delinquent loans continuously and identifies problem loans to be evaluated individually for impairment testing. For loans that are determined impaired, formal impairment measurement is performed at least quarterly on a loan-by-loan basis.

Our method for assessing the appropriateness of the allowance includes specific allowances for identified problem loans, an allowance factor for categories of credits and allowances for changing environmental factors (e.g., portfolio trends, concentration of credit, growth, economic factors). Allowances for identified problem loans are based on specific analysis of individual credits. Loss estimation factors for loan categories are based on analysis of local economic factors applicable to each loan category. Allowances for changing environmental factors are management's best estimate of the probable impact these changes have had on the loan portfolio as a whole.

Income Taxes

Income taxes reported in the consolidated financial statements are computed based on an asset and liability approach. We recognize the amount of taxes payable or refundable for the current year, and deferred tax assets and liabilities for the expected future tax consequences that have been recognized in the consolidated financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the consolidated financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. We record net deferred tax assets to the extent it is more likely than not that they will be realized. In evaluating our ability to recover the deferred tax assets, management considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations.

In projecting future taxable income, management develops assumptions including the amount of future state and federal pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates being used to manage the underlying business. The Company files consolidated federal and combined state income tax returns.

We recognize the financial statement effect of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. For tax positions that meet the more likely than not threshold, we may recognize only the largest amount of tax benefit that is greater than fifty percent likely to be realized upon ultimate settlement with the taxing authority.

Management believes that all of our tax positions taken meet the more likely than not recognition threshold. To the extent tax authorities disagree with these tax positions, our effective tax rates could be materially affected in the period of settlement with the taxing authorities.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

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Derivative Financial Instruments and Hedging Activities

In the normal course of business the Company is subject to risk from adverse fluctuations in interest rates. The Company manages this risk through a program that includes the use of derivative financial instruments, primarily swaps and forwards. Counterparties to these contracts are major financial institutions. The Company is exposed to credit loss in the event of nonperformance by these counterparties. The Company does not use derivative instruments for trading or speculative purposes.

The Company's objective in managing exposure to interest rate risk is to limit the impact on earnings and cash flow. The extent to which the Company uses such instruments is dependent on its access to these contracts in the financial markets.

All of the Company's outstanding derivative financial instruments are recognized in the *Consolidated Balance Sheets* at their fair values. The effect on earnings from recognizing the fair values of these derivative financial instruments depends on their intended use, their hedge designation, and their effectiveness in offsetting changes in the fair values of the exposures they are hedging. Changes in the fair values of instruments designated to reduce or eliminate adverse fluctuations in the fair values of recognized assets and liabilities and unrecognized firm commitments are reported in earnings along with changes in the fair values of the hedged items. Changes in the effective portions of the fair values of instruments used to reduce or eliminate adverse fluctuations in cash flows of anticipated or forecasted transactions are reported in equity as a component of accumulated other comprehensive income. Amounts in accumulated other comprehensive income are reclassified to earnings when the related hedged items affect earnings or the anticipated transactions are no longer probable. Changes in the fair values of derivative instruments that are not designated as hedges or do not qualify for hedge accounting treatment are reported currently in earnings. Amounts reported in earnings are classified consistent with the item being hedged.

For derivative financial instruments accounted for as hedging instruments, the Company formally designates and documents, at inception, the financial instrument as a hedge of a specific underlying exposure, the risk management objective, and the manner in which effectiveness of the hedge will be assessed. The Company formally assesses both at inception and at each reporting period thereafter, whether the derivative financial instruments used in hedging transactions are effective in offsetting changes in fair value or cash flows of the related underlying exposures. Any ineffective portion of the change in fair value of the instruments is recognized immediately into earnings.

The Company discontinues the use of hedge accounting prospectively when (1) the derivative instrument is no longer effective in offsetting changes in fair value or cash flows of the underlying hedged item; (2) the derivative instrument expires, is sold, terminated, or exercised; or (3) designating the derivative instrument as a hedge is no longer appropriate.

Types of derivative transactions currently recorded by the Company as of March 31, 2015:

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 earnings are realized on the hedged item. At March 31, 2015, the Company maintained a notional amount of $75.0 million in forward starting interest rate swap agreements which were in an aggregate unrealized loss position of $3.5 million.

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 and derivatives 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 nonrecurring basis, such as certain impaired loans held for investment, and ("OREO"). These nonrecurring 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 consolidated financial statements. Additional information on our use of fair value measurements and our related valuation methodologies is provided in Note 15 of the *Notes to the Unaudited Consolidated Financial Statements* incorporated in this document.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 banking income, and merchant credit card processing services.

Our income depends to a great extent on net interest income, which correlates strongly with certain interest rate characteristics. 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, the Federal Reserve Board in particular. Because of our predisposition to variable rate pricing on our assets and level of time deposits, we are frequently considered asset sensitive, and generally we are affected adversely by declining interest rates. However, in the current interest rate environment, many of our variable rate loans are priced at their floors. As a result, we would not experience an immediate benefit in a rising rate environment.

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 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 earnings.

Increases or decreases in interest rates could adversely affect our net interest margin. Although the yield we earn on our assets and 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 our ability to reprice a large portion of our liabilities, causing our net interest margin to contract.

Changes in the slope of the yield curve, 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 simulated scenarios that differ based on assumptions including 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 earnings in material amounts, especially if actual conditions turn out to be materially different than simulated scenarios. 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.

RESULTS OF OPERATIONS

OVERVIEW

Net income available to common shareholders for the first quarter of 2015 increased $118 thousand over the fourth quarter of 2014. In the current year, net interest income was $79 thousand higher, provision for loan and lease losses was $675 thousand lower and noninterest expenses were $579 thousand lower. These positive changes were partially offset by noninterest income that was $290 thousand lower and an income tax provision that was higher by $925 thousand.

Diluted Earnings Per Share (“EPS”) were $ 0.13 for the three months ended March 31, 2015 compared with $0.04 for the same period a year ago. The increase in diluted EPS compared to the same period a year ago, primarily resulted from increased net income, and a decrease in weighted average shares resulting from common stock repurchases.

The Company continued its quarterly cash dividends of $0.03 per share during the quarter ended March 31, 2015. In determining the amount of dividends to be paid, management gives consideration to capital preservation objectives, expected asset growth, projected earnings, and the overall dividend pay-out ratio.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Return on Average Assets, Average Total Equity and Common Shareholders' Equity

The following table presents the returns on average assets, average total equity and average common shareholders' equity for the three months ended March 31, 2015 and 2014. For each of the periods presented, the table includes the calculated ratios based on reported net income and net income available to common shareholders as shown in the Consolidated Statements of Operations incorporated in this document.

	March 31, 2015	March 31, 2014
Return on average assets:		
Net income	0.74 %	0.24 %
Income available to common shareholders	0.72 %	0.21 %
Return on average total equity:		
Net income	6.89 %	2.19 %
Income available to common shareholders	6.69 %	2.00 %
Return on average common shareholders’ equity:		
Net income	8.51 %	2.71 %
Income available to common shareholders	8.27 %	2.47 %

NET INTEREST INCOME AND NET INTEREST MARGIN

Net interest income is the largest source of our operating income. Net interest income increased $169 thousand over a year previous. Interest income for the three months ended March 31, 2015 increased $526 thousand or 6% to $9.5 million which reflects the increase in average earnings assets and the reallocation of lower yielding assets into higher yielding loans. Interest expense for the three months ended March 31, 2015 increased $330 thousand or 40% to $1.2

million. Interest expense on deposits declined $79 thousand, interest expense on other borrowings decreased $47 thousand, but interest on the Bank's FHLB borrowings increased $456 thousand.

During the first quarter of 2014, the net cost of the Bank's FHLB borrowings was reduced when hedge gains were reclassified out of other comprehensive income into earnings as a reduction of interest expense. As a result, interest expense on FHLB borrowings for the first quarter of 2014 was a negative $107 thousand. This accounting treatment ceased during the second quarter of 2014. Interest expense on FHLB borrowings for the first quarter of 2015 was $349 thousand. Interest expense on other borrowings was $47 thousand and $94 thousand for the first quarter of 2015and 2014, respectively. During December of 2014, the Company repaid $5.0 million of junior subordinated debentures resulting in a decrease in interest on other borrowings.

The net interest margin (net interest income as a percentage of average interest earning assets) on a fully tax-equivalent basis was 3.86% for the three months ended March 31, 2015, an increase of eight basis points as compared to the same period a year ago. The increase in net interest margin resulted from a 22 basis point increase in tax-equivalent yield on average earning assets offset by a 14 basis point increase in interest expense to fund average earning assets. With decreasing elasticity in managing our funding costs and historically low interest rates, maintaining our net interest margin in the foreseeable future will continue to be challenging. Management will continue to reallocate the asset mix into higher yielding assets by pursuing organic loan growth, making wholesale loan purchases, and actively managing the investment securities portfolio within our accepted risk tolerance.

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The following table presents condensed average balance sheet information, together with interest income and yields earned on average interest earning assets, and interest expense and rates paid on average interest bearing liabilities for the three months ended March 31, 2015 and 2014:

Average Balances, Interest Income/Expense and Yields/Rates Paid

	Three Months Ended March 31, 2015			**Three Months Ended March 31, 2014**		
(Amounts in thousands)	**Average Balance**	**Interest**	**Yield/ Rate**	**Average Balance**	**Interest**	**Yield/ Rate**
Interest earnings assets:						
Net loans [1]	$673,120	$ 7,911	4.77 %	$599,964	$ 7,094	4.80 %
Tax-exempt securities [2]	77,316	908	4.76 %	86,681	988	4.62 %
Taxable securities	136,557	944	2.80 %	160,182	1,114	2.82 %
Interest bearing due from banks	25,893	72	1.13 %	65,180	140	0.87 %
Average earning assets [2]	912,886	9,835	4.37 %	912,007	9,336	4.15 %
Cash & due from banks	10,295			10,212		
Bank premises	12,195			11,197		
Other assets	43,540			26,747		
Average total assets	$978,916			$960,163		
Interest bearing liabilities:						
Interest bearing demand	$275,954	116	0.17 %	$268,913	121	0.18 %
Savings deposits	91,152	54	0.24 %	91,406	57	0.25 %
Certificates of deposit	246,707	591	0.97 %	259,474	662	1.03 %
Other borrowings	94,421	396	1.70 %	90,465	(13)	(0.06)%
Average interest liabilities	$708,234	1,157	0.66 %	$710,258	827	0.47 %
Noninterest bearing demand	148,923			131,569		
Other liabilities	17,141			15,130		
Shareholders’ equity	104,618			103,206		

Average liabilities and shareholders' equity	$978,916			$960,163		
Net interest income and net interest margin (2)		$ 8,678	3.86 %		$ 8,509	3.78 %

Interest income on loans includes fee expense of approximately $(59) thousand and $(140) thousand for the three months ended March 31, 2015 and 2014, respectively.

(1) Average nonaccrual loans of $20.5 million and $30.0 million for the three months ended March 31, 2015 and 2014 are included, respectively.

(2) Tax-exempt income has been adjusted to a tax equivalent basis at a 34% tax rate. The amount of such adjustments was an addition to recorded income of approximately $309 thousand and $336 thousand for the three months ended March 31, 2015 and 2014, respectively.

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The following table sets forth a summary of the changes in tax equivalent net interest income due to changes in average asset and liability balances (volume) and changes in average rates (rate) for the three months ended March 31, 2015 and March 31, 2014. Changes in tax equivalent interest income and expense, which are not attributable specifically to either volume or rate, are allocated proportionately between both variances.

Analysis of Changes in Net Interest Income

	March 31, 2015 over March 31, 2014		
(Amounts in thousands)	**Volume**	**Rate**	**Total**
(Decrease) increase in interest income:			
Net loans	$860	$(43)	$817
Tax-exempt securities [1]	(110)	30	(80)
Taxable securities	(163)	(7)	(170)
Interest bearing due from banks	(109)	41	(68)
Total increase	478	21	499
Increase (decrease) in interest expense:			
Interest bearing demand	3	(8)	(5)
Savings accounts	—	(3)	(3)
Certificates of deposit	(31)	(40)	(71)
Federal Home Loan Bank of San Francisco borrowings	37	419	456
Other borrowings	(23)	(24)	(47)
Total (decrease) increase	(14)	344	330
Net increase (decrease)	$492	$(323)	$169

(1) Tax-exempt income has been adjusted to tax equivalent basis at a 34% tax rate.

NONINTEREST INCOME

Noninterest income for the three months ended March 31, 2015 was $854 thousand, an increase of $490 thousand, or 135%, compared to the same period a year ago. The following table presents the key components of noninterest income for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,			
			Change	Change
(Amounts in thousands)	**2015**	**2014**	**Amount**	**Percent**
Noninterest income:				
Service charges on deposit accounts	$49	$44	$ 5	11 %
Payroll and benefit processing fees	148	135	13	10 %
Earnings on cash surrender value – life insurance	165	126	39	31 %
Gain (loss) on investment securities, net	215	(245)	460	(188)%
Other income	277	304	(27)	(9)%
Total noninterest income	$854	$364	$ 490	135 %

During the three months ended March 31, 2015, the Company purchased eight securities with weighted average yields of 2.74%. During the same period the Company sold 22 securities with weighted average yields 2.53%.

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NONINTEREST EXPENSE

Noninterest expense for the three months ended March 31, 2015 was $6.6 million, a decrease of $1.0 million or 14% compared to the same period a year ago. The following table presents the key elements of noninterest expense for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,			
			Change	**Change**
(Amounts in thousands)	**2015**	**2014**	**Amount**	**Percent**
Noninterest expense:				
Salaries & related benefits	$3,910	$3,680	$230	6 %
Premise & equipment	734	642	92	14 %
Write down of other real estate owned	—	290	(290)	(100)%
Federal Deposit Insurance Corporation insurance premium	207	191	16	8 %
Data processing fees	233	194	39	20 %
Professional service fees	422	264	158	60 %
Deferred compensation expense	71	57	14	25 %
Other expenses	1,016	2,322	(1,306)	(56)%
Total noninterest expense	$6,593	$7,640	$(1,047)	(14)%

Salaries and related benefits expense for the three months ended March 31, 2015 were $3.9 million, an increase of $230 thousand or 6% compared to the same period a year ago. The increase in salaries and related benefits was primarily driven by costs associated the Bank's supplemental executive retirement plans and the Bank's various profit sharing and incentive plans.

During the first quarter of 2014 management determined that there was further impairment on commercial property held in OREO and recorded a write down of the carrying value in the amount of $290 thousand. There were no write downs recorded for OREO during three months ended March 31, 2015 or the remainder of the year ended December 31, 2014. See Note 7 *Other Real Estate Owned* in the *Notes to Consolidated Financial Statements* for further discussion.

Other expenses for the three months ended March 31, 2015 were $1.0 million, a decrease of $1.3 million, compared to the same period a year ago. During the quarter ended March 31, 2014 the Company negotiated the settlement of a note receivable from its former mortgage subsidiary which resulted in a loss of $1.4 million.

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 following table reflects the Company's tax provision and the related effective tax rate for the three months ended March 31, 2015 and 2014:

	For the Three Months Ended March 31,	
(Amounts in thousands)	**2015**	**2014**
Provision for income taxes	$829	$332
Effective tax rate	31.52%	37.01%

The Company’s effective income tax rate was 32% and 37% three months ended March 31, 2015 and 2014 respectively. The effective tax rates differed from the federal statutory rate of 34% and the state rate of 10.84% principally because of non-taxable income arising from bank-owned life insurance, income on tax-exempt investment securities, and tax credits arising from Low Income Housing Tax Credits (“LIHTC”). The investment in LIHTC projects is being accounted for using the proportional amortization method, under which the Company amortizes the initial cost of the investment in proportion to the amount of the tax credits and other tax benefits received and recognizes the net investment performance in the *Consolidated Statements of Operations* as a component of income tax expense. The Company’s effective tax rate is derived from income tax expense divided by income before provision for income taxes.

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FINANCIAL CONDITION

BALANCE SHEET

As of March 31, 2015, the Company had total consolidated assets of $985.4 million, gross loans of $699.2 million, an ALLL of $11.3 million, deposits outstanding of $762.0 million, and Shareholders’ equity of $105.4 million.

The Company’s primary liquidity position tightened during the current reporting period. As of March 31, 2015, the Company maintained cash positions at the Federal Reserve Bank and correspondent banks in the amount of $19.3 million. The Company also held interest bearing deposits with other financial institutions in the amount of $10.8 million.

Available-for-sale investment securities totaled $166.9 million at March 31, 2015, compared with $187.0 million at December 31, 2014. The Company’s available-for-sale investment portfolio provides the Company a secondary source of liquidity to fund other higher yielding asset opportunities, such as loan originations and wholesale loan purchases. During the first quarter of 2015, the Company purchased eight securities with a par value of $12.0 million and weighted average yield of 2.74% and sold twenty-two securities with a par value of $25.4 million and weighted average yield of 2.53%. The sales activity resulted in $215 thousand in net realized gains for the three months ended March 31, 2015. During the three months ended March 31, 2015, the Company also received $7.4 million in proceeds from principal payments, calls and maturities within the available-for-sale investment securities portfolio. Average quarterly securities balances and weighted average tax equivalent yields at March 31, 2015 and 2014 were $213.9 million and 3.46% compared to $246.9 million and 3.48%, respectively. During the first quarter of 2015, reductions in the available-for-sale investment portfolio were used to fund higher yielding loan assets.

During the current quarter, the Company’s securities purchases were focused on moderate term maturities, taking advantage of the steepness of the yield curve, which moderates the Company’s exposure to rising interest rates, while still providing an acceptable yield. Sales were focused on longer term municipal bonds, short term corporate floating rate bonds, as well as mortgage-backed and asset-backed securities with extended cash flows or with a high probability of cash flows extending as interest rates increase. Sales were also focused on those bonds likely to be less liquid in the event of a market shock. Overall, management's investment strategy reflects the continuing expectation of rising rates across the yield curve. Management continues to actively seek out opportunities to reduce the overall duration of the portfolio and accelerate cash flows, while also improving credit quality and liquidity. This strategy could entail absorbing small losses within the portfolio to meet longer term objectives. At March 31, 2015, the Company's net unrealized gain on available-for-sale securities were $3.1 million, compared with $2.6 million net unrealized gains at December 31, 2014. The favorable change in net unrealized gains resulted primarily from increases in the fair values of the Company's municipal bond and corporate securities portfolios, due to declines in interest rates.

The Company recorded gross loan balances of $699.2 million at March 31, 2015, compared with $660.9 million at December 31, 2014; an increase of $38.3 million. The increase in gross loans compared to the prior quarter was driven by strong organic loan originations and the purchase of wholesale loan pools. During the three months ended March 31, 2015, the Company purchased $14.1 million and $6.4 million in consumer and commercial real estate investor loan pools, respectively. See Note 16, *Purchase of Financial Assets* in the *Notes to the Unaudited Consolidated Financial Statements* in this document for further information regarding the purchase of these pools.

The Company continues to monitor credit quality, and adjust the ALLL to ensure that the ALLL is maintained at a level that management believes is adequate to cover estimated credit losses in the loan and lease portfolio. The increase in the ALLL in the current quarter compared to the prior quarter resulted from $655 thousand in loan recoveries primarily focused in one relationship partially offset by $179 thousand in loan charge offs. These net recoveries negated the need for a provision for loan and lease losses during the first quarter of 2015 compared to a provision of $675 thousand for the prior quarter. See table 8 for additional detail of the ALLL. The Company's ALLL as a percentage of gross loans was 1.62% as of March 31, 2015 compared 1.64% as of December 31, 2014.

At March 31, 2015, given the banks ALLL methodology which uses criteria such as risk weighting and historical loss rates, and given the ongoing improvements in asset quality, management believes the Company's ALLL is adequate. There is, however, no assurance that future loan and lease losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses.

Nonperforming loans, which include nonaccrual loans and accruing loans past due over 90 days, decreased by $3.2 million to $18.5 million, or 2.65% of gross loans, as of March 31, 2015, compared to $21.7 million, or 3.28% of gross loans as of December 31, 2014. Past due loans as of March 31, 2015 decreased to $14.4 million, compared to $18.7 million as of December 31, 2014. The decrease in past due loans was primarily attributable to decreases in the past due commercial and commercial real estate construction loan portfolios. Management believes that risk grading for past due loans appropriately reflects the risk associated with the past due loans.

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The Company’s OREO balance at March 31, 2015 was $1.5 million compared to $502 thousand at December 31, 2014. During the first quarter of 2015, the addition of seven commercial properties and one residential 1-4 family property were partially offset by the sale of one commercial property and one residential 1-4 family property. See Note 7, *Other Real Estate Owned* in the *Notes to Unaudited Consolidated Financial Statements* in this document, for further details relating to the Company’s OREO portfolio. The Company remains committed to working with customers who are experiencing financial difficulties to find potential solutions.

Total deposits as of March 31, 2015 were $762.0 million compared to $789.0 million at December 31, 2014, a decrease of $27.0 million. During the first three months of 2015, decreases in interest bearing and noninterest bearing demand were partially offset by increases in savings and certificate of deposit accounts.

The Company authorized, repurchased and subsequently retired 700,000 common shares under a plan announced and completed in 2014. As such, the weighted average number of dilutive common shares outstanding decreased by 1,443,826 shares during the year ended December 31, 2014.

INVESTMENT SECURITIES

The composition of our investment securities portfolio reflects management’s investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of interest income. The investment securities portfolio also mitigates interest rate risk and a portion of credit risk inherent in the loan portfolio, while providing a vehicle for the investment of available funds, a source of liquidity (by pledging as collateral) and collateral for certain public funds deposits.

Available-for-sale investment securities totaled $166.9 million at March 31, 2015, compared $187.0 million at December 31, 2014, respectively. The Company’s available-for-sale investment portfolio provides the Company a secondary source of liquidity to fund other higher yielding asset opportunities, such as loan originations and wholesale loan purchases. During the first quarter of 2015, reductions in the available-for-sale investment portfolio were used to fund higher yielding loan assets.

The Company's held-to-maturity investment portfolio is generally utilized to hold longer term securities that may have greater price risk many of which are pledged as collateral for the bank's local agency deposit program. This portfolio includes securities with longer durations and higher coupons than securities held in the available-for-sale securities portfolio. Held-to-maturity investment securities had carrying amounts of $36.6 million at March 31, 2015, compared with $36.8 million at December 31, 2014. There were no held-to-maturity securities purchased during the three months ended March 31, 2015.

The following table presents the investment securities portfolio by classification and major type as of March 31, 2015 and December 31, 2014:

(Amounts in thousands)	**March 31, 2015**	**December 31, 2014**
Available-for-sale securities: [(1)]		
U.S. government & agencies	$6,422	$6,393
Obligations of state and political subdivisions	53,491	54,363
Residential mortgage backed securities and collateralized mortgage obligations	41,851	47,015
Corporate securities	31,660	37,734
Commercial mortgage backed securities	6,799	10,389
Other asset backed securities	26,667	31,092
Total	$166,890	$186,986
Held-to-maturity securities: [(1)]		
Obligations of state and political subdivisions	$36,609	$36,806

(1) Available-for-sale securities are reported at estimated fair value, and held-to-maturity securities are reported at amortized cost.

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The following table presents information regarding the amortized cost and maturity structure of the investment portfolio at March 31, 2015:

	Within One Year		**Over One Through Five Years**		**Over Five Through Ten Years**		**Over Ten Years**		**Total**	
(Amounts in thousands)	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
Available-for-sale securities:										
U.S. government & agencies	$—	— %	$6,290	2.84 %	$—	— %	$—	— %	$6,290	2.84 %
Obligations of state and political subdivisions	202	1.79 %	6,287	2.60 %	17,787	3.12 %	27,089	2.99 %	51,365	2.98 %
Mortgage backed securities and collateralized mortgage obligations	843	5.16 %	30,391	2.94 %	9,221	3.28 %	1,148	3.99 %	41,603	3.09 %
Corporate securities	2,283	1.15 %	14,827	2.77 %	14,018	2.66 %	—	— %	31,128	2.60 %
Commercial mortgage backed securities	—	— %	—	— %	—	%	6,808	2.88 %	6,808	2.88 %
Other asset backed securities	—	— %	—	— %	626	1.92 %	25,946	2.71 %	26,572	2.69 %
Total	$3,328	2.21 %	$57,795	2.85 %	$41,652	2.98 %	$60,991	2.88 %	$163,766	2.88 %
Held-to-maturity securities:										
Obligations of state and political subdivisions	$—	— %	$1,489	3.38 %	$15,476	3.05 %	$19,644	3.07 %	$36,609	3.03 %

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.

LOANS AND PORTFOLIO CONCENTRATIONS

Loans and Portfolio Concentration

We concentrate our portfolio lending activities primarily within El Dorado, Placer, Sacramento, and Shasta counties in California. We manage our credit risk through various diversifications of our loan portfolio and the application of sound underwriting policies and procedures and credit monitoring practices. Generally, the loans are secured by real estate or other assets located in California; repayment is expected from the borrower’s business cash flows or cash flows from real estate investments.

The Company recorded net loans of $688.2 million at March 31, 2015, compared with $650.2 million at December 31, 2014, an increase of 38.0 million, or 6%. The increase in net loans was primarily attributable to organic loan originations and the purchase of wholesale loan pools. See Note 16, *Purchase of Financial Assets* in the *Notes to the Unaudited Consolidated Financial Statements* in this document for further information regarding the purchased loans.

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The following table presents the composition of the loan portfolio as of March 31, 2015 and December 31, 2014:

(Amounts in thousands)	**March 31, 2015**	**% of Gross Loans**	**December 31, 2014**	**% of Gross Loans**
Commercial	$153,044	22 %	$153,957	23 %
Real estate – construction loans	29,127	4	30,099	5
Real estate – commercial (investor)	235,404	34	215,114	33
Real estate – commercial (owner occupied)	127,259	18	115,389	17
Real estate – ITIN loans	52,043	7	52,830	8
Real estate – mortgage	12,304	2	13,156	2
Real estate – equity lines	45,750	7	44,981	7
Consumer	44,283	6	35,210	5
Other	15	—	162	—
Gross loans	699,229	100 %	660,898	100 %
Less:				
Deferred loan fees, net	315		157	
Loans, net of deferred fees and costs	699,544		661,055	
Allowance for loan and lease losses	11,296		10,820	
Net loans	$688,248		$650,235	

The following table sets forth the maturity and re-pricing distribution of our loans outstanding as of March 31, 2015, which, based on remaining scheduled repayments of principal, were due within the periods indicated:

(Amounts in thousands)	**Within One Year**	**After One Through Five Years**	**After Five Years**	**Total**
Commercial	$54,710	$58,165	$40,169	$153,044
Real estate - construction loans	6,279	17,126	5,722	29,127
Real estate - commercial (investor)	21,706	30,404	183,294	235,404
Real estate - commercial (owner occupied)	6,631	23,608	97,020	127,259
Real estate - ITIN loans	—	—	52,043	52,043
Real estate - mortgage	881	1,004	10,419	12,304
Real estate - equity lines	3,182	3,626	38,942	45,750
Consumer	37,656	1,399	5,228	44,283
Other	15	—	—	15
Gross loans	$131,060	$135,332	$432,837	$699,229
Loans due after one year with:				
Fixed rates		$56,372	$112,584	$168,956
Variable rates		78,960	320,253	399,213
Total		$135,332	$432,837	$568,169

Loans with unique credit characteristics

In April of 2009, the Company completed a loan ‘swap’ transaction which included the purchase of a pool of Individual Tax Identification Number (“ITIN”) residential mortgage loans. The ITIN loans are 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. The majority of the ITIN loans are variable rate loans and may have an increased default risk in a rising rate environment. 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.

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As of March 31, 2015, and December 31, 2014, the specific ITIN ALLL allocation represented approximately 1.71% and 1.58% of the total outstanding principal, respectively.

In March of 2010, the Company completed a loan ‘swap’ transaction which included the purchase of a pool of residential mortgage home equity loans and lines of credit (Arrow loan pool). Past due Arrow loans are treated as an exception to the Banks past due loan policy; the Bank charges off any loans that are more than 90 days past due. In accordance with this policy, management does not expect to classify any of the loans from this pool as nonaccrual and believes principal and interest are no longer collectable.

At March 31, 2015 the Arrow loan pool consisted of 282 loans with an average principal balance of approximately $31 thousand. As of March 31, 2015 and December 31, 2014, the specific Arrow ALLL allocation represented approximately 5.56% and 5.44% of the total outstanding principal, respectively.

Purchased Loans

The loan portfolio includes purchased loan pools, purchased participations and loans originated by the Company. Additional information regarding the individual purchased loan pools can be found in the Note *16 Purchase of Financial Assets* in the *Notes to Unaudited Consolidated Financial Statements* in this document.

The following table presents the recorded investment in purchased loans at March 31, 2015 and December 31, 2014.

(Amounts in thousands)	**March 31, 2015**	**December 31, 2014**
Loan Pool	**Balance**	**Balance**

		% of Gross Loans			**% of Gross Loans**	
ITIN	$52,043	7	%	$52,830	8	%
Service Finance	36,289	5		26,216	4	
SBA 504	17,792	3		18,100	3	
Commercial participations	19,543	3		15,891	2	
Arrow	8,706	1		9,137	1	
Solar	4,804	1		5,948	1	
Total purchased loans	$139,177	20	%	$128,122	19	%

ASSET QUALITY

Nonperforming Assets

The Company's loan portfolio is heavily concentrated in real estate, and a significant portion of the borrowers' ability to repay the loans is dependent upon the professional services, commercial real estate market and the residential real estate development industry sectors. Loans secured by real estate or other assets primarily located in California are expected to be repaid from cash flows of the borrower or proceeds from the sale of collateral. As such, the Company's dependence on real estate secured loans could increase the risk of loss in the loan portfolio of the Company in a market of declining real estate values. Furthermore, declining real estate values negatively impact holdings of OREO.

We manage asset quality and control credit risk through the application of policies designed to promote sound underwriting and loan monitoring practices. The Bank's Loan Committee is charged with monitoring asset quality, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures across the Bank. The provision for loan and lease losses charged to earnings is based upon management's judgment of the amount necessary to maintain the allowance at a level adequate to absorb probable incurred losses. The amount of provision charge is dependent upon many factors, including loan growth, net charge offs, changes in the composition of the loan portfolio, delinquencies, management's assessment of loan portfolio quality, general economic conditions that can impact the value of collateral, and other trends. The evaluation of these factors is performed through an analysis of the adequacy of the ALLL. Reviews of nonperforming, past due loans and larger credits, designed to identify potential charges to the ALLL, and to determine the adequacy of the allowance, are conducted on a monthly basis. These reviews consider such factors as the financial strength of borrowers, the value of the applicable collateral, loan and lease loss experience, estimated loan and lease losses, growth in the loan portfolio, prevailing economic conditions and other factors.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

A loan is considered impaired when based on current information and events; we determine it is probable that we will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Generally, when we identify a loan as impaired, we measure the loan for potential impairment using discount cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we use the current fair value of collateral, less selling costs. The starting point for determining the fair value of collateral is through obtaining external appraisals. Generally, external appraisals are updated every six to twelve months. We obtain appraisals from a pre-approved list of independent, third party, local appraisal firms. Approval and addition to the list is based on experience, reputation, character, consistency and knowledge of the respective real estate market. At a minimum, it is ascertained that the appraiser is: (1) currently licensed in the state in which the property is located, (2) is experienced in the appraisal of properties similar to the property being appraised, (3) is actively engaged in the appraisal work, (4) has knowledge of current real estate market conditions and financing trends, (5) is reputable, and (6) is not on Freddie Mac’s nor the Bank’s Exclusionary List of appraisers and brokers. In certain cases appraisals will be reviewed by another independent third party to ensure the quality of the appraisal and the expertise and independence of the appraiser. Upon receipt and review, an external appraisal is utilized to measure a loan for potential impairment.

Our impairment analysis documents the date of the appraisal used in the analysis, whether the officer preparing the report deems it current, and, if not, allows for internal valuation adjustments with justification. Typical justified adjustments might include discounts for continued market deterioration subsequent to appraisal date, adjustments for the release of collateral contemplated in the appraisal, or the value of other collateral or consideration not contemplated in the appraisal. An appraisal over one year old in most cases will be considered stale dated and an updated or new appraisal will be required. Any adjustments from appraised value to net realizable value are detailed and justified in the impairment analysis, which is reviewed and approved by the Company’s Chief Credit Officer. Although an external appraisal is the primary source to value collateral dependent loans, we may also utilize values obtained through purchase and sale agreements, negotiated short sales, broker price opinions, or the sales price of the note. These alternative sources of value are used only if deemed to be more representative of value based on updated information regarding collateral resolution. Impairment analyses are updated, reviewed and approved on a quarterly basis at or near the end of each reporting period. Based on these processes, we do not believe there are significant time lapses for the recognition of additional provision for loan and lease loss or charge offs from the date they become known.

Loans are classified as nonaccrual when collection of principal or interest is doubtful; generally these are loans that are past due as to maturity or payment of principal or interest by 90 days or more, unless such loans are well-secured and in the process of collection. Additionally, all loans that are impaired are considered for nonaccrual status. Loans placed on nonaccrual will typically remain on nonaccrual status until all principal and interest payments are brought current and the prospects for future payments in accordance with the loan agreement appear relatively certain.

Upon acquisition of real estate collateral, typically through the foreclosure process, we promptly begin to market the property for sale. If we do not begin to receive offers or indications of interest we will analyze the price and review market conditions to assess the pricing level that would enable us to sell the property. In addition, we obtain updated appraisals on OREO property every six to twelve months. Increases in valuation adjustments recorded in a period are primarily based on (1) updated appraisals received during the period, or (2) management's authorization to reduce the selling price of the property during the period. Unless a current appraisal is available, an appraisal will be ordered prior to a loan migrating to OREO. At the time of foreclosure, OREO is recorded at fair value less costs to sell ("cost"), 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 ALLL. After foreclosure, management periodically performs valuations and the property is carried at the lower of the cost or fair value less expected selling costs.

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Nonperforming loans, which include nonaccrual loans and accruing loans past due over 90 days, totaled $18.5 million or 2.65% of loans, net of deferred fees and costs as of March 31, 2015, as compared to $21.7 million, or 3.28% of loans, net of deferred fees and costs, at December 31, 2014. Of the $18.5 million in nonperforming loans as of March 31, 2015, $9.7 million or 53% was attributable to four relationships. Nonperforming assets, which include nonperforming loans and foreclosed real estate OREO, totaled $20.0 million, or 2.03% of total assets as of March 31, 2015, compared with $22.2 million, or 2.22% of total assets as of December 31, 2014. The following table summarizes our nonperforming assets as of March 31, 2015 and December 31, 2014:

(Amounts in thousands) **Nonperforming Assets**	**March 31, 2015**	**December 31, 2014**
Commercial	$3,908	$ 5,112
Real estate mortgage:		
ITIN 1-4 family loan pool	4,645	4,647
1-4 family, closed end 1st lien	1,720	2,135
1-4 family revolving	24	24
Total real estate mortgage	6,389	6,806
Commercial real estate	8,182	9,696
Consumer	34	35
Total nonaccrual loans	18,513	21,649
90 days past due and still accruing	—	23
Total nonperforming loans	18,513	21,672
Other real estate owned	1,502	502
Total nonperforming assets	$20,015	$ 22,174
Nonperforming loans to loans, net of deferred fees and costs	2.65 %	3.28 %
Nonperforming assets to total assets	2.03 %	2.22 %

The Company is continually performing extensive reviews of the commercial real estate portfolio, including stress testing. These reviews are being performed on both our non owner and owner occupied credits. These reviews are being completed to verify leasing status, to ensure the accuracy of risk ratings, and to develop proactive action plans with borrowers on projects. Stress testing has been performed to determine the effect of rising cap rates, interest rates, and vacancy rates on the portfolio. Based on our analysis, the Company believes our lending teams are effectively managing the risks in this portfolio. There can be no assurance that any further declines in economic conditions, such as potential increases in retail or office vacancy rates, will not exceed the projected assumptions utilized in stress testing resulting in additional nonperforming loans in the future.

Loans are reported as troubled debt restructurings when the Bank grants a concession(s) to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include a reduction in the loan rate, forgiveness of principal or accrued interest, extending the maturity date(s) significantly, or providing a lower interest rate than would be normally available for a transaction of similar risk. As a result of these concessions, restructured loans are impaired as the Bank will not collect all amounts due, both principal and interest, in accordance with the terms of the original loan agreement. Impairment reserves on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows of the restructured loans, discounted at the effective interest rate of the original loan agreement. These impairment reserves are recognized as a specific component to be provided for in the ALLL.

As of March 31, 2015, the Company had $21.4 million in troubled debt restructurings compared to $23.5 million as of December 31, 2014. As of March 31, 2015, the Company had 121 restructured loans that qualified as troubled debt restructurings, of which 99 loans were performing according to their restructured terms. Troubled debt restructurings represented 3.06% of gross loans as of March 31, 2015, compared with 3.55% at December 31, 2014.

At March 31, 2015 and December 31, 2014, impaired loans of $8.7 million and $9.2 million were classified as accruing troubled debt restructurings, respectively. The restructured loans on accrual status represent the majority of impaired loans accruing interest at each respective date. In order for a restructured loan to be on accrual status, the loan’s collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. The Company had no obligations to lend additional funds on the restructured loans as of March 31, 2015. As of March 31, 2015, there were $8.1 million of ITINs which were classified as troubled debt restructuring, of which $2.6 million were on nonaccrual status.

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The following table sets forth a summary of the Company’s restructured loans that qualify as TDRs as of March 31, 2015 and December 31, 2014:

(Amounts in thousands) **Troubled Debt Restructurings**	**March 31, 2015**	**December 31, 2014**
Accruing troubled debt restructurings:		
Commercial	$1,004	$ 1,485
Commercial real estate:		
Other	1,690	1,698
Residential:		
1-4 family	5,421	5,462
Home equities	574	579
Total accruing troubled debt restructurings	8,689	9,224
Nonaccruing troubled debt restructurings:		
Commercial	1,602	2,136
Commercial real estate:		
Other	8,182	9,397
Residential:		
1-4 family	2,877	2,662
Consumer	34	35
Total nonaccruing troubled debt restructurings	12,695	14,230
Total troubled debt restructurings		
Commercial	2,606	3,621
Commercial real estate:		
Other	9,872	11,095
Residential:		
1-4 family	8,298	8,124
Home equities	574	579
Consumer	34	35
Total troubled debt restructurings	$21,384	$ 23,454
Percentage of gross loans	3.06 %	3.55 %

Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments

The ALLL at March 31, 2015 increased $476 thousand to $11.3 million compared to $10.8 million at December 31, 2014. The Company recorded net recoveries of $476 thousand for the three months ended March 31, 2015 compared to net charge offs of $6.5 million for the year ended December 31, 2014. During the current quarter net recoveries on charged off loans negated the need for a provision for loan and lease losses.

Purchased loans were recorded on the date of purchase at estimated fair value; fair value discounts include a component for estimated credit losses. The Company evaluates post-acquisition historical credit losses on purchased loans, credit default discounts on purchased loans, and other data to evaluate the likelihood of realizing the recorded investment of purchased loans. Management establishes allocations of the ALLL for any estimated deficiency.

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The following table summarizes the activity in the ALLL reserves at March 31, 2015, December 31, 2014 and March 31, 2014

(Amounts in thousands)	**March 31, 2015**	**December 31, 2014**	**March 31, 2014**
Beginning balance allowance for loan and lease losses	$10,820	$14,172	$14,172
Provision for loan and lease loss charged to expense	—	3,175	—
Loans charged off	(179)	(7,319)	(4,902)
Loan and lease loss recoveries	655	792	478
Ending balance allowance for loan and lease losses	$11,296	$10,820	$9,748
Nonaccrual loans at period end:			
Commercial	$3,908	$5,112	$4,303
Commercial real estate	8,182	9,696	12,560
Residential real estate	6,365	6,782	7,360
Home equity	24	24	484
Consumer	34	35	—
Total nonaccrual loans	18,513	21,649	24,707
Accruing troubled-debt restructured loans:			
Commercial	1,004	1,485	62
Commercial real estate	1,690	1,698	3,853
Residential real estate	5,421	5,462	4,894
Home equity	574	579	593
Total accruing restructured loans	8,689	9,224	9,402
All other accruing impaired loans	533	535	2,564
Total impaired loans	$27,735	$31,408	$36,673
Gross loans outstanding at period end	$699,229	$660,898	$606,748
Ratio of allowance for loan and lease losses to loans, net of deferred fees and costs	1.62%	1.64%	1.61%

Nonaccrual loans to loans, net of deferred fees and costs	2.65 %	3.28 %	4.07 %

As of March 31, 2015, impaired loans totaled $27.7 million, of which $18.5 million were in nonaccrual status. Of the total impaired loans, $10.1 million or 124 were ITIN loans with an average balance of approximately $81 thousand. The remaining impaired loans consist of 15 commercial loans, eight commercial real estate loans, seven residential mortgages, twelve home equity loans and one consumer loan. All impaired loans are individually evaluated for impairment. If the measurement of each impaired loan's value 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 ALLL. For collateral dependent loans, this can be accomplished by charging off the impaired portion of the loan based on the underlying value of the collateral. For non collateral dependent loans the Company establishes a specific component within the ALLL based on the present value of the future cash flows. If in management's assessment the sources of repayment will not result in a reasonable probability that the carrying value of a loan can be recovered, the amount of a loan's specific impairment is charged off against the ALLL.

At March 31, 2015, impaired loans had a corresponding valuation allowance of $1.5 million. The valuation allowance on impaired loans represents the impairment reserves on performing restructured loans, other accruing loans, and nonaccrual loans. At December 31, 2014, the total recorded investment in impaired loans was $31.4 million, with a corresponding valuation allowance of $1.6 million.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following table sets forth the allocation of the ALLL and percent of loans in each category to gross loans as of March 31, 2015 and December 31, 2014:

	March 31, 2015			**December 31, 2014**		
(Amounts in thousands)	**Amount**	**% Loan Category**		**Amount**	**% Loan Category**	
Balance at end of period applicable to:						
Commercial	$3,333	30	%	$3,551	33	%
Commercial real estate:						
Construction	375	3		388	4	
Other	4,851	43		4,438	41	
Residential:						
1-4 family	1,033	9		987	9	
Home equities	686	6		684	6	
Consumer	572	5		450	4	
Unallocated	446	4		322	3	
Total allowance for loan and lease losses	$11,296	100	%	$10,820	100	%

The unallocated portion of ALLL provides for coverage of credit losses inherent in the loan portfolio but not captured in the credit loss factors that are utilized in the risk rating-based component, or in the specific impairment reserve component of the ALLL, and acknowledges the inherent imprecision of all loss prediction models. As of March 31, 2015, the unallocated allowance amount represented 4% of the ALLL, compared to 3% at December 31, 2014. The level in unallocated ALLL in both the current period and prior year reflects management’s evaluation of the current business and economic conditions, credit risk, and collateral values of real estate in our markets. The ALLL composition should not be interpreted as an indication of specific amounts or loan categories in which future charge offs may occur.

DEPOSITS

Total deposits as of March 31, 2015 were $762.0 million compared to $789.0 million at December 31, 2014, a decrease of $27.0 million. During the first three months of 2015, decreases in interest bearing and noninterest bearing demand were partially offset by increases in savings and certificate of deposit accounts.

The following table presents the deposit balances by major category as of March 31, 2015, and December 31, 2014:

	March 31, 2015		**December 31, 2014**	
(Amounts in thousands)	**Amount**	**Percentage**	**Amount**	**Percentage**
Noninterest bearing demand	$150,056	20 %	$157,557	20 %
Interest bearing demand	266,552	35	298,160	38
Savings	92,088	12	88,569	11
Time, $100,000 or greater	214,609	28	204,103	26
Time, less than $100,000	38,671	5	40,646	5
Total	$761,976	100 %	$789,035	100 %

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following table sets forth the distribution of our year to date average daily balances and their respective yields as of March 31, 2015, and December 31, 2014.

	March 31, 2015		**December 31, 2014**	
(Amounts in thousands)	**Average Balance**	**Yield**	**Average Balance**	**Yield**
Interest bearing demand	$142,968	0.17 %	$138,547	0.16 %
Money market accounts	132,986	0.17 %	133,836	0.19 %
Savings	91,152	0.24 %	91,108	0.25 %
Certificates of deposit	246,707	0.97 %	259,445	1.01 %
Interest bearing deposits	613,813	0.50 %	622,936	0.53 %
Noninterest bearing demand	148,923		139,792	
Average total deposits	$762,736		$762,728	
Average other borrowings	$94,421	1.70 %	$92,773	0.85 %

Deposit Maturity Schedule

The following table sets forth the remaining maturities of certificates of deposit in amounts of $100,000 or more as of March 31, 2015:

March 31,

(Amounts in thousands)	**2015**
Maturing in:	
Three months or less	$31,066
Three through six months	43,802
Six through twelve months	28,358
Over twelve months	111,383
Total	$214,609

The Company has an agreement with Promontory Interfinancial Network LLC (“Promontory”) allowing our Bank to provide FDIC deposit insurance to balances in excess of current FDIC deposit insurance limits. Promontory’s Certificate of Deposit Account Registry Service (“CDARS”) and Insured Cash Sweep (“ICS”) use a deposit-matching program to exchange Bank deposits in excess of the current deposit insurance limits for excess balances at other participating banks, on a dollar-for-dollar basis, that would be fully insured at the Bank. These products are designed to enhance our ability to attract and retain customers and increase deposits, by providing additional FDIC coverage to customers. CDARS deposits can be reciprocal or one-way, and ICS deposits can only be reciprocal. All of the Bank’s CDARS and ICS deposits are reciprocal.

In accordance with regulatory Call Report instructions, the Bank has filed quarterly Call Reports which listed brokered deposits of $70.3 million, and $97.9 million at March 31, 2015 and December 31, 2014, respectively. These amounts include deposits obtained through the CDARS and ICS programs of $52.8 million and $59.6 million, respectively which management does not consider to be brokered. Of these totals, at March 31, 2015 and December 31, 2014, there were no time deposits equal to or greater than the $250,000 fully insured under current deposit insurance limits.

BORROWINGS

At March 31, 2015, the Bank had term debt outstanding with a carrying value of $90.0 million compared to $75.0 million December 31, 2014. Advances from the FHLB amounted to 100% of the total term debt and are secured by commercial real estate loans, and residential mortgage loans. At March 31, 2015, the Company had one fixed rate advance for $10 million at 0.29% and two variable rate advances, one for $5.0 million at 0.23% and one for $75.0 million at 0.26%. All of the FHLB advances mature in one year or less.

Junior Subordinate Debentures

Bank of Commerce Holdings Trust

During March 2003, the Holding Company participated in a private placement to an institutional investor of $5.0 million of fixed rate trust preferred securities (the “Trust Preferred Securities”) through a newly formed wholly-owned

Delaware trust affiliate, Bank of Commerce Holdings Trust (the “Trust”). The Trust simultaneously issued $155 thousand common securities to the Holding Company. The Trust Preferred Securities paid distributions on a quarterly basis at three month LIBOR plus 3.30%. The rate increase was capped at 2.75% annually and the lifetime cap was 12.5%. The final maturity on the Trust Preferred Securities was April 7, 2033, and the covenants allowed for redemption after five years on the quarterly payment date.

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The proceeds from the sale of the Trust Preferred Securities were used by the Trust to purchase from the Holding Company the aggregate principal amount of $5.2 million of the Holding Company’s junior subordinate debentures (the "Notes"). The net proceeds to the Holding Company from the sale of the Notes to the Trust were distributed to the Bank for general corporate purposes, including funding the growth of the Bank’s various financial services. The proceeds from the Notes qualified as Tier 1 capital under Federal Reserve Board guidelines.

During December 2014, the Company paid $4.6 million in complete satisfaction of the Notes. Simultaneously the Trust redeemed the Trust Preferred Securities by distributing $4.6 million to the institutional investor. The transaction resulted in a gain of $406 thousand and a $155 thousand reduction of the Holding Company’s common stock investment in Trust.

Bank of Commerce Holdings Trust II

During July 2005, the Holding Company participated in a private placement to an institutional investor of $10.0 million of fixed rate trust preferred securities (the "Trust Preferred Securities") through a newly formed wholly owned Delaware trust affiliate, Bank of Commerce Holdings Trust II (the "Trust II"). Trust II simultaneously issued $310 thousand common securities to the Holding Company. The distributions paid on the Trust Preferred Securities have transitioned from fixed to floating and are now paid on a quarterly basis at three month LIBOR plus 1.58%. The effective interest rate at March 31, 2015 was 1.85%. The final maturity on the Trust Preferred Securities is September 15, 2035, and the covenants allow for redemption at the Holding Company’s option during any quarter until maturity.

The proceeds from the sale of the Trust Preferred Securities were used by the Trust II to purchase from the Holding Company the aggregate principal amount of $10.3 million of the Holding Company’s junior subordinate debentures (the "Notes"). The net proceeds to the Holding Company from the sale of the Notes to the Trust II were partially distributed to the Bank for general corporate purposes, including funding the growth of the Bank’s various financial services. The proceeds from the Notes qualified as Tier 1 capital under Federal Reserve Board guidelines.

LIQUIDITY AND CASH FLOW

The principal objective of our liquidity management program is to maintain the Bank's ability to meet the day-to-day cash flow requirements of our customers who either wish to withdraw funds or to draw upon credit facilities to meet their cash needs.

We monitor the sources and uses of funds on a daily basis to maintain an acceptable liquidity position. One source of funds includes public deposits. Individual state laws require banks to collateralize public deposits, typically as a percentage of their public deposit balance in excess of FDIC insurance. Public deposits represent 3% of total deposits at March 31, 2015 and December 31, 2014. The amount of collateral required varies by state and may also vary by institution within each state, depending on the individual state’s risk assessment of depository institutions. Changes in the pledging requirements for uninsured public deposits may require pledging additional collateral to secure these deposits, drawing on other sources of funds to finance the purchase of assets that would be available to be pledged to satisfy a pledging requirement, or could lead to the withdrawal of certain public deposits from the Bank. In addition to liquidity from core deposits and the repayments and maturities of loans and investment securities, the Bank can utilize established uncommitted federal funds lines of credit, sell securities, borrow on a secured basis from the FHLB, or issue brokered certificates of deposit.

The Bank had available lines of credit with the FHLB totaling $192.1 million as of March 31, 2015; credit availability is subject to certain collateral requirements, namely the amount of pledged loans and investment securities. The Bank had available lines of credit with the Federal Reserve totaling $30.1 million subject to certain collateral requirements, namely the amount of certain pledged loans. The Bank had uncommitted federal funds line of credit agreements with additional financial institutions totaling $40.0 million at March 31, 2015. Availability of lines is subject to federal funds balances available for loan and continued borrower eligibility. These lines are intended to support short-term liquidity needs, and the agreements may restrict consecutive day usage.

The Holding Company is a separate entity from the Bank and must provide for its own liquidity. Substantially all of the Holding Company's cash flows are obtained from dividends declared and paid by the Bank. There are statutory and regulatory provisions that could limit the ability of the Bank to pay dividends to the Holding Company. As of January 1, 2015, the bank is required to obtain regulatory approval from the California Department of Business Oversight for a dividend or other distribution to the Company. We believe that such restrictions will not have an adverse impact on the ability of the Holding Company to fund its quarterly cash dividend distributions to common shareholders and meet its ongoing cash obligations, which consist principally of debt service on the $10.3 million (issued amount) of outstanding junior subordinated debentures. The Bank received approval from the California Department of Business Oversight and paid $650 thousand in dividends to the Holding Company during the three months ended March 31, 2015. As of March 31, 2015, the Holding Company did not have any borrowing arrangements of its own.

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As disclosed in the *Consolidated Statements of Cash Flows*, net cash of $1.2 million was provided by operating activities for the three months ended March 31, 2015. The material differences between cash provided by operating activities and net income consisted of non-cash items including: $471 thousand of net amortization of investment premiums and accretion of discounts, and $370 thousand in provision for depreciation and amortization.

Net cash of $17.6 million used for investing activities consisted principally of $20.0 million in net loan originations and $20.6 million in purchase of loan pools partially offset by $12.9 million in net proceeds from purchase and sales of available for sale investment securities and $7.4 million in proceeds from maturities and payments from available-for-sale investment securities.

Net cash of $11.9 million used for financing activities consisted principally of $35.6 million decrease in demand deposit and savings accounts partially offset by $15 million in net advances on term debt and $8.5 million increase in certificates of deposit.

CAPITAL RESOURCES

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 notes.

Overall capital adequacy is monitored on a day-to-day basis by 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 *Consolidated Balance Sheets* 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 remaining balance may consist of debt securities and a limited portion of the ALLL.

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 that the Company and the Bank met all capital adequacy requirements to which they are subject to, as of March 31, 2015.

As of March 31, 2015, 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 the notification that management believes have changed the Bank's category.

The Company and the Bank's capital amounts and ratios as of March 31, 2015, are presented in the table.

(Amounts in thousands)	**Capital**	**Actual Ratio**	**Well Capitalized Requirement**	**Minimum Capital Requirement**
Holding Company:				
Common equity tier 1 capital ratio	$85,023	9.73 %	n/a	4.50 %
Tier 1 capital ratio	$114,505	13.10 %	n/a	6.00 %
Total capital ratio	$125,443	14.35 %	n/a	8.00 %
Tier 1 leverage ratio	$114,505	11.74 %	n/a	4.00 %
Bank:				
Common equity tier 1 capital ratio	$113,969	13.05 %	6.50 %	4.50 %
Tier 1 capital ratio	$113,969	13.05 %	8.00 %	6.00 %
Total capital ratio	$124,908	14.30 %	10.00 %	8.00 %
Tier 1 leverage ratio	$113,969	11.73 %	5.00 %	4.00 %

On July 2, 2013, the federal banking regulators approved the final proposed rules that revise the regulatory capital rules to incorporate certain revisions by the Basel Committee on Banking Supervision to the Basel capital framework ("Basel III"). The phase-in period for the final rules will begin for the Company on January 1, 2015, with full compliance with the final rules entire requirement phased in on January 1, 2019.

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The final rules, among other things, include a new common equity Tier 1 capital ("CET1") to risk-weighted assets ratio, including a capital conservation buffer, which will gradually increase from 4.5% on January 1, 2015 to 7.0% on January 1, 2019. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% on January 1, 2015 to 8.5% on January 1, 2019, as well as require a minimum leverage ratio of 4.0%.

The final rules also provide for a number of adjustments to and deductions from the new CET1, as well as changes to the calculation of risk-weighted assets which is expected to increase the absolute level. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under Basel III, the effects of certain accumulated other comprehensive items are not excluded; however, banks with $250 billion or less in total assets, may make a one-time permanent election to continue to exclude these items. The Company and Bank made this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the Company's securities portfolio. In addition, deductions include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in nonconsolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. As of March 31, 2015 amounts in these categories did not exceed the regulatory limits.

Based on management’s review and analysis of Basel III, management believes that the Company and the Bank will remain in excess of the "well-capitalized" standards under these new rules.

Total shareholders’ equity at March 31, 2015 was $105.4 million, compared to shareholder’s equity of $103.6 million reported at December 31, 2014. During the three months ended March 31, 2015, the increase in shareholders’ equity was due to income from operations, increased other comprehensive income and the exercise of stock options.

On September 28, 2011, the Holding Company entered into a Securities Purchase Agreement with the Secretary of the Treasury, pursuant to which the Holding Company issued and sold to the Treasury 20,000 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series B (the “Series B Preferred Stock”), having a liquidation preference of $1,000 per share, for aggregate proceeds net of issuance costs of $19.9 million. The issuance was pursuant to the Treasury’s SBLF program, a $30 billion fund established under the Small Business Jobs Act of 2010, which encourages lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion.

The Series B Preferred Stock is entitled to receive non-cumulative dividends payable quarterly on each January 1, April 1, July 1 and October 1. The dividend rate, was calculated on the aggregate Liquidation Amount, and was initially set at 5% per annum based upon the initial level of Qualified Small Business Lending (“QSBL”) by the Bank. The dividend rate for future dividend periods was set based upon the percentage change in qualified lending between each dividend period and the baseline QSBL level established at the commencement of the Agreement. As a result of increased qualified lending, dividends on preferred stock for the SBLF program are fixed at the current rate of 1% through January 2016.

If the Series B Preferred Stock remains outstanding beyond January 2016, the dividend rate will be fixed at 9%. This increase in the Series B 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. Management is currently evaluating options to redeem the shares.

Dividends on Series B Preferred Stock are not cumulative, but the Holding Company may only declare and pay dividends on its common stock (or any other equity securities junior to the Series B Preferred Stock) if it has declared and paid dividends for the current dividend period on the Series B Preferred Stock, and will be subject to other restrictions on its ability to repurchase or redeem other securities. In addition, if (1) the Holding Company has not timely declared and paid dividends on the Series B Preferred Stock for six dividend periods or more, whether or not consecutive, and (2) shares of Series B Preferred Stock with an aggregate liquidation preference of at least $20.0 million are still outstanding, the Treasury (or any successor holder of Series B Preferred Stock) may designate two additional directors to be elected to the Holding Company’s Board of Directors.

As more completely described in the Certificate of Designation, holders of the Series B Preferred Stock have the right to vote as a separate class on certain matters relating to the rights of holders of Series B Preferred Stock and on certain corporate transactions. Except with respect to such matters and, if applicable, the election of the additional directors described above, the Series B Preferred Stock does not have voting rights.

The Holding Company may redeem the shares of Series B Preferred Stock, in whole or in part, at any time at a redemption price equal to the sum of the Liquidation Amount per share and the per-share amount of any unpaid dividends for the then-current period, subject to any required prior approval by the Holding Company’s primary federal banking regulator.

Periodically, the Board of Directors authorizes the Holding 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.

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On March 20, 2014, the Company announced that its Board of Directors had authorized the purchase of up to 700,000 or 5% of its outstanding shares over a twelve-month period. The stock repurchase plan authorizes the Company to conduct open market purchases or privately negotiated transactions from time to time when, at management’s discretion, it was determined that market conditions and other factors warrant such purchases. Pursuant to the stock repurchase plan, the Company repurchased and subsequently retired 700,000 common shares during the six months ended June 30, 2014.

During the three months ended March 31, 2015 and, 2014, the Company’s Board of Directors declared a quarterly cash dividend of $0.03 per common share per quarter. These dividends were made pursuant to our existing dividend policy and in consideration of, among other things, earnings, regulatory capital levels, capital preservation, expected growth, and the overall payout ratio. We expect that the dividend rate will be reassessed on a quarterly basis by the Board of Directors in accordance with the dividend policy. There is no assurance that future cash dividends on common shares will be declared or increased.

The following table presents cash dividends declared and dividend payout ratios (dividends declared per common share divided by basic earnings per common share) for the three months ended March 31, 2015 and 2014.

Cash Dividends and Payout Ratios per Common Share

	Three Months Ended March

	31, 2015	**2014**
Dividends declared per common share	$0.03	$0.03
Dividend payout ratio	23 %	75 %

OFF-BALANCE SHEET ARRANGEMENTS

Information regarding Off-Balance Sheet Arrangements is included in Note 12, *Commitments and Contingencies,* in the *Notes to Unaudited Consolidated Financial Statements* incorporated in this document.

CONCENTRATION OF CREDIT RISK

Information regarding Concentration of Credit Risk is included in Note 12, *Commitments and Contingencies,* in the *Notes to Unaudited Consolidated Financial Statements* incorporated in this document.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company’s assessment of market risk as of March 31, 2015 indicates there are no material changes in the quantitative and qualitative disclosures from those in our Annual Report on Form 10-K for the year ended December 31, 2014.

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Item 4. 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 consolidated 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 consolidated 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 consolidated 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.

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 March 31, 2015, 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 first quarter of 2015 that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to various pending and threatened legal actions arising in the ordinary course of business and maintains reserves for losses from legal actions that are both probable and estimable. There are no legal proceedings adverse to the Company that will have a material effect on the Company's consolidated financial position or results of operations.

Item 1a. Risk Factors

There have been no significant changes in the risk factors previously disclosed in the Company's Form 10-K for the period ended December 31, 2014, filed with the SEC on March 10, 2015.

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

a) Not Applicable
b) Not Applicable
c) Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits

31.1	Certification of Chief Executive Officer pursuant to Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Sarbanes-Oxley Act of 2002
32.0	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

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

BANK OF COMMERCE HOLDINGS

(Registrant)

Date: May 8, 2015	*/s/ James A. Sundquist*
	James A. Sundquist
	Executive Vice President and Chief Financial Officer
	(Principal Financial and Accounting Officer)