Bank of Commerce Holdings
Form 10-K/A
March 27, 2018

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K/A

AMENDMENT NO. 1

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

For the fiscal year ended December 31, 2017

Commission File Number 0-25135

Bank of Commerce Holdings

(Exact name of Registrant as specified in its charter)

California	**94-2823865**

(State or jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**
555 Capitol Mall, Suite 1255 **Sacramento, California**	 **95814**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (800) 421-2575

Securities registered pursuant to Section 12(b) of the Act:

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, No Par Value per share NASDAQ Global Market

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

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

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

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

Table of Contents

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

Yes No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

As of the last day of the second fiscal quarter of 2017, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $161,740,861 based on the closing sale price of $11.05 as reported on the NASDAQ Global Market as of June 30, 2017.

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

The number of shares of the registrant's no par value Common Stock outstanding as of March 1, 2018 was 16,315,402.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement of the registrant for its 2018 Annual Meeting of Shareholders, which will be subsequently filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates, are incorporated by reference into Part III of this Annual Report on Form 10-K.

Table of Contents

Bank of Commerce Holdings Form 10-K

Explanatory Note

Bank of Commerce Holdings and subsidiaries (the “Company”) is filing this Amendment No. 1 (“Amendment No. 1”) to its Annual Report on Form 10-K for the fiscal year ended December 31, 2017, originally filed on March 9, 2018 (the “Original 10-K”) to correct typographical errors found in the Original 10-K. Specifically, the Report of Independent Registered Public Accounting Firm included incorrect information in the report title. The Company is also correcting an incorrect hyperlink in the exhibits listed in Item 15 - Exhibits and Financial Statement Schedules.

This Amendment No. 1 amends the title for the Report of Independent Registered Public Accounting Firm and a hyperlink in Item 15, Exhibit 10.4, as well as the inclusion of a new consent of Moss Adams LLP and currently dated certifications of the Company’s Chief Executive Officer and Chief Financial Officer. Except as described above, no changes have been made to the Original 10-K and this Amendment No. 1 does not modify, amend, or update in any way any of the financial or other information presented in the Original 10-K. This Amendment No. 1 should be read in conjunction with the Original 10-K.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Item 8 - Financial Statements and Supplementary Data

Index to Consolidated Financial Statements

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Bank of Commerce Holdings

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Bank of Commerce Holdings and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Moss Adams LLP

Sacramento, California
March 9, 2018

We have served as the Company’s auditor since 2004.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

To the Shareholders:

Management's Report on Internal Control over Financial Reporting

Management of Bank of Commerce Holdings and its subsidiaries ("the Company") is responsible for establishing and maintaining internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets;
Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with the authorizations of management and directors of the Company; and
Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework (2013)*. Based on our assessment and those criteria, we believe that, as of December 31, 2017, the Company maintained effective internal control over financial reporting.

The Company's independent registered public accounting firm has audited the Company's consolidated financial statements that are included in this annual report and the effectiveness of our internal control over financial reporting as of December 31, 2017 and issued their Report of Independent Registered Public Accounting Firm, which appears on the previous page. The audit report expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2017.

/s/ Randall S. Eslick
Randall S. Eslick, President and Chief Executive Officer

/s/ James A. Sundquist
James A. Sundquist, EVP and Chief Financial Officer

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

(Amounts in thousands, except share information)	**2017**	**2016**
Assets:		
Cash and due from banks	$ *17,979*	$ *16,419*
Interest-bearing deposits in other banks	*48,991*	*51,988*
Total cash and cash equivalents	*66,970*	*68,407*
Securities available-for-sale, at fair value	*267,954*	*175,174*
Securities held-to-maturity, at amortized cost	—	*31,187*
Loans, net of deferred fees and costs	*881,545*	*805,535*
Allowance for loan and lease losses	*(11,925*)	*(11,544*)
Net loans	*869,620*	*793,991*
Premises and equipment, net	*14,748*	*16,226*
Other real estate owned	*35*	*759*
Life insurance	*21,898*	*23,098*
Deferred tax asset, net	*6,505*	*9,542*
Goodwill and core deposit intangible, net	*2,030*	*2,252*
Other assets	*19,661*	*20,356*
Total assets	$ *1,269,421*	$ *1,140,992*
Liabilities and shareholders' equity:		
Liabilities:		
Demand - noninterest-bearing	$ *305,650*	$ *270,398*
Demand - interest-bearing	*496,990*	*405,569*
Savings	*110,837*	*113,309*
Certificates of deposit	*189,255*	*215,390*
Total deposits	*1,102,732*	*1,004,666*
Term debt:		
Principal	*17,096*	*18,917*
Less unamortized debt issuance costs	*(138*)	*(184*)
Net term debt	*16,958*	*18,733*
Junior subordinated debentures	*10,310*	*10,310*
Other liabilities	*12,157*	*13,177*
Total liabilities	*1,142,157*	*1,046,886*

Commitments and contingencies (Note 15)		
Shareholders' equity:		
Common stock, no par value, 50,000,000 shares authorized; issued and outstanding - 16,271,563 as of December 31, 2017 and 13,440,422 as of December 31, 2016	*51,830*	*24,547*
Retained earnings	*75,700*	*70,218*
Accumulated other comprehensive loss, net of tax	*(266*)	*(659*)
Total shareholders' equity	*127,264*	*94,106*
Total liabilities and shareholders' equity	$*1,269,421*	$*1,140,992*

See accompanying Notes to Consolidated Financial Statements.

5

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2017, 2016 and 2015

(Amounts in thousands, except per share information)	**2017**	**2016**	**2015**
Interest income:			
Interest and fees on loans	$*39,112*	$*35,435*	$*32,871*
Interest on taxable securities	*3,921*	*2,986*	*3,284*
Interest on tax-exempt securities	*2,144*	*2,256*	*2,392*
Interest on interest-bearing deposits in other banks	*772*	*332*	*206*
Total interest income	*45,949*	*41,009*	*38,753*
Interest expense:			
Interest on demand deposits	*744*	*523*	*460*
Interest on savings deposits	*200*	*174*	*213*
Interest on certificates of deposit	*2,188*	*2,179*	*2,356*
Interest on term debt	*1,168*	*1,667*	*1,759*
Interest on junior subordinated debentures	*287*	*235*	*195*
Total interest expense	*4,587*	*4,778*	*4,983*
Net interest income	*41,362*	*36,231*	*33,770*
Provision for loan and lease losses	*950*	—	—
Net interest income after provision for loan and lease losses	*40,412*	*36,231*	*33,770*
Noninterest income:			
Service charges on deposit accounts	*542*	*413*	*204*
ATM and point of sale fees	*1,093*	*995*	*383*
Fees on payroll and benefit processing	*658*	*593*	*555*
Life insurance	*1,050*	*613*	*641*
Gain on sale of investment securities, net	*137*	*244*	*443*
Impairment losses on investment securities	—	*(546*)	—
Federal Home Loan Bank of San Francisco dividends	*318*	*644*	*630*
Gain (loss) on sale of OREO	*368*	*(109*)	*13*
Insured cash sweep fees	*197*	*3*	—
Other income	*461*	*636*	*314*
Total noninterest income	*4,824*	*3,486*	*3,183*
Noninterest expense:			
Salaries and related benefits	*17,819*	*16,425*	*14,303*
Premises and equipment	*4,242*	*3,869*	*2,894*
Federal Deposit Insurance Corporation insurance premium	*318*	*615*	*717*
Data processing fees	*1,749*	*1,675*	*1,016*
Professional service fees	*1,398*	*1,690*	*1,628*
Telecommunications	*879*	*751*	*449*
Branch acquisition costs	—	*580*	*347*

Loss on cancellation of interest rate swap	—	2,325	—
Other expenses	4,559	4,570	3,551
Total noninterest expense	30,964	32,500	24,905
Income before provision for income taxes	14,272	7,217	12,048
Provision for income taxes	6,928	1,958	3,462
Net income	$7,344	$5,259	$8,586
Less: Preferred stock extinguishment costs	—	—	102
Less: Preferred stock dividends	—	—	189
Income available to common shareholders	$7,344	$5,259	$8,295
Earnings per share - basic	$0.48	$0.39	$0.62
Weighted average shares - basic	15,207	13,367	13,331
Earnings per share - diluted	$0.48	$0.39	$0.62
Weighted average shares - diluted	15,310	13,425	13,365

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017, 2016 and 2015

(Amounts in thousands)	**2017**	**2016**	**2015**
Net income	$*7,344*	$*5,259*	$*8,586*
Available-for-sale securities:			
Unrealized losses arising during the period	*(179*)	*(3,286*)	*(551*)
Unrealized gains from securities transferred from held-to-maturity to available-for-sale	*1,208*	—	—
Income taxes	*(423*)	*1,353*	*227*
Change in unrealized gains (losses), net of tax	*606*	*(1,933*)	*(324*)
Reclassification adjustment for realized (gains) losses included in net income	*(137*)	*(224*)	*(443*)
Income taxes	*55*	*92*	*184*
Realized (gains) losses, net of tax	*(82*)	*(132*)	*(259*)
Reclassification adjustment for other-than-temporary impairment included in net income	—	*546*	—
Income taxes	—	*(225*)	—
Realized impairment, net of tax	—	*321*	—
Net change in unrealized gains (losses) on available-for-sale securities	*524*	*(1,744*)	*(583*)
Held-to-maturity securities:			
Accretion of held-to-maturity fair value adjustment from other comprehensive income to interest income	*(56*)	*(97*)	*(144*)
Income taxes	*23*	*40*	*59*
Net accretion of held-to-maturity fair value adjustment from other comprehensive income to interest income	*(33*)	*(57*)	*(85*)
Fair value adjustment for held-to-maturity securities transferred to available-for-sale	*(167*)	—	—
Income taxes	*69*	—	—
Net fair value adjustment for held-to-maturity securities transferred to available-for-sale	*(98*)	—	—
Net change in fair value adjustment on held-to-maturity securities	*(131*)	*(57*)	*(85*)
Derivatives:			
Unrealized (losses) arising during the period	—	*(348*)	*(584*)
Income taxes	—	*143*	*242*
Change in unrealized (losses), net of tax	—	*(205*)	*(342*)

Reclassification adjustment for net losses on derivatives included in net income	—	*2,721*	*1,435*
Income taxes	—	*(1,120)*	*(592)*
Reclassification adjustment for net losses on derivatives included in net income, net of tax	—	*1,601*	*843*
Net change in unrealized losses on derivatives	—	*1,396*	*501*
Other comprehensive income (loss)	*393*	*(405)*	*(167)*
Comprehensive income – Bank of Commerce Holdings	$*7,737*	$*4,854*	$*8,419*

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 2015, 2016 and 2017

(Amounts in thousands except per share information)	**Preferred Stock Amount**	**Common Shares**	**Common Stock Amount**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss) Net of Tax**	**Total**
Balance at January 1, 2015	$ *19,931*	*13,294*	$ *23,891*	$ *59,867*	$ *(87)*	$ *103,602*
Net income	—	—	—	*8,586*	—	*8,586*
Other comprehensive loss, net of tax	—	—	—	—	*(167)*	*(167)*
Comprehensive income	—	—	—	—	—	*8,419*
Dividend on preferred stock	—	—	—	*(189)*	—	*(189)*
Dividend on common stock ($0.12 per share)	—	—	—	*(1,600)*	—	*(1,600)*
Common stock issued under employee plans	—	*9*	*36*	—	—	*36*
Stock options exercised	—	*39*	*156*	—	—	*156*
Compensation expense associated with stock options	—	—	*42*	—	—	*42*
Compensation expense associated with restricted stock	—	—	*89*	—	—	*89*
Preferred stock redemption	*(20,000)*	—	—	*(33)*	—	*(20,033)*
Preferred stock accretion	*69*	—	—	*(69)*	—	—
Balance at December 31, 2015 [1]	$—	*13,342*	$ *24,214*	$ *66,562*	$ *(254)*	$ *90,522*

[1] Excludes 43 unvested restricted shares

8

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

2017 Consolidated Statements of Shareholders' Equity (Continued)

(Amounts in thousands except per share information)	Common Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive (Loss) Net of Tax	Total
Balance at January 1, 2016	*13,342*	$ *24,214*	$ *66,562*	$ *(254)*	$ *90,522*
Net income	—	—	*5,259*	—	*5,259*
Other comprehensive loss, net of tax	—	—	—	*(405)*	*(405)*
Comprehensive income	—	—	—	—	*4,854*
Dividend on common stock ($0.12 per share)	—	—	*(1,603)*	—	*(1,603)*
Common stock issued under employee plans	*29*	*84*	—	—	*84*
Stock options exercised	*2*	*10*	—	—	*10*
Compensation expense associated with stock options	—	*24*	—	—	*24*
Compensation expense associated with restricted stock	—	*215*	—	—	*215*
Balance at December 31, 2016 [1]	*13,373*	$ *24,547*	$ *70,218*	$ *(659)*	$ *94,106*

[1] Excludes 67 unvested restricted shares

(Amounts in thousands except per share information)	Common Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive (Loss) Net of Tax	Total
Balance at January 1, 2017	*13,373*	$ *24,547*	$ *70,218*	$ *(659)*	$ *94,106*
Net income	—	—	*7,344*	—	*7,344*
Other comprehensive income, net of tax	—	—	—	*393*	*393*
Comprehensive income	—	—	—	—	*7,737*
Dividend on common stock ($0.12 per share)	—	—	*(1,862)*	—	*(1,862)*
Stock issued pursuant to public offering, net of underwriting discounts and expenses of $1.7 million	*2,738*	*26,778*	—	—	*26,778*
Stock compensation grants	*4*	*41*			*41*
Common stock issued under employee plans	*30*	—	—	—	—

Stock options exercised	*52*	*245*	—	—	*245*
Compensation expense associated with stock options	—	*23*	—	—	*23*
Compensation expense associated with restricted stock	—	*196*	—	—	*196*
Balance at December 31, 2017 [1]	*16,197*	$ *51,830*	$ *75,700*	$ *(266*)	$ *127,264*

[1] Excludes 74 unvested restricted shares

See accompanying Notes to Consolidated Financial Statements.

9

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017, 2016 and 2015

(Amounts in thousands)	**2017**	**2016**	**2015**
Cash flows from operating activities:			
Net income	$7,344	$5,259	$8,586
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	950	—	—
Provision for depreciation and amortization	2,061	1,908	1,524
Amortization of core deposit intangible	221	185	—
Amortization of debt issuance costs	45	40	4
Compensation expense associated with stock options	23	24	42
Compensation expense associated with restricted stock	196	215	89
Tax benefits from vesting of restricted stock	(53)	—	—
Net gain on sale or call of securities	(137)	(244)	(443)
Other-than-temporary impairment on investment securities	—	546	—
Amortization of investment premiums and accretion of discounts, net	2,031	1,715	1,876
Accretion of held-to-maturity fair value adjustments	(56)	(97)	(144)
Loss on cancellation of interest rate swap	—	2,325	—
Write-down of fixed assets	—	—	238
Write-down of other real estate owned	52	66	—
(Gain) loss on sale of other real estate owned	(368)	109	(13)
Increase in cash surrender value of life insurance	(548)	(613)	(641)
Life insurance death benefit	(502)	—	—
Increase (decrease) in deferred compensation and salary continuation plans	18	(19)	28
Increase in deferred loan fees and costs	(386)	(454)	(713)
Decrease in deferred income taxes	271	132	584
Deferred tax asset write down	2,490	363	—
Decrease in other assets	863	118	538
(Decrease) increase in other liabilities	(961)	306	(1,219)
Net cash provided by operating activities	13,554	11,884	10,336
Cash flows from investing activities:			
Proceeds from maturities and payments of available-for-sale securities	23,551	31,685	23,426
Proceeds from sale of available-for-sale securities	64,349	51,025	71,277
Purchases of available-for-sale securities	(150,888)	(104,134)	(69,362)
Proceeds from maturities and payments of held-to-maturity securities	1,098	4,963	1,099
Investment in Qualified Zone Academy Bonds	(1,000)	(2,000)	—
Investment in qualified affordable housing partnerships	(124)	(697)	(1,133)
Net (purchase) redemption of Federal Home Loan Bank of San Francisco stock	(72)	—	1,263

Loan (originations), net of principal repayments	*(76,016*)	*(105,892*)	*(46,554*)
Net (purchase of) repayment on purchased loans	*(1,158*)	*18,666*	*(12,715*)
Purchase of premises and equipment	*(584*)	*(2,873*)	*(705*)
Proceeds from the sale of other real estate owned	*2,111*	*636*	*3,111*
Proceeds from life insurance policy	*2,249*	—	—
Payments to derivative counterparties for the termination of interest rate swaps	—	*(2,578*)	—
Acquisition of branches, net of cash paid	—	*142,411*	—
Net cash (used) provided by investing activities	*(136,484*)	*31,212*	*(30,293*)

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

(Amounts in thousands)	**2017**	**2016**	**2015**
Cash flows from financing activities:			
Net increase in demand deposits and savings accounts	$124,201	$84,722	$35,382
Net decrease in certificates of deposit	(26,135)	(32,838)	(20,682)
Advances on term debt	30,260	55,000	260,000
Repayment of term debt	(32,080)	(131,172)	(240,083)
Debt issuance costs paid	—	—	(223)
Proceeds from stock options exercised	245	10	156
Net proceeds from issuance of common stock	26,778	—	—
Redemption of preferred stock	—	—	(20,000)
Preferred stock extinguishment costs	—	—	(33)
Cash dividends paid on preferred stock	—	—	(189)
Cash dividends paid on common stock	(1,776)	(1,603)	(1,601)
Net cash provided by (used in) financing activities	121,493	(25,881)	12,727
Net increase (decrease) cash and cash equivalents	(1,437)	17,215	(7,230)
Cash and cash equivalents at the beginning of year	68,407	51,192	58,422
Cash and cash equivalents at the end of year	$66,970	$68,407	$51,192

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

(Amounts in thousands)	**2017**	**2016**	**2015**
Supplemental disclosures of cash flow activity:			
Cash paid during the period for:			
Income taxes	$3,846	$2,705	$4,123
Interest	$4,581	$5,142	$4,628
Supplemental disclosures of non cash investing activities:			
Transfer of loans to other real estate owned	$981	$147	$3,888
Transfer of fixed asset to other real estate owned	$—	$—	$170
Changes in unrealized gain (loss) on investment securities available-for-sale	$892	$(2,964)	$(985)
Changes in net deferred tax asset related to changes in unrealized (loss) gain on investment securities available-for-sale	(368)	1,220	402
Changes in accumulated other comprehensive income (loss) due to changes in unrealized gain (loss) on investment securities available-for-sale	$524	$(1,744)	$(583)
Accretion of held-to-maturity fair value adjustment from other comprehensive income to interest income	$(56)	$(97)	$(144)
Changes in deferred tax related to accretion of held-to-maturity investment securities	23	—	—
Changes in accumulated other comprehensive income (loss) due to accretion of held-to-maturity investment securities	(33)	(97)	(144)
Fair value adjustment for held-to-maturity securities transferred to available-for-sale	(167)	—	—
Changes in deferred tax related to transfer of held-to-maturity investment securities to available-for-sale	69	—	—
Net fair value adjustment for held-to-maturity securities transferred to available-for-sale	(98)	—	—
Changes in accumulated other comprehensive income (loss) related held-to-maturity investment securities	$(131)	$(97)	$(144)
Changes in unrealized loss on derivatives	$—	$(348)	$(584)
Changes in net deferred tax asset related to changes in unrealized loss on derivatives	—	143	242
Changes in accumulated other comprehensive income (loss) due to changes in unrealized loss on derivatives	$—	$(205)	$(342)
Reclassification of losses on derivatives	$—	$2,721	$1,435
Changes in net deferred tax asset related to reclassification of losses on derivatives	—	(1,120)	(592)
Changes in accumulated other comprehensive income (loss) due to reclassification of losses on derivatives	$—	$1,601	$843
Supplemental disclosures of non cash financing activities:			
Vested and granted restricted stock issued under employee plans	$—	$84	$36

Stock compensation grants for the 2016 compensation plan	$*41*	$—	$—
Preferred stock accretion	$—	$—	$*69*
Transfer of HTM to AFS	$*30,330*	$—	$—
Cash dividend declared on common stock and payable after period-end	$*486*	$*401*	$*400*
Transactions Related to Acquisition:			
Assets acquired - fair value	$—	$*155,230*	$—
Goodwill	$—	$*665*	$—
Liabilities assumed - fair value	$—	$*149,239*	$—

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 1. THE BUSINESS OF THE COMPANY

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") with its principal offices in Sacramento, 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) and for Bank of Commerce Mortgage (inactive). The Company has an unconsolidated subsidiary in Bank of Commerce Holdings Trust II. The Bank is principally supervised and regulated by the California Department of Business Oversight ("CDBO") and the Federal Deposit Insurance Corporation ("FDIC"). Substantially all of the Company's activities are carried out through the Bank. The Bank was incorporated as a California banking corporation on *November 25, 1981* and opened for business on *October 22, 1982.*

We operate *nine* full service offices and consider northern California to be our major market. We also operate a "cyber office" as identified in our summary of deposits reporting filed with the FDIC. The services offered by the Bank include those traditionally offered by banks of similar size and character in California. Our principal deposit products include the following types of accounts; checking, interest-bearing checking, savings, money market deposits and certificates of deposit. We also offer sweep arrangements, commercial loans, construction loans, consumer loans, safe deposit boxes, collection services and electronic banking services. The primary focus of the Bank is to provide banking services to the communities in our major market area, including Small Business Administration loans and payroll processing. The Bank does *not* offer trust services or international banking services. Our customers are mostly retail customers and small to medium sized businesses.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation - The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and with prevailing practices within the banking and securities industries. In preparing such 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 periods. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change relate to the valuation of investments and impairments of securities, the determination of the allowance for loan and lease losses (“ALLL”), income taxes, 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 equity or net income.

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, 2017* and *2016,* the Company had *one* wholly-owned trust formed in *2005* to issue trust preferred securities and related common securities. We have *not* consolidated the accounts of the Trust in our Consolidated Financial Statements in accordance with Financial Accounting Standards Board Accounting Standards Codification (“FASB”) ASC *810, Consolidation* (“ASC *810”*). We are *not* considered the primary beneficiary of the Trust (variable interest entity). As a result, the junior subordinated debentures issued by the Holding Company to the Trust are reflected on the Company’s *Consolidated Balance Sheets*.

Application of new accounting guidance - In *January* of *2017,* the Company adopted the Financial Accounting Standards Board's (“FASB”) Accounting Standard Update ("ASU") *No. 2016-09,* Compensation - Stock Compensation (Topic *718*): Improvements to Employee Share-Based Payment Accounting. ASU *2016-09,* seeks to simplify several aspects of the accounting for employee share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the consolidated statement of cash flows. By applying this ASU, the Company *no* longer adjusts common stock for the tax impact of shares released, instead the tax impact is recognized as tax expense in the period the shares are released. This simplifies the tracking of the tax benefits and deficiencies, but could cause volatility in tax expense for the periods presented. The consolidated statement of cash flows has been adjusted to reflect the provisions of this ASU. The application of this ASU did *not* have a material impact on the consolidated financial statements.

Subsequent events – We have evaluated events and transactions subsequent to *December 31, 2017* for potential recognition or disclosure.

Cash and Cash Equivalents – For purposes of reporting cash flows, cash and cash equivalents include amounts due from correspondent banks including interest-bearing deposits in correspondent banks and the Federal Reserve Bank.

Investment Securities – Securities are classified as held-to-maturity if we have 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. Unrealized holding gains or losses are excluded from other comprehensive income (loss). Realized gains or losses, determined on the basis of the cost of specific securities sold or called, are included in earnings. Dividend and interest income are recognized when earned.

Securities are classified as available-for-sale if we intend and have 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 estimated life of the related investment security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

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 estimated 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. Transfers of securities from held-to-maturity to available-for-sale to are accounted for at fair value at the date of the reclassification. Any remaining unamortized fair value adjustments are reclassified from other comprehensive income (loss) and the unrealized holding gain (loss) at the date of transfer is recorded in other comprehensive income net of tax.

We review investment securities on an ongoing basis for the presence of other-than-temporary impairment or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost, extent and nature of the change in fair value, issuer rating changes and trends, whether we intend to sell a security or if it is more likely than *not* that we will be required to sell the security before recovery of our amortized cost basis of the investment, which *may* be maturity, and other factors. For debt securities, if we intend to sell the security or it is more likely than *not* we will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an other-than-temporary impairment. If we do *not* intend to sell the security and it is more likely than *not* we will *not* be required to sell the security but we do *not* expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential other-than-temporary impairment. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (loss). Impairment losses related to all other factors are presented as separate categories within other comprehensive income (loss). For investment securities held-to-maturity, this amount is accreted over the remaining life of the debt security prospectively based on the amount and timing of future estimated cash flows. The accretion of the other-than-temporary impairment amount recorded in other comprehensive income (loss) will increase the carrying value of the investment, and would *not* affect earnings. If there is an indication of additional credit losses the security is re-evaluated according to the procedures described above.

Loans – Loans are stated at the principal amounts outstanding, net of deferred loan fees, deferred loan costs, and the ALLL. Interest on loans is accrued daily based on the principal outstanding. Loan origination and commitment fees and certain origination costs are deferred and the net amount is amortized or accreted over the contractual life of the loans as an adjustment of their yield.

A loan is impaired when, based on current information and events, management believes it is probable that we will *not* be able to collect all amounts due according to the original contractual terms of the loan agreement. Impairment is measured based upon the present value of expected future cash flows discounted at the loan's effective rate, the loan's observable market price, or the fair value of collateral if the loan is collateral dependent. Interest on impaired loans is recognized on a cash basis, and only when the principal is *not* considered impaired. The CCO reviews and approves loans recommended for impaired status or their removal from impaired status.

Our practice is to place an asset on nonaccrual status when *one* of the following events occurs: (*1*) any installment of principal or interest is *90* days or more past due (unless in management's opinion the loan is well-secured and in the process of collection), (*2*) management determines the ultimate collection of 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. 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. One exception to the *90* days past due policy for nonaccruals is our purchased pool of home equity loans and purchased consumer loans. For these specific loan pools, we will charge-off any loans that go more than *90* days past due. We believe that at the time these loans become *90* days past due, it is likely that we will *not* collect the remaining principal balance on the loan. In accordance with this policy, we do *not* expect to classify any of the loans from these pools as nonaccrual.

Nonperforming loans are loans which *may* be on nonaccrual, *90* days past due and still accruing, or have been restructured.

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.

Purchased Loans -Purchased loans are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an ALLL is *not* recorded at the acquisition date. *None* of the purchased loans were credit impaired when purchased.

Allowance for Loan and Lease Losses – The adequacy of the ALLL is monitored on a regular basis and is based on management's evaluation of numerous factors. These factors include the quality of the current loan portfolio; the trend in the loan portfolio's risk ratings; current economic conditions; loan concentrations; loan growth rates; past-due and non-performing trends; evaluation of specific loss estimates for all impaired loans; historical charge-off and recovery experience; and other pertinent information.

We perform regular credit reviews of the loan portfolio to determine the credit quality of the portfolio and the adherence to underwriting standards. When loans are originated, they are assigned a risk rating that is reassessed periodically during the term of the loan through the credit review process. Our risk rating methodology assigns risk ratings ranging from *1* to *8,* where a higher rating represents higher risk. The *8* risk rating categories are a primary factor in determining an appropriate amount for the ALLL. Our Chief Credit Officer (CCO) is responsible for regularly reviewing the ALLL methodology, including loss factors, and ensuring that it is designed and applied in accordance with generally accepted accounting principles. The Board of Directors reviews and approves the adequacy of the ALLL quarterly.

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

We have divided the loan portfolio into sub-categories of similar type loans. Each category is assigned an historical loss factor and additional qualitative factors. The sub-categories are also further segmented by risk rating. Each risk rating is assigned an additional loss factor to account for the additional risk in those loans with higher risk levels.

Regular credit reviews of the portfolio also identify loans that are considered potentially impaired. Potentially impaired loans are referred to the CCO who reviews and approves designated loans as impaired. A loan is considered impaired when, based on current information and events, we determine that it is probable that we will *not* be able to collect all amounts due according to the original loan contract, including scheduled interest payments. When we identify a loan as impaired, we measure the 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, we use the current fair value of the collateral, less selling costs, instead of discounted cash flows. If we determine that the value of the impaired loan is less than the recorded investment in the loan when using the cash flow method, we recognize this impairment reserve as a specific component to be provided for in the ALLL. If the value of the impaired loan is less than the recorded investment in the loan when using the collateral dependent method, we charge-off the impaired balance. The combination of the risk rating-based allowance component and the impairment reserve allowance component leads to an allocated ALLL.

We *may* also maintain an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that *may not* have been contemplated in the credit loss factors. This unallocated amount generally comprises less than *4%* of the allowance, but *may* be maintained at higher levels during times of economic conditions characterized by unstable real estate values. The unallocated amount is reviewed quarterly based on trends in credit losses, the results of credit reviews and overall economic trends.

As adjustments to the ALLL become necessary, they are reported in earnings in the periods in which they become known as a charge or credit to the provision for loan and lease losses. Loans, or portions thereof, deemed uncollectible are charged to the ALLL. Recoveries on loans previously charged-off, are added to the ALLL.

We believe that the ALLL was adequate as of *December 31, 2017.* 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 Company, *may* require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. Approximately *77%* of our loan portfolio is secured by real estate, and a significant decline in real estate market values *may* require an increase in the ALLL.

Reserve for Unfunded Commitments – A reserve for unfunded commitments is maintained at a level that, in our opinion, is adequate to absorb probable losses associated with our commitment to lend funds under existing agreements such as letters or lines of credit. We determine the adequacy of the reserve for unfunded commitments based upon the category of loan, current economic conditions, the risk characteristics of the various categories of commitments and other relevant factors. The reserve is based on estimates, and ultimate losses *may* vary from the current estimates.

These estimates are evaluated on a regular basis and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. Draws on unfunded commitments that are considered uncollectible at the time funds are advanced are charged to the reserve for unfunded commitments. Provisions for unfunded commitment losses, and recoveries on loan and lease commitments previously charged off, are added to the reserve for unfunded commitments, which is included in the *Other Liabilities* line item of the *Consolidated Balance Sheets.* See Note *15, Commitments and Contingencies* in these *Notes to Consolidated Financial Statements* for additional disclosures on the reserve for unfunded commitments.

Premises and Equipment – Premises and equipment are recorded at cost. Depreciation for equipment is provided over the estimated useful lives of the related assets, generally *three* to *seven* years, using the straight-line method for financial statement purposes. Depreciation for premises is provided over the estimated useful life up to *39* years, on a straight-line basis. We use other depreciation methods (generally accelerated depreciation methods) for tax purposes where appropriate. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. Repairs and maintenance are expensed as incurred. Expenditures that increase the value or productive capacity of assets are capitalized. When premises and equipment are retired, sold, or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is recorded in *other noninterest income* or *other noninterest expense* in the *Consolidated Statements of Income*, respectively.

Goodwill and Other Intangibles - Intangible assets are comprised of goodwill and other intangibles acquired in business combinations. Goodwill and intangible assets with indefinite useful lives are *not* amortized. Intangible assets with definite useful lives are amortized to their estimated residual values over their respective estimated useful lives, and also reviewed for impairment. Amortization of intangible assets is included in *non-interest expense* in the *Consolidated Statements of Income*. We perform a goodwill impairment analysis on an annual basis. Additionally, we perform a goodwill impairment evaluation on an interim basis when events or circumstances indicate impairment potentially exists.

Other Real Estate Owned – Represents real estate of which we have taken control in partial or full satisfaction of loans. At the time of foreclosure, OREO is recorded at fair value less costs to sell, plus costs for improvements that prepare the property for sale, 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. Subsequent valuation adjustments are recognized under the line item *other expenses* in the *Consolidated Statements of Income*. Revenue and expenses incurred from OREO property are recorded in *noninterest income* or *noninterest expense*, in the *Consolidated Statements of Income*, respectively.

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. Under this method, deferred tax assets and liabilities are determined based on the differences between the 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.

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

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. We file 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. We believe 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. See Note *23, Income Taxes* in these *Notes to Consolidated Financial Statements* for more information on income taxes.

Derivative Financial Instruments and Hedging Activities – Prior to *March* of *2016,* we used derivatives to hedge the risk of changes in market interest rates to limit the impact on earnings and cash flows relating to specific groups of assets and liabilities. All of our derivative instruments were designated in qualifying hedge accounting relationships. In accordance with applicable accounting standards, all derivative financial instruments, whether designated for hedge accounting or *not,* are required to be recorded on the *Consolidated Balance Sheets* as assets or liabilities and measured at fair value. Additionally, we generally reported derivative financial instruments on a gross basis. However, in certain instances we reported our position on a net basis where we had asset and liability derivative positions with a single counterparty, we had a legally enforceable right of offset, and we intended to settle the position on a net basis. For additional detail on derivative instruments and hedging activities, refer to Note *22, Derivatives* in these *Notes to Consolidated Financial Statements*.

At the inception of a hedging relationship, we designate each qualifying derivative financial instrument as either a hedge of the fair value of a specifically identified asset or liability (fair value hedge) or; as a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). We formally document all relationships between hedging instruments and hedged items and risk management objectives for undertaking various hedge transactions. Both at the hedge's inception and on an ongoing basis, we formally assess whether the derivatives that are used in hedging relationships are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges along with the gain or loss on the hedged asset or liability attributable to the hedged risk, are recorded in the current period earnings. For qualifying cash flow hedges, the effective portion of the change in the fair value of the derivative financial instruments is recorded in accumulated other comprehensive income (loss), as a component of equity, and recognized in the *Consolidated Statements of Income* when the hedged cash flows affect earnings.

The hedge accounting treatment described herein is *no* longer applied if a derivative financial instrument is terminated or the hedge designation is removed or is assessed to be *no* longer highly effective. For these terminated fair value hedges, any changes to the hedged asset or liability remain as part of the basis of the asset or liability and are recognized into income over the remaining life of the asset or liability. For terminated cash flow hedges, unless it is probable that the forecasted cash flows will *not* occur within a specified period, any changes in fair value of the derivative financial instrument previously recognized remain in other comprehensive income, as a component of equity, and are reclassified into earnings in the same period that the hedged cash flows affect earnings.

Operating Segments – Public enterprises are required to report certain information about their operating segments in a complete set of financial statements to shareholders. They are also required to report certain enterprise-wide information about their products and services, their activities in different geographic areas, and their reliance on major customers. The basis for determining operating segments is the manner in which management operates the business. As of *December 31, 2017,* we operated under *one* primary business segment: Community Banking.

Share Based Payments – We have *one* active stock-based compensation plan that provides for the granting of stock options and restricted stock to eligible employees and directors. The *2008* Stock Option Plan was approved by the Holding Company's shareholders on *May 15, 2007 (*"the Plan"). The Plan was amended and restated by the *2010* Equity Incentive Plan which was approved by the Holding Company's shareholders on *May 18, 2010.* The latest amendment and restatement of the Plan was approved by the Holding Company's shareholders on *May 15, 2012.*

The Plan provides for awards to key personnel, including directors of incentive and nonqualified stock options, restricted stock units and restricted stock, which *may* constitute incentive stock options ("Incentive Options") under Section *422*(a) of the Internal Revenue Code of *1986,* as amended (the "Code"), non-statutory stock options ("NSOs"), or restricted stock. The Plan provides that Incentive Options *may not* be granted at less than *100%* of fair value of the Holding Company's common stock on the date of the grant. Nonqualified stock options must have an exercise price of *no* less than *85%* of the fair value of the stock at the date of the grant, a term of *no* more than *ten* years, and generally become exercisable over *five* years from the date of the grant. Restricted shares vest over a *three* to *five* year service period. Unvested restricted shares have *no* dividend or voting rights. Additional disclosure of the payment activity and shares available for future grants is available in Note *18, Shareholders' Equity,* in these *Notes to the Consolidated Financial Statements.*

In accordance with FASB ASC *718, Stock Compensation,* we recognize in the *Consolidated Statements of Income* the grant-date fair value of stock options, restricted stock and other equity-based forms of compensation issued to employees over the employees' requisite service period (generally the vesting period).

16

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

The fair value of each option grant is estimated as of the grant date using the Black-Scholes option-pricing model using the following assumptions:

Volatility represents the historical volatility in the Holding Company's common stock price, for a period consistent with the expected life of the option.
Risk free rate was derived from the U.S. Treasury rate at the time of the grant, which coincides with the expected life of the option.
Expected dividend yield is based on dividend trends and the market value of the Holding Company's common stock at the time of grant.
Annual dividend rate is the ratio of the expected annual dividends to the Holding Company's common stock price on the grant date.
Assumed forfeiture rate based on expected forfeiture rates.
Expected life is estimated based on the history of the Holding Company's stock option holders and expectations regarding future forfeitures giving consideration to the contractual terms and vesting schedules, and represents the period of time that options granted are expected to be outstanding.

The following weighted average assumptions were used to determine the fair value of stock option grants as of the grant date to determine compensation cost for the years ended *December 31, 2015.* There were *no* stock option grants during *2017* or *2016.*

	2015
Volatility	*26.44*%
Risk free interest rate	*1.64* %
Expected dividends	$*0.12*
Annual dividend rate	*2.05* %
Assumed forfeiture rate	—
Expected life (in years)	*7*

Earnings per Share - Earnings per share is an important measure of our performance for investors and other users of financial statements. Certain of our securities, such stock options, permit the holders to become common shareholders or add to the number of shares of common stock already held. Because there is potential reduction, called *dilution*, of earnings per share figures inherent in our capital structure, we are required to present a dual presentation of earnings per share - basic earnings per share and diluted earnings per share.

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period, excluding unvested restricted stock awards which do *not* have voting rights or share in dividends. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Holding Company. The computation of diluted earnings per share does *not* assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect on earnings per share.

We present both basic and diluted earnings per share on the face of the *Consolidated Statements of Income*. In addition, a detailed presentation of the earnings per share calculation is provided in Note *26, Earnings Per Common Share* in these *Notes to Consolidated Financial Statements.*

Advertising Costs – For the years ended *December 31, 2017, 2016,* and *2015,* advertising costs were *$61* thousand, *$171* thousand, and *$64* thousand, respectively. Advertising costs were expensed as incurred.

Fair Value Measurements – FASB ASC *820, Fair Value Measurements and Disclosures,* defines fair value as 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. FASB ASC *820* establishes a *three*-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs reflect our estimates about market data. In general, fair values determined by Level *1* inputs utilize quoted prices for identical assets or liabilities traded in active markets that we have the ability to access. Fair values determined by Level *2* inputs utilize inputs other than quoted prices included in Level *1* that are observable for the asset or liability, either directly or indirectly. Level *2* inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level *3* inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value *may* fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our 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.

Recent Accounting Pronouncements

ASU No. 2016-13

Description - In *June* of *2016,* the FASB issued ASU *No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments are intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances.

The ASU requires enhanced disclosures to help investors and other financial statement users to better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, the ASU amends the accounting guidance for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

Methods and timing of adoption – The amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after *December 15, 2019.* Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after *December 15, 2018.*

Expected financial statement impact – We are currently evaluating the provisions of the ASU and have formed a committee for the purpose of developing a model that is compliant with the requirements under the ASU. The committee is also gathering pertinent data, consulting with outside professionals and evaluating our IT systems. Management expects to recognize a one–time cumulative effect adjustment to the allowance for loan and lease losses as of the *first* reporting period in which the new standard is effective. An estimate of the magnitude of the *one*-time adjustment or the overall impact of this standard has *not* yet been determined.

ASU No. 2016-02

Description - In *February* of *2016,* the FASB issued ASU *No. 2016-02, Leases (Topic 812).* This Update was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The core principle of Topic *842* is that a lessee should recognize the assets and liabilities that arise from leases. All leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement *No. 6,* Elements of Financial Statements, and, therefore, recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did *not* require lease assets and lease liabilities to be recognized for most leases.

Methods and timing of adoption – For public companies, the amendments in this update are effective for fiscal years beginning after *December 15, 2018,* including interim periods within those fiscal years.

Expected financial statement impact – The Company has performed an initial analysis of our existing leases and expects a significant new lease asset and related lease liability on the balance sheet due to the number of leased properties the Company currently has that are accounted for under current operating lease guidance.

ASU No. 2016-01

Description - In *January 2016,* the FASB issued ASU *No. 2016-01,* Financial Instruments – Overall (Subtopic *825-10*): Recognition and Measurement of Financial Assets and Financial Liabilities. The new guidance is intended to improve the recognition and measurement of financial instruments. This ASU requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. In addition, the amendment requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes and requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. This ASU also eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The amendment also requires a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

Methods and timing of adoption – ASU *No. 2016-01* is effective for financial statements issued for fiscal years beginning after *December 15, 2017,* and interim periods within those fiscal years. Early adoption is permitted for certain provisions.

Expected financial statement impact – The Company has evaluated the potential impact of this ASU on the Company's consolidated financial statements and we do *not* expect adoption of this ASU to have a material impact on the Company’s financial statements.

ASU No. 2014-09

Description - In *May* of *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.

Methods and timing of adoption – The standard is effective for public entities for interim and annual periods beginning after *December 15, 2017* as deferred by ASU *No. 2015-14;* early adoption is *not* permitted. For financial reporting purposes, the standard allows for either full retrospective adoption, or modified retrospective adoption. As a bank, key revenue sources, such as interest income have been identified as out of scope of this new guidance. The Company plans to adopt ASU *No. 2014-09* on *January 1, 2018* utilizing the modified retrospective approach.

18

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

Expected financial statement impact – Since the guidance does *not* apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, we do *not* expect the new guidance to have a material impact on interest income. We have completed our overall assessment of noninterest income revenue streams and reviewing contracts potentially affected by the ASU including fees on payroll and benefit processing, deposit related fees, interchange fees, and merchant income, and determined that the new guidance will *not* have a material impact on the Company's financial position, results of operations or cash flows.

NOTE 3. RESTRICTIONS ON CASH AND DUE FROM BANKS

We have a Fed Funds line of credit with *one* correspondent bank which requires us to hold compensating cash balances of *$450* thousand. We maintained the required compensating balance of *$450* thousand at *December 31, 2017* and *December 31, 2016.*

The Bank is required by federal regulations to set aside specified amounts of cash as reserves against transaction and time deposits. The cash reserve required as of *December 31, 2017* and *December 31, 2016* was *$1.7* million and *$1.5* million, respectively which was satisfied by vault cash balances.

NOTE 4. SECURITIES

The following table presents the amortized costs, unrealized gains, unrealized losses and estimated fair values of our investment securities as of *December 31, 2017,* and *December 31, 2016.*

	As of December 31, 2017			
(Amounts in thousands)	**Amortized Costs**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Available-for-sale securities:				
U.S. government & agencies	$ *40,319*	$ *196*	$ *(146*)	$ *40,369*
Obligations of state and political subdivisions	*77,412*	*1,910*	*(478*)	*78,844*
Residential mortgage-backed securities and collateralized mortgage obligations	*116,061*	*69*	*(1,538*)	*114,592*
Corporate securities	*5,079*	*18*	*(105*)	*4,992*
Commercial mortgage-backed securities	*26,995*	*24*	*(378*)	*26,641*
Other asset-backed securities	*2,540*	*4*	*(28*)	*2,516*
Total	$ *268,406*	$ *2,221*	$ *(2,673*)	$ *267,954*

	As of December 31, 2016			
(Amounts in thousands)	**Amortized Costs**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Available-for-sale securities:				
U.S. government & agencies	$ *10,427*	$ *10*	$ *(83*)	$ *10,354*
Obligations of state and political subdivisions	*58,847*	*1,001*	*(420*)	*59,428*
Residential mortgage-backed securities and collateralized mortgage obligations	*71,068*	*33*	*(1,497*)	*69,604*
Corporate securities	*16,153*	*103*	*(140*)	*16,116*
Commercial mortgage-backed securities	*15,786*	*9*	*(281*)	*15,514*
Other asset-backed securities	*4,237*	*8*	*(87*)	*4,158*
Total	$ *176,518*	$ *1,164*	$ *(2,508*)	$ *175,174*
Held-to-maturity securities:				
Obligations of state and political subdivisions	$ *31,187*	$ *710*	$ *(523*)	$ *31,374*

During the fourth quarter, we reclassified the entire HTM securities portfolio to AFS. At the date of the reclassification the HTM securities portfolio was carried at an amortized cost of $30.3 million. The reclassification of securities between categories was accounted for at fair value. At the date of the reclassification, the securities had a fair value of $31.4 million and unrealized holding gains of $1.2 million which were recorded net of tax in other comprehensive income. The remaining net unrealized gain of $167 thousand which was recorded in other comprehensive income (OCI) net of tax was included in the amortized cost of the securities when transferred.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

We reclassified the held-to-maturity securities portfolio to available-for-sale to provide increased flexibility to support the loan pipeline and take advantage of opportunities to improve the overall structure and yield of the investment portfolio. As a result of this transfer we have are precluded from classifying any investment securities as held-to-maturity for *two* years from the date of the transfer. Management does *not* expect to designate acquired securities as held-to-maturity in the near future.

The following table presents the expected maturities of investment securities at *December 31, 2017.*

(Amounts in thousands)	**Available-For-Sale Amortized Cost**	**Fair Value**
Amounts maturing in:		
One year or less	$ *1,425*	$ *1,430*
One year through five years	*87,888*	*87,424*
Five years through ten years	*83,450*	*83,430*
After ten years	*95,643*	*95,670*
Total	$ *268,406*	$ *267,954*

The amortized cost and fair value of residential mortgage-backed securities, collateralized mortgage obligations and commercial mortgage securities are presented by their expected average life, rather than contractual maturity, because the underlying loans *may* be repaid without prepayment penalties.

At *December 31, 2017* and *2016*, securities with a fair value of *$62.6* million and *$39.2* million, respectively, were pledged as collateral to secure public fund deposits, Federal Home Loan Bank of San Francisco borrowings and for other purposes as required by law.

The following table presents the cash proceeds from sales of securities and the associated gross realized gains and gross realized losses that have been included in earnings for the years ended *December 31, 2017, 2016* and *2015.*

	For Years Ended December 31,		
(Amounts in thousands)	**2017**	**2016**	**2015**
Proceeds from sales of securities	$*64,349*	$*51,025*	$*71,277*
Gross realized gains on sales of securities:			
U.S. government & agencies	$—	$*25*	$*16*
Obligations of state and political subdivisions	*161*	*188*	*97*
Residential mortgage-backed securities and collateralized mortgage obligations	*52*	*17*	*142*
Corporate securities	*79*	*105*	*161*
Commercial mortgage-backed securities	*3*	*4*	*14*
Other asset-backed securities	*20*	*13*	*126*
Total gross realized gains on sales of securities	*315*	*352*	*556*
Gross realized losses on sales of securities			
U.S. government & agencies	—	*(13*)	*(33*)
Obligations of state and political subdivisions	*(102*)	*(3*)	*(29*)
Residential mortgage-backed securities and collateralized mortgage obligations	*(56*)	*(64*)	*(12*)
Corporate securities	*(3*)	*(27*)	*(14*)
Commercial mortgage-backed securities	*(17*)	*(1*)	—
Other asset-backed securities	—	—	*(25*)
Total gross realized losses on sales of securities	*(178*)	*(108*)	*(113*)
Gain on investment securities, net	$*137*	$*244*	$*443*

20

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

Investment securities that were in an unrealized loss position as of *December 31, 2017* and *December 31, 2016* are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position.

	As of December 31, 2017					
	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	$*18,140*	$ *(102)*	$*2,131*	$ *(44)*	$*20,271*	$ *(146)*
Obligations of states and political subdivisions	*15,030*	*(255)*	*8,368*	*(223)*	*23,398*	*(478)*
Residential mortgage-backed securities and collateralized mortgage obligations	*75,323*	*(827)*	*31,036*	*(711)*	*106,359*	*(1,538)*
Corporate securities	—	—	*2,934*	*(105)*	*2,934*	*(105)*
Commercial mortgage-backed securities	*11,162*	*(151)*	*10,026*	*(227)*	*21,188*	*(378)*
Other asset-backed securities	*2,167*	*(28)*	—	—	*2,167*	*(28)*
Total temporarily impaired securities	$*121,822*	$ *(1,363)*	$*54,495*	$ *(1,310)*	$*176,317*	$ *(2,673)*

	As of December 31, 2016					
	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	$*9,139*	$ *(83)*	$—	$ —	$*9,139*	$ *(83)*
Obligations of states and political subdivisions	*20,329*	*(420)*	—	—	*20,329*	*(420)*
Residential mortgage-backed securities and collateralized mortgage obligations	*52,345*	*(1,396)*	*4,108*	*(101)*	*56,453*	*(1,497)*
Corporate securities	*8,908*	*(140)*	—	—	*8,908*	*(140)*
Commercial mortgage-backed securities	*12,041*	*(191)*	*2,849*	*(90)*	*14,890*	*(281)*
Other asset-backed securities	*2,280*	*(28)*	*1,346*	*(59)*	*3,626*	*(87)*

Total temporarily impaired securities	$*105,042*	$ *(2,258*)	$*8,303*	$ *(250*)	$*113,345*	$ *(2,508*)
Held-to-maturity securities:						
Obligations of states and political subdivisions	$*11,639*	$ *(425*)	$*933*	$ *(98*)	$*12,572*	$ *(523*)

At *December 31, 2017* and *December 31, 2016,* the number of securities that were in unrealized loss position was *138* and *119,* respectively. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or widening of market spreads subsequent to the initial purchase of the securities, and *not* due to concerns regarding the underlying credit of the issuers or the underlying collateral. Management monitors the published credit ratings of our available-for-sale investment portfolio for material rating or outlook changes. For all private-label securities collateralized by mortgages, management also monitors the credit characteristics of the underlying mortgages to identify potential credit losses, if any, in the portfolio. Because the decline in fair value is *not* due to credit quality concerns, and because we have *no* plans to sell the securities before the recovery of their amortized cost, and we believe the bank has the ability to hold the securities to maturity these investments are *not* considered other-than-temporarily impaired.

Our Investment Policy requires that at the time of purchase, securities purchased to be rated *A3/A*- or higher by Moody’s, S&P and Fitch rating agencies.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table presents the characteristics of our securities that are in unrealized loss positions at *December 31, 2017* and *December 31, 2016.*

Available-for-sale securities:	**Characteristics of securities in unrealized loss positions at *December 31, 2017* and *December 31, 2016***
U.S. government & agencies	Direct obligations of the U.S. Government or obligations guaranteed by U.S. Government agencies.
Obligations of states and political subdivisions	General obligation issuances or revenue securities secured by revenues from specific sources issued by municipalities and political subdivisions located within the U.S.
Residential mortgage-backed securities and collateralized mortgage obligations	Obligations of U.S. government sponsored entities or non-governmental entities collateralized by high quality mortgages on residential properties. Issuances by non-governmental entities usually include good credit enhancements. Of the residential mortgage-backed securities and collateralized mortgage obligations that we owned at *December 31, 2017* and *December 31, 2016, 56%* and *49%* were issued or guaranteed by U.S. government sponsored entities, respectively.
Corporate securities	Debt obligations generally issued or guaranteed by large U.S. corporate institutions.
Commercial mortgage-backed securities	Obligations of U.S. government sponsored entities or non-governmental entities collateralized by high quality mortgages on commercial properties. Issuances by non-governmental entities usually include good credit enhancements. Of the commercial mortgage-backed securities that we owned at *December 31, 2017* and *December 31, 2016, 90%* and *91%* were issued or guaranteed by U.S. government sponsored entities, respectively.
Other asset-backed securities	Obligations secured by high quality loans with good credit enhancements issued by non-governmental issuers.

Other-Than-Temporary Impairment

For the year ended *December 31, 2017,* we did *not* recognize any other-than-temporary impairment losses. We recognized *one* impairment loss of *$546* thousand during the *second* quarter of *2016* related to our investment in AgriBank and there were *no* other impairment losses recognized during the year ended *December 31, 2016.*

NOTE 5. LOANS

Outstanding loan balances consist of the following at *December 31, 2017,* and *December 31, 2016.*

(Amounts in thousands) **Loan Portfolio**	**As of December 31, 2017**	**2016**
Commercial	$*149,088*	$*153,844*
Commercial real estate:		
Real estate – construction and land development	*15,902*	*36,792*
Real estate – commercial non-owner occupied	*377,668*	*292,615*
Real estate – commercial owner occupied	*185,340*	*167,335*
Residential real estate:		
Real estate – residential - Individual Tax Identification Number ("ITIN")	*41,188*	*45,566*
Real estate – residential - 1-4 family mortgage	*30,377*	*20,425*
Real estate – residential - equity lines	*30,347*	*35,953*
Consumer and other	*49,925*	*51,681*
Gross loans	*879,835*	*804,211*
Deferred fees and costs	*1,710*	*1,324*
Loans, net of deferred fees and costs	*881,545*	*805,535*
Allowance for loan and lease losses	*(11,925*)	*(11,544*)
Net loans	$*869,620*	$*793,991*

Past Due Loans

When we purchase loans they are typically purchased at a discount to enhance yield and compensate for credit risk. Gross loan balances in the table above include net purchase discounts of *$2.8* million and *$2.9* million as of *December 31, 2017,* and *December 31, 2016,* respectively.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

An age analysis of past due loans (gross), segregated by loan portfolio, as of *December 31, 2017,* and *December 31, 2016,* was as follows.

(Amounts in thousands) **Past Due Loans at December 31, 2017**	**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	$—	$ —	$ —	$—	$ *149,088*	$ *149,088*	$ —
Commercial real estate:							
Real estate - construction and land development	—	—	—	—	*15,902*	*15,902*	—
Real estate - commercial non-owner occupied	—	—	—	—	*377,668*	*377,668*	—
Real estate - commercial owner occupied	*142*	—	—	*142*	*185,198*	*185,340*	—
Residential real estate:							
Real estate - residential - ITIN	*555*	*122*	*462*	*1,139*	*40,049*	*41,188*	—
Real estate - residential - 1-4 family mortgage	*290*	*173*	—	*463*	*29,914*	*30,377*	—
Real estate - residential - equity lines	*141*	—	—	*141*	*30,206*	*30,347*	—
Consumer and other	*281*	*123*	—	*404*	*49,521*	*49,925*	—
Total	$ *1,409*	$ *418*	$ *462*	$ *2,289*	$ *877,546*	$ *879,835*	$ —

(Amounts in thousands) **Past Due Loans at December 31, 2016**	**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	$ *51*	$ —	$ —	$ *51*	$ *153,793*	$ *153,844*	$ —
Commercial real estate:							
Real estate - construction and land development	—	—	—	—	*36,792*	*36,792*	—
Real estate - commercial non-owner occupied	—	—	*1,196*	*1,196*	*291,419*	*292,615*	—
Real estate - commercial owner occupied	—	—	*114*	*114*	*167,221*	*167,335*	—
Residential real estate:							

Real estate - residential - ITIN	*567*	*80*	*1,149*	*1,796*	*43,770*	*45,566*	—
Real estate - residential - 1-4 family mortgage	*147*	—	*856*	*1,003*	*19,422*	*20,425*	—
Real estate - residential - equity lines	*68*	*36*	*48*	*152*	*35,801*	*35,953*	—
Consumer and other	*166*	*70*	*11*	*247*	*51,434*	*51,681*	—
Total	$ *999*	$ *186*	$ *3,374*	$ *4,559*	$ *799,652*	$ *804,211*	$ —

23

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

Nonaccrual Loans

Nonaccrual loans, segregated by loan portfolio, were as follows as of *December 31, 2017*, and *December 31, 2016.*

(Amounts in thousands)	**As of December 31,**	
Nonaccrual Loans	**2017**	**2016**
Commercial	$*1,603*	$*2,749*
Commercial real estate:		
Real estate - commercial non-owner occupied	—	*1,196*
Real estate - commercial owner occupied	*600*	*784*
Residential real estate:		
Real estate - residential - ITIN	*2,909*	*3,576*
Real estate - residential - 1-4 family mortgage	*606*	*1,914*
Real estate - residential - equity lines	*45*	*917*
Consumer and other	*36*	*250*
Total	$*5,799*	$*11,386*

Had nonaccrual loans performed in accordance with their contractual terms, we would have recognized additional interest income, net of tax, of approximately *$226* thousand, *$353* thousand, and *$228* thousand for the years ended *December 31, 2017, 2016,* and *2015,* respectively.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

Impaired Loans

The following tables summarize impaired loans by loan portfolio as of *December 31, 2017,* and *December 31, 2016.*

	As of December 31, 2017		
(Amounts in thousands)		**Unpaid**	
Impaired Loans	**Recorded Investment**	**Principal Balance**	**Related Allowance**
With no related allowance recorded:			
Commercial	$ *672*	$ *1,205*	$ —
Commercial real estate:			
Real estate - commercial non-owner occupied	—	—	—
Real estate - commercial owner-occupied	*600*	*665*	—
Residential real estate:			
Real estate - residential - ITIN	*5,895*	*7,516*	—
Real estate - residential - 1-4 family mortgage	*414*	*897*	—
Real estate - residential - equity lines	*45*	*49*	—
Consumer and other	—	—	—
Total with no related allowance recorded	$ *7,626*	$ *10,332*	$ —
With an allowance recorded:			
Commercial	$ *2,482*	$ *2,540*	$ *690*
Commercial real estate:			
Real estate - commercial non-owner occupied	*803*	*803*	*77*
Real estate - commercial owner-occupied	—	—	—
Residential real estate:			
Real estate - residential - ITIN	*1,628*	*1,678*	*199*
Real estate - residential - 1-4 family mortgage	*192*	*226*	*2*
Real estate - residential - equity lines	*380*	*380*	*190*
Consumer and other	*36*	*36*	*11*
Total with an allowance recorded	$ *5,521*	$ *5,663*	$ *1,169*
By loan portfolio:			
Commercial	$ *3,154*	$ *3,745*	$ *690*
Commercial real estate	*1,403*	*1,468*	*77*
Residential real estate	*8,554*	*10,746*	*391*

Consumer and other	*36*	*36*	*11*
Total impaired loans	$*13,147*	$ *15,995*	$ *1,169*

25

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

	As of December 31, 2016		
(Amounts in thousands)		Unpaid	
Impaired Loans	**Recorded Investment**	**Principal Balance**	**Related Allowance**
With no related allowance recorded:			
Commercial	$ *1,573*	$ *2,438*	$ —
Commercial real estate:			
Real estate - commercial non-owner occupied	*1,196*	*1,196*	—
Real estate - commercial owner-occupied	*784*	$ *841*	—
Residential real estate:			
Real estate - residential - ITIN	*6,047*	*7,685*	—
Real estate - residential - 1-4 family mortgage	*1,914*	*2,722*	—
Real estate - residential - equity lines	*917*	*1,342*	—
Consumer and other	*210*	*216*	—
Total with no related allowance recorded	$ *12,641*	$ *16,440*	$ —
With an allowance recorded:			
Commercial	$ *1,952*	$ *1,957*	$ *641*
Commercial real estate:			
Real estate - commercial non-owner occupied	*808*	*808*	*21*
Real estate - commercial owner-occupied	*337*	*337*	*64*
Residential real estate:			
Real estate - residential - ITIN	*2,562*	*2,617*	*494*
Real estate - residential - equity lines	*454*	*454*	*227*
Consumer and other	*40*	*40*	*14*
Total with an allowance recorded	$ *6,153*	$ *6,213*	$ *1,461*
By loan portfolio:			
Commercial	$ *3,525*	$ *4,395*	$ *641*
Commercial real estate	*3,125*	*3,182*	*85*
Residential real estate	*11,894*	*14,820*	*721*
Consumer and other	*250*	*256*	*14*
Total impaired loans	$ *18,794*	$ *22,653*	$ *1,461*

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table summarizes average recorded investment and interest income recognized on impaired loans by loan portfolio for the years ended *December 31, 2017, 2016* and *2015.*

(Amounts in thousands)	**2017**		**2016**		**2015**	
Average Recorded Investment and Interest Income	**Average Recorded Investment**	**Interest Income Recognized**	**Average Recorded Investment**	**Interest Income Recognized**	**Average Recorded Investment**	**Interest Income Recognized**
Commercial	$*3,211*	$ *46*	$*2,605*	$ *23*	$*3,533*	$ *22*
Commercial real estate:						
Real estate - commercial non-owner occupied	*1,548*	*46*	*2,013*	*47*	*7,306*	*49*
Real estate - commercial owner- occupied	*670*	*2*	*1,281*	*25*	*2,212*	*59*
Residential real estate:						
Real estate - residential - ITIN	*7,961*	*162*	*8,939*	*165*	*9,679*	*141*
Real estate - residential - 1-4 family mortgage	*1,019*	—	*1,788*	—	*1,786*	—
Real estate - residential - equity lines	*1,104*	*19*	*1,535*	*26*	*750*	*27*
Consumer and other	*72*	—	*162*	—	*33*	—
Total	$*15,585*	$ *275*	$*18,323*	$ *286*	$*25,299*	$ *298*

The impaired loans on which these interest income amounts were recognized are primarily accruing troubled debt restructured loans. Loans are reported as troubled debt restructurings when we grant a concession(s) to a borrower experiencing financial difficulties that we 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 we will *not* collect all amounts due, either principal or interest, in accordance with the terms of the original loan agreement.

Troubled Debt Restructurings

At *December 31, 2017* and *December 31, 2016,* impaired loans of *$7.3* million and *$7.1* million, respectively, were classified as performing restructured loans.

For a restructured loan to be on accrual status, the loan's collateral coverage must generally be greater than or equal to *100%* of the loan balance, the loan payments must be current, and the borrower must demonstrate the ability to make payments from a verified source of cash flow. As of *December 31, 2017,* we had *one* restructured commercial line of credit in nonaccrual status that had *$33* thousand in available credit. We had *no* obligation to lend additional funds on any restructured loans as of *December 31, 2016.*

As of *December 31, 2017,* we had *$10.9* million in troubled debt restructurings compared to *$12.1* million as of *December 31, 2016.* As of *December 31, 2017,* we had *116* loans that qualified as troubled debt restructurings, of which *110* loans were performing according to their restructured terms. Troubled debt restructurings represented *1.24%* of gross loans as of *December 31, 2017,* compared with *1.50%* at *December 31, 2016.*

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

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

Maturity – A modification in which the maturity date is changed.

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

Principal reduction – A modification in which a portion of the owing principal is deceased.

The following tables present the period ended balances of newly restructured loans and the types of modifications that occurred during the years ended *December 31, 2017, 2016* and *2015.*

	For The Year Ended December 31, 2017					
(Amounts in thousands)	**Rate &**	**Principal**	**Rate & Payment**		**Payment**	
Troubled Debt Restructuring Modification Types	**Maturity**	**Reduction**	**Deferral**	**Maturity**	**Deferral**	**Total**
Residential real estate:						
Real estate - residential - ITIN	$—	$ —	$ *60*	$ —	$ —	$ *60*
Total	$—	$ —	$ *60*	$ —	$ —	$ *60*

27

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

(Amounts in thousands)	**For The Year Ended December 31, 2016**					
Troubled Debt Restructuring Modification Types	**Rate & Maturity**	**Principal Reduction**	**Rate & Payment Deferral**	**Maturity**	**Payment Deferral**	**Total**
Commercial	$*905*	$ —	$ —	$ *1,120*	$ —	$*2,025*
Residential real estate:						
Real estate - residential - ITIN	—	*81*	—	—	*197*	*278*
Real estate - residential - 1-4 family mortgage	*144*	—	—	—	—	*144*
Total	$*1,049*	$ *81*	$ —	$ *1,120*	$ *197*	$*2,447*

(Amounts in thousands)	**For The Year Ended December 31, 2015**					
Troubled Debt Restructuring Modification Types	**Rate**	**Rate & Maturity**	**Rate & Payment Deferral**	**Maturity**	**Payment Deferral**	**Total**
Commercial	$—	$ *39*	$ —	$ —	$ *708*	$*747*
Residential real estate:						
Real estate - residential - ITIN	*115*	—	*264*	—	*379*	*758*
Total	$*115*	$ *39*	$ *264*	$ —	$ *1,087*	$*1,505*

For the years ended *December 31, 2017, 2016,* and *2015,* the tables below provide information regarding the number of loans where the contractual terms have been restructured.

(Amounts in thousands)	**2017**		
Troubled Debt Restructurings	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Residential real estate:			
Real estate - residential - ITIN	*1*	$ *81*	$ *61*
Total	*1*	$ *81*	$ *61*

(Amounts in thousands) **Troubled Debt Restructurings**	**2016** **Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Commercial	*4*	$ *2,244*	$ *2,266*
Residential real estate:			
Real estate - residential - ITIN	*3*	*372*	*342*
Real estate - residential - 1-4 family mortgage	*1*	*144*	*144*
Total	*8*	$ *2,760*	$ *2,752*

(Amounts in thousands) **Troubled Debt Restructurings**	**2015** **Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Commercial	*2*	$ *872*	$ *872*
Residential real estate:			
Real estate - residential - ITIN	*11*	*1,237*	*1,023*
Total	*13*	$ *2,109*	$ *1,895*

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

There were *no* loans modified as troubled debt restructuring during the *12 months ended December 31, 2017, 2016* and *2015,* for which there was a subsequent payment default during the *twelve* months ended *December 31, 2017, 2016* and *2015,* respectively.

Performing and Nonperforming Loans

We define 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. We define a nonperforming loan as an impaired loan, which *may* be on nonaccrual, *90* days past due and still accruing, or has been restructured and does *not* comply with its modified terms, and our ultimate collection of original contractual principal and interest is uncertain.

Performing and nonperforming loans, segregated by loan portfolio, are as follows at *December 31, 2017* and *2016.*

(Amounts in thousands)	**December 31, 2017**		
Performing and Nonperforming Loans	**Performing**	**Nonperforming**	**Total**
Commercial	$*147,485*	$ *1,603*	$*149,088*
Commercial real estate:			
Real estate - construction and land development	*15,902*	—	*15,902*
Real estate - commercial non-owner occupied	*377,668*	—	*377,668*
Real estate - commercial owner occupied	*184,740*	*600*	*185,340*
Residential real estate:			
Real estate - residential - ITIN	*38,279*	*2,909*	*41,188*
Real estate - residential - 1-4 family mortgage	*29,771*	*606*	*30,377*
Real estate - residential - equity lines	*30,302*	*45*	*30,347*
Consumer and other	*49,889*	*36*	*49,925*
Total	$*874,036*	$ *5,799*	$*879,835*

(Amounts in thousands)	**December 31, 2016**

Performing and Nonperforming Loans	**Performing**	**Nonperforming**	**Total**
Commercial	$*151,095*	$ *2,749*	$*153,844*
Commercial real estate:			
Real estate - construction and land development	*36,792*	—	*36,792*
Real estate - commercial non-owner occupied	*291,419*	*1,196*	*292,615*
Real estate - commercial owner occupied	*166,551*	*784*	*167,335*
Residential real estate:			
Real estate - residential - ITIN	*41,990*	*3,576*	*45,566*
Real estate - residential - 1-4 family mortgage	*18,511*	*1,914*	*20,425*
Real estate - residential - equity lines	*35,036*	*917*	*35,953*
Consumer and other	*51,431*	*250*	*51,681*
Total	$*792,825*	$ *11,386*	$*804,211*

Credit Quality Ratings

Management assigns a credit quality rating (risk grade) to each loan. The foundation or primary factor in determining the appropriate credit quality rating is the degree of a debtor's willingness and ability to perform as agreed. In conjunction with evaluating the performing versus nonperforming nature of our loan portfolio, management evaluates the following credit risk and other relevant factors in determining the appropriate credit quality indicator (rating) for each loan portfolio:

Pass Grade: A Pass loan is a strong credit with *no* existing or known weaknesses that *may* require management's close attention. Some pass loans require short-term enhanced monitoring to determine when the credit relationship would merit either an upgrade or a downgrade. Loans classified as Pass Grade specifically demonstrate:

- Strong Cash Flows – borrower's cash flows must meet or exceed our minimum debt service coverage ratio.
- Collateral Margin – generally, the borrower must have pledged an acceptable collateral class with an adequate collateral margin.
- Qualitative Factors – in addition to meeting our 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.

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.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

Watch Grade: The credit is acceptable but the borrower has experienced a temporary setback or adverse information has been received, and *may* exhibit *one* or more of the characteristics shown in the list below. This risk grade could apply to credits on a temporary basis pending a full review. Credits with this risk grade will require more handling time and increased management. The list below contains characteristics of this risk grade, but individually do *not* automatically cause the loan to be assigned a Watch Grade.

- The primary source of repayment *may* be weakening causing greater reliance on the secondary source of repayment or
- The primary source of repayment is adequate, but the secondary source of repayment is insufficient
- In-depth financial analysis would compare to the lower quartile in *two* or more of the major components of the Risk Management Association Annual Statement Studies
- Volatile or deteriorating collateral
- Management decisions *may* be called into question
- Delinquencies in bank credits or other financial/trade creditors
- Frequent overdrafts
- Significant change in management/ownership

Special Mention Grade: Credits in this grade are potentially weak and deserve management's close attention. If left uncorrected, these potential weaknesses *may* result in deterioration of the repayment prospects of the credit. Special Mention credits are *not* adversely classified and do *not* expose the Bank to sufficient risk to warrant adverse classification. The list below exhibits the characteristics of this grade, but individually do *not* automatically cause the borrower to be assigned a grade of Special Mention:

- Inadequate or incomplete loan documentation or perfection of collateral, or any other deviation from prudent lending practices
- Credit is structured in a manner in which the timing of the repayment source does *not* match the payment schedule or maturity, materially jeopardizing repayment
- Current economic or market conditions exist which *may* affect the borrower's ability to perform or affect the Bank's collateral position
- Adverse trends in the borrower's operations or continued deterioration in the borrower’s financial condition that has *not* yet reached a point where the retirement of debt is jeopardized. A credit in this grade should have favorable prospects of the deteriorating financial trends reversing within a reasonable timeframe.
- The borrower is less than cooperative or unable to produce current and adequate financial information

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 we 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 graded 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 our 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 Doubtful loan has all the weaknesses inherent in *one* classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain pending factors that *may* work to the advantage and strengthening of the credit, its classification as an estimated loss is deferred until its more exact status *may* be determined. Pending factors *may* include, but are *not* limited to:

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

Generally, a Doubtful Grade does *not* remain outstanding for a period greater than *six* months. Within *six* months, the pending events should have been resolved. Based on resolution of the pending events, the credit grade should have improved or the principal balance charged against the ALLL.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table summarizes loans by internal risk grades and by loan portfolio as of *December 31, 2017,* and *December 31, 2016*

	December 31, 2017					
(Amounts in thousands)	**Pass**	**Watch**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Commercial	$*117,087*	$*28,896*	$ *40*	$ *3,065*	$ —	$*149,088*
Commercial real estate:						
Real estate - construction and land development	*14,762*	—	*1,140*	—	—	*15,902*
Real estate - commercial non-owner occupied	*364,230*	*9,160*	*2,900*	*1,378*	—	*377,668*
Real estate - commercial owner occupied	*171,005*	*8,515*	*3,907*	*1,913*	—	*185,340*
Residential real estate:						
Real estate - residential - ITIN	*34,923*	—	—	*6,265*	—	*41,188*
Real estate - residential - 1-4 family mortgage	*28,981*	*791*	—	*605*	—	*30,377*
Real estate - residential - equity lines	*28,457*	*1,501*	*63*	*326*	—	*30,347*
Consumer and other	*49,887*	—	*2*	*36*	—	*49,925*
Total	$*809,332*	$*48,863*	$ *8,052*	$ *13,588*	$ —	$*879,835*

	December 31, 2016					
(Amounts in thousands)	**Pass**	**Watch**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Commercial	$*124,089*	$*21,684*	$ *4,570*	$ *3,501*	$ —	$*153,844*
Commercial real estate:						
Real estate - construction and land development	*36,782*	*10*	—	—	—	*36,792*
Real estate - commercial non-owner occupied	*284,099*	*5,398*	*1,321*	*1,797*	—	*292,615*
Real estate - commercial owner occupied	*157,064*	*7,301*	*496*	*2,474*	—	*167,335*
Residential real estate:						
Real estate - residential - ITIN	*38,279*	—	—	*7,287*	—	*45,566*
Real estate - residential - 1-4 family mortgage	*17,696*	*815*	—	*1,914*	—	*20,425*
Real estate - residential - equity lines	*33,828*	*858*	—	*1,267*	—	*35,953*
Consumer and other	*51,398*	*2*	—	*281*	—	*51,681*

Total	$743,235	$36,068	$ 6,387	$ 18,521	$ —	$804,211

The recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure was *$530* thousand at *December 31, 2017.*

Allowance for Loan and Lease Losses

The following tables below summarize the ALLL by loan portfolio for the years ended *December 31, 2017, 2016,* and *2015.*

(Amounts in thousands)	**As of December 31, 2017**					
ALLL by Loan Portfolio	**Commercial**	**Commercial Real Estate**	**Residential Real Estate**	**Consumer**	**Unallocated**	**Total**
Beginning balance	$2,849	$ 5,578	$ 1,716	$ 955	$ 446	$11,544
Charge-offs	(51)	—	(483)	(968)	—	(1,502)
Recoveries	512	27	178	216	—	933
Provision	(818)	814	(242)	1,232	(36)	950
Ending balance	$2,492	$ 6,419	$ 1,169	$ 1,435	$ 410	$11,925

31

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

	As of December 31, 2016					
(Amounts in thousands)		**Commercial**	**Residential**			
ALLL by Loan Portfolio	**Commercial**	**Real Estate**	**Real Estate**	**Consumer**	**Unallocated**	**Total**
Beginning balance	$*2,493*	$ *5,784*	$ *1,577*	$ *770*	$ *556*	$*11,180*
Charge-offs	*(1,106)*	*(37)*	*(829)*	*(812)*	—	*(2,784)*
Recoveries	*427*	*2,480*	*114*	*127*	—	*3,148*
Provision	*1,035*	*(2,649)*	*854*	*870*	*(110)*	—
Ending balance	$*2,849*	$ *5,578*	$ *1,716*	$ *955*	$ *446*	$*11,544*

	As of December 31, 2015					
(Amounts in thousands)		**Commercial**	**Residential**			
ALLL by Loan Portfolio	**Commercial**	**Real Estate**	**Real Estate**	**Consumer**	**Unallocated**	**Total**
Beginning balance	$*3,503*	$ *4,875*	$ *1,670*	$ *450*	$ *322*	$*10,820*
Charge-offs	*(700)*	*(428)*	*(749)*	*(499)*	—	*(2,376)*
Recoveries	*1,692*	*771*	*273*	—	—	*2,736*
Provision	*(2,002)*	*566*	*383*	*819*	*234*	—
Ending balance	$*2,493*	$ *5,784*	$ *1,577*	$ *770*	$ *556*	$*11,180*

The following tables summarize the ALLL and the recorded investment in loans and leases as of *December 31, 2017, 2016* and *2015*

	As of December 31, 2017					
		Commercial	**Residential**			
(Amounts in thousands)	**Commercial**	**Real Estate**	**Real Estate**	**Consumer**	**Unallocated**	**Total**

ALLL:						
Individually evaluated for impairment	$*690*	$ *77*	$ *391*	$ *11*	$ —	$*1,169*
Collectively evaluated for impairment	*1,802*	*6,342*	*778*	*1,424*	*410*	*10,756*
Total	*2,492*	*6,419*	*1,169*	*1,435*	*410*	*11,925*
Gross loans:						
Individually evaluated for impairment	$*3,154*	$ *1,403*	$ *8,554*	$ *36*	$ —	$*13,147*
Collectively evaluated for impairment	*145,934*	*577,507*	*93,358*	*49,889*	—	*866,688*
Total gross loans	$*149,088*	$ *578,910*	$ *101,912*	$ *49,925*	$ —	$*879,835*

	As of December 31, 2016					
(Amounts in thousands)	**Commercial**	**Commercial Real Estate**	**Residential Real Estate**	**Consumer**	**Unallocated**	**Total**
ALLL:						
Individually evaluated for impairment	$*641*	$ *85*	$ *721*	$ *14*	$ —	$*1,461*
Collectively evaluated for impairment	*2,208*	*5,493*	*995*	*941*	*446*	*10,083*
Total	*2,849*	*5,578*	*1,716*	*955*	*446*	*11,544*
Gross loans:						
Individually evaluated for impairment	$*3,525*	$ *3,125*	$ *11,894*	$ *250*	$ —	$*18,794*
Collectively evaluated for impairment	*150,319*	*493,617*	*90,050*	*51,431*	—	*785,417*
Total gross loans	$*153,844*	$ *496,742*	$ *101,944*	$ *51,681*	$ —	$*804,211*

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

	As of December 31, 2015					
(Amounts in thousands)	**Commercial**	**Commercial Real Estate**	**Residential Real Estate**	**Consumer**	**Unallocated**	**Total**
ALLL:						
Individually evaluated for impairment	$*122*	$ *97*	$ *600*	$ *13*	$ —	$*832*
Collectively evaluated for impairment	*2,371*	*5,687*	*977*	*757*	*556*	*10,348*
Total	*2,493*	*5,784*	*1,577*	*770*	*556*	*11,180*
Gross loans:						
Individually evaluated for impairment	$*2,043*	$ *7,733*	$ *11,582*	$ *32*	$ —	$*21,390*
Collectively evaluated for impairment	*130,762*	*420,259*	*94,387*	*49,841*	—	*695,249*
Total gross loans	$*132,805*	$ *427,992*	$ *105,969*	$ *49,873*	$ —	$*716,639*

The ALLL totaled *$11.9* million or *1.36%* of total gross loans at *December 31, 2017* and *$11.5* million or *1.44%* at *December 31, 2016.* As of *December 31, 2017* and *December 31, 2016,* we had commitments to extend credit of *$227.7* million and *$229.4* million, respectively. The reserve for unfunded commitments recorded in *Other Liabilities* in the *Consolidated Balance Sheets* at *December 31, 2017* and *2016* was *$695* thousand.

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

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 past loan and lease loss experience by type of credit, known and inherent risks in the portfolio, adverse situations that *may* affect a 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 rated 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, a 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.

We believe that the ALLL was adequate as of *December 31, 2017.* 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 Company, *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 *December 31, 2017, 77%* 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. Deterioration in economic conditions particularly in our markets *may* adversely affect our loan portfolio and *may* lead to additional charges to the provision for loan and lease losses.

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. 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, we establish a specific component within the ALLL based on the present value of the future cash flows. If we determine 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 the 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

December 31, 2017, the unallocated allowance amount represented *3%* of the ALLL, compared to *4%* at *December 31, 2016.*

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

While the ALLL composition is an indication of specific amounts or loan categories in which future charge-offs *may* occur, actual amounts *may* differ.

We have lending policies and procedures in place with the objective of optimizing loan income within an accepted risk tolerance level. We review and approve 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* change.

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.

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 CRE portfolio are diverse in terms of type and primary source of repayment. This diversity helps reduce our exposure to adverse economic events that affect any single industry. We monitor and evaluate CRE loans based on occupancy status (investor versus owner occupied), collateral, geography, and risk grade criteria.

Generally, CRE loans are made 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.

Residential Real Estate Loans – We do *not* originate consumer real estate mortgage loans. The majority of our loans secured by non owner occupied residential real estate are made either as part of a commercial relationship and subject to similar underwriting standards and processes as the CRE portfolio, or loans that were purchased in a prior year as part of a pool of loans. Purchased loan pools are evaluated based on risk characteristics established for each segmented group 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. Residential equity lines of credit are included in the discussion of consumer loans below.

We originate some single family residence construction loans. The loan amounts are *no* greater than *$1* million and are short term real estate secured financing for the construction of a single family residence to be occupied by the owner. The loans have a draw down feature with interest only payments, and a balloon payment at the *12*-month maturity. All of these loans are refinanced and paid-off by the borrower's permanent mortgage lender who provided the initial pre-approved mortgage financing. These loans are underwritten utilizing financial analysis of the borrower and are generally based upon estimates of cost and value associated with the complete project (as-is value). These estimates *may* be inaccurate. The loan disbursement and monitoring process is controlled utilizing similar processes as our CRE construction loans.

Consumer Loans – Our consumer loan originations are generally limited to home equity loans with nominal originations in unsecured personal loans. The portfolio also includes unsecured consumer home improvement loans and residential solar panel loans secured by UCC filings. We are 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.

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

We maintain 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 our policies and procedures.

Management's continuing evaluation of all known relevant quantitative and qualitative internal and external risk factors provides the foundation for the *three* major components of the 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* that are based on qualitative credit risk factors; and (*3*) specific valuation allowances established in accordance with ASC *310,* Receivables ("ASC *310"*) that are based on estimated probable losses on specific impaired loans. All *three* components are aggregated and constitute the 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 our 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.

Our 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. In accordance with ASC *450,* historical valuation allowances are established for loan pools with similar risk characteristics common to each loan grouping. 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. We periodically review and update our historical loss ratios based on net charge-off experience for each loan and lease class. Other credit risk factors are also reviewed periodically and adjusted as necessary to account for any changes in potential loss exposure.

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

NOTE 6. PURCHASE OF FINANCIAL ASSETS

We have an ongoing agreement to purchase a maximum par value of *$50.0* million in unsecured consumer home improvement loans from a *third* party originator. The loans are purchased without recourse or servicing rights. As we receive principal payments on these purchased loans, new loans are purchased and the outstanding par value remains at approximately *$50.0* million. For the period from *May 12, 2014* through *December 31, 2017,* we have paid aggregate cash totaling *$118.3* million, and received aggregate cash repayments of *$71.9* million for *$46.4* million in net loans outstanding. We record the acquired loans at fair value at the time of the purchase.

NOTE 7. PREMISES AND EQUIPMENT

The following table presents the major components of premises and equipment at *December 31, 2017* and *2016.*

(Amounts in thousands)

Premises and Equipment	**2017**	**2016**
Land	$*2,063*	$*2,063*
Land improvements	*241*	*223*
Bank buildings	*12,976*	*12,931*
Furniture, fixtures and equipment	*12,639*	*12,130*
Software	*1,634*	*1,637*
Assets not yet placed in service	*337*	*429*
Total premises and equipment	*29,890*	*29,413*
Less: accumulated depreciation and amortization	*(15,142*)	*(13,187*)
Premises and equipment, net	$*14,748*	$*16,226*

We record depreciation expense on a straight-line basis for all depreciable assets. Depreciation expense totaled *$2.1* million, *$1.9* million, and *$1.5* million, for the years ended *December 31, 2017, 2016* and *2015,* respectively. We have entered into a number of non-cancelable lease agreements with respect to various premises. See Note *15, Commitments and Contingencies* in these *Notes to Consolidated Financial Statements* for more information regarding rental expense, rent income and minimum annual rental commitments under non-cancelable lease agreements.

NOTE 8. OTHER REAL ESTATE OWNED (OREO)

OREO represents real estate to which we have taken legal title in partial or full satisfaction of loans and properties originally acquired for branch expansion but *no* longer intended to be used for that purpose. OREO is recorded at fair value less costs to sell. Additional expenditures for improvements that increase the fair value of the property as it is prepared for sale are added to the property's cost basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the ALLL. Thereafter, 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 and net expenses incurred from OREO property are recorded in *noninterest expense*, in the *Consolidated Statements of Income*.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table presents the changes in OREO for the years ended *December 31, 2017, 2016,* and *2015.*

(Amounts in thousands)	**Years Ended December 31,**		
OREO	**2017**	**2016**	**2015**
Balance at beginning of year	$*759*	$*1,423*	$*502*
Additions	*1,071*	*189*	*4,059*
Dispositions	*(1,743*)	*(745*)	*(3,138*)
Valuation adjustments	*(52*)	*(108*)	—
Total	$*35*	$*759*	$*1,423*

For the year ended *December 31, 2017,* we transferred *seven* foreclosed properties in the amount of *$981* thousand to OREO and capitalized *$90* thousand in costs. During this period, we sold *eleven* properties with balances of *$1.7* million for a net gain of *$368* thousand. During this period, we recognized a write-down in OREO for *one* property totaling *$52* thousand. The *December 31, 2017* OREO balance consists of *one 1-4* family residential real estate property in the amount of *$35* thousand.

NOTE 9. INTANGIBLE ASSETS

In *March* of *2016,* as part of our branch acquisition, we recorded a core deposit intangible of *$1.8* million and goodwill of *$665* thousand. The acquired core deposit base provides value as a source of below market rate funds and the realization of interest cost savings is a fundamental rationale for assuming these deposit liabilities. The cost savings is defined as the difference between the cost of funds on our new deposits (i.e., interest and net maintenance costs) and the cost of an equal amount of funds from an alternative source having a similar term as the new deposit base. Our core deposit intangible was recorded at fair value which was derived by using the income approach and represents the present value of the cost savings over the projected term of our new deposit base.

The core deposit intangible is being amortized on a straight-line basis over the estimated useful life of the deposits, which is *eight* years, with *no* expected residual value. For tax purposes, the core deposit intangible is being amortized over *15* years.

As of *December 31, 2017,* we have recorded the following amounts related to the core deposit intangible.

(Amounts in thousands) **Intangibles**	**December 31, 2017**
Gross carrying amount	$ *1,772*
Accumulated amortization	*(407*)
Core deposit intangible, net	$ *1,365*

The following table sets forth, as of *December 31, 2017,* the total estimated future amortization of intangible assets:

(Amounts in thousands) **For the year ended December 31,**	**Amount**
2018	$ *221*
2019	*221*
2020	*221*
2021	*221*
2022	*221*
2023 and thereafter	*260*
Total	$ *1,365*

Goodwill is calculated as the amount of cash paid in excess of the fair value of the net assets acquired in the transaction. Goodwill is *not* amortized, but is annually reviewed for impairment. *No* impairment of goodwill was deemed necessary based on the *2017* annual review for impairment. For tax purposes, the goodwill is being amortized over *15* years. See Note *25* Branch Acquisition in these Notes to Consolidated Financial Statements in this document for further detail on the branch acquisition.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 10. OTHER ASSETS

Other assets consist of the following at *December 31, 2017* and *2016.*

(Amounts in thousands)	**2017**	**2016**
Qualified Zone Academy Bonds	$*4,740*	$*4,740*
Federal Home Loan Bank of San Francisco stock	*4,537*	*4,465*
Interest receivable	*4,462*	*4,044*
Investments in affordable housing partnerships	*3,529*	*4,217*
Prepaid expenses	*1,132*	*772*
Loan servicing receivables	*643*	*841*
Investment in Bank of Commerce Holdings Trust II	*310*	*310*
SBA payments in process	*179*	*50*
Other	*129*	*917*
Total	$*19,661*	$*20,356*

NOTE 11. DEPOSITS

The following table presents the major types of interest-bearing deposits at *December 31, 2017* and *2016.*

(Amounts in thousands)	**As of December 31,**	
Interest-bearing deposits	**2017**	**2016**
Interest-bearing demand	$*260,221*	$*198,328*
Money market	*236,769*	*207,241*
Savings	*110,837*	*113,309*

Certificates of deposit, less than $250,000	*130,681*	*159,092*
Certificates of deposit, $250,000 and over	*58,574*	*56,298*
Total interest-bearing deposits	$*797,082*	$*734,268*

The following table presents interest expense for the major types of interest-bearing deposits for the years ended *December 31, 2017, 2016* and *2015.*

(Amounts in thousands)	**For the year ended December 31,**		
Deposit Interest Expense	**2017**	**2016**	**2015**
Interest-bearing demand	$*274*	$*201*	$*228*
Money market	*470*	*322*	*232*
Savings	*200*	*174*	*213*
Certificates of deposit, less than $250,000	*1,429*	*1,537*	*1,744*
Certificates of deposit, $250,000 and over	*759*	*642*	*612*
Total interest-bearing deposits	$*3,132*	$*2,876*	$*3,029*

The following table presents the scheduled maturities of all certificates of deposit as of *December 31, 2017.*

(Amounts in thousands)	
Amounts due in:	
2018	$*105,219*
2019	*37,248*
2020	*23,394*
2021	*12,925*
2022	*10,380*
Thereafter	*89*
Total certificates of deposit	$*189,255*

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table presents the scheduled maturities of certificates of deposit of *$250* thousand or more as of *December 31, 2017.*

(Amounts in thousands)	
Amounts due in:	
Three months or less	$*7,872*
Over three months through six months	*8,268*
Over six months through twelve months	*8,725*
Over twelve months	*33,709*
Total certificates of deposit of $250 thousand or more	$*58,574*

NOTE 12. TERM DEBT

Term debt at *December 31, 2017* and *2016* consisted of the following.

(Amounts in thousands)	**2017**	**2016**
Senior debt	$*7,096*	$*8,917*
Unamortized debt issuance costs	*(6*)	*(12*)
Subordinated debt	*10,000*	*10,000*
Unamortized debt issuance costs	*(132*)	*(172*)
Net term debt	$*16,958*	$*18,733*

Future contractual maturities of term debt at *December 31, 2017* are as follows.

(Amounts in thousands)	**2018**	**2019**	**2020**	**2021**	**2022**	**Thereafter**	**Total**
Senior debt	$*1,000*	$*1,000*	$*5,096*	$ —	$ —	$ —	$*7,096*
Subordinated debt	—	—	—	—	—	*10,000*	*10,000*
Total future maturities	$*1,000*	$*1,000*	$*5,096*	$ —	$ —	$ *10,000*	$*17,096*

Federal Home Loan Bank of San Francisco borrowings

The average balance outstanding on Federal Home Loan Bank of San Francisco term advances during the year ended *December 31, 2017* and the year ended *December 31, 2016* was *$302* thousand and *$18.0* million, respectively. The maximum amount outstanding from the Federal Home Loan Bank of San Francisco under term advances at any month end during the year ended *December 31, 2017* and the year ended *December 31, 2016* was *$10.0* million and *$80.0* million, respectively. There were *no* outstanding Federal Home Loan Bank of San Francisco advances at *December 31, 2017* or *December 31, 2016.*

Senior Debt

In *December* of *2015,* the Holding Company entered into a senior debt loan agreement to borrow *$10.0* million from another financial institution. The original loan terms required monthly principal installments of *$83* thousand, plus accrued and unpaid interest, commencing on *January 1, 2016,* continuing to, and including *December 10, 2020* and a final scheduled payment of *$5.0* million due on the maturity date of *December 10, 2020.* The loan *may* be prepaid in whole or in part at any time without any prepayment penalty. The principal amount of the loan bears interest at a variable rate, resetting monthly that is equal to the sum of the current *three*-month LIBOR plus *400* basis points. In *December* of *2015,* the Holding Company incurred senior debt issuance costs of *$15* thousand, which are being amortized over the life of the loan as additional interest expense. The loan is secured by a pledge from the Holding Company of all of the outstanding stock of Redding Bank of Commerce.

Subordinated Debt

In *December* of *2015,* the Holding Company issued *$10.0* million in aggregate principal amount of fixed to floating rate Subordinated Notes due in *2025.* The Subordinated Debt initially bears interest at *6.88%* per annum for a *five*-year term, payable semi-annually. Thereafter, interest on the Subordinated Debt will be paid at a variable rate equal to *three* month LIBOR plus *526* basis points, payable quarterly until the maturity date. In *December* of *2015,* the Holding Company incurred subordinated debt issuance costs of *$210* thousand, which are being amortized over the initial *five*-year-term as additional interest expense.

The Subordinated Debt is subordinate and junior in right of payment to the prior payment in full of all existing and future claims of creditors and depositors of the Holding Company and its subsidiaries, whether now outstanding or subsequently created. The Subordinated Debt ranks equally with all other unsecured subordinated debt, except any which by its terms is expressly stated to be subordinated to the Subordinated Debt. The Subordinated Debt ranks senior to all future junior subordinated debt obligations, preferred stock and common stock of the Holding Company. The Subordinated Debt is recorded as term debt on the Holding Company's balance sheet; however, for regulatory purposes, it is treated as Tier *2* capital by the Holding Company.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

The Subordinated Debt will mature on *December 10, 2025* but *may* be prepaid at the Holding Company's option and with regulatory approval at any time on or after *five* years after the Closing Date or at any time upon certain events, such as a change in the regulatory capital treatment of the Subordinated Debt or the interest on the Subordinated Debt is *no* longer deductible by the Holding Company for United States federal income tax purposes.

NOTE 13. JUNIOR SUBORDINATED DEBENTURES

As of *December 31, 2017* and *2016,* the Company had *one* wholly-owned trust formed in *2005* to issue trust preferred securities and related common securities. The following table presents information about the Trust as of *December 31, 2017* and *2016.*

(Amounts in thousands)

Trust Name	Issue Date	Issued Amount	Rate	Effective Rate	Maturity Date	Redemption Date
Bank of Commerce Holdings Trust II	*July 29, 2005*	$ *10,310*	*Floating* (2)	*(1)*	*September 15, 2035*	*(3)*

(1) Effective rate as of *December 31, 2017* and *2016* of *3.17%* and *2.54%,* respectively.
(2) Contractual interest rate of junior

subordinated debentures based on *three* month LIBOR plus *1.58%* adjusted quarterly.

(*3*) Redeemable at the Company's option on any *March 15, June 15, September 15,* or *December 15.*

The *$10.3* million of junior subordinated debentures issued to Trust II as of *December 31, 2017* and *2016,* are reflected in the *Consolidated Balance Sheets*. The common stock issued by Trust II in the amount of *$310* thousand is recorded in *Other Assets* in the *Consolidated Balance Sheets*, at *December 31, 2017* and *2016.* All of the debentures issued to Trust II, less the common stock of Trust II, qualified as Tier *1* capital as of *December 31, 2017* and *2016,* under guidance issued by the Federal Reserve Board.

NOTE 14. OTHER LIABILITIES

Other liabilities consist of the following at *December 31, 2017* and *2016.*

(Amounts in thousands)	**2017**	**2016**
Deferred compensation – directors fees	$*3,823*	$*3,753*
Salary continuation	*3,387*	*3,410*
Severance payable	*790*	*820*
Accrued employee incentives	*1,170*	*1,109*

Reserve for unfunded commitments	*695*	*695*
Dividend payable on common stock	*486*	*401*
Delayed equity contributions - affordable housing tax credit partnerships	*361*	*485*
Deferred income	*315*	*520*
Other loan servicing liabilities	*235*	*576*
Other	*895*	*1,408*
Total	$*12,157*	$*13,177*

NOTE 15. COMMITMENTS AND CONTINGENCIES

Lease Commitments – We lease *nine* sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based on predetermined escalation schedules. Substantially all of the leases include the option to extend the lease term *one* or more times following expiration of the initial term.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table sets forth rent expense and rent income for the years ended *December 31, 2017* and *2016.*

	December 31,	
(Amounts in thousands)	**2017**	**2016**
Rent income[1]	$*46*	$*78*
Rent expense	*841*	*707*
Net rent expense	$*795*	$*629*

[1] Rental income is derived from OREO properties

The following table sets forth, as of *December 31, 2017,* the future minimum lease payments under non-cancelable operating leases.

(Amounts in thousands)	
Amounts due in:	
2018	$*845*
2019	*866*
2020	*884*
2021	*899*
2022	*807*
Thereafter	*1,367*
Total	$*5,668*

Financial Instruments with Off-Balance Sheet Risk

Our consolidated financial statements do *not* reflect various commitments and contingent liabilities that arise in the normal course of our business and involve elements of credit, liquidity, and interest rate risk. In the normal course of business we are party to financial instruments with off-balance sheet credit risk to meet the financing needs of our customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. These 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 these instruments reflect the extent of our involvement in particular classes of financial instruments.

The following table presents a summary of our commitments and contingent liabilities at *December 31.*

(Amounts in thousands)	**2017**	**2016**
Commitments to extend credit	$*217,714*	$*224,082*
Standby letters of credit	*6,692*	*1,967*
Affordable housing grants	*3,338*	*3,338*
Total commitments and contingent liabilities	$*227,744*	$*229,387*

We were *not* required to perform on any financial guarantees for the years ended *December 31, 2017* and *2016,* respectively. At *December 31, 2017,* approximately *$1.3* million of standby letters of credit expire within *one* year, and *$5.4* million expire thereafter.

Affordable Housing Grants

In fulfilling our CRA responsibilities, we are a sponsor for various nonprofit organizations that receive cash grants from the Federal Home Loan Bank of San Francisco. Those grants require the nonprofit organization to comply with stipulated conditions of the grant over specified periods of time which typically vary from *10* to *15* years. If the nonprofit organization fails to comply, Federal Home Loan Bank of San Francisco can require us to refund the amount of the grant to Federal Home Loan Bank of San Francisco. To mitigate this contingent credit risk, Credit Administration underwrites the financial strength of the nonprofit organization and reviews their systems of internal control to determine, as best as possible, that they will *not* fail to comply with the conditions of the grant.

Reserve for Unfunded Commitments

The reserve for unfunded commitments, which is included in *Other Liabilities* on the *Consolidated Balance Sheets*, was *$695* thousand at *December 31, 2017* and *2016.* 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. When necessary, the provision expense is recorded in other noninterest expense in the *Consolidated Statements of Income.*

Death Benefit Agreement

The Company has entered into agreements with certain employees to pay a cash benefit to designated beneficiaries following the death of the employee. The payment will be made only if, at the time of death, the deceased employee was employed by the Bank and the Bank owned a life insurance policy on the employee's life. Depending on specific facts and circumstances, the payment amount can vary up to a maximum of *$225,000* per employee and *may* be taxable to the recipient. Neither the employee nor the designated recipient has a claim against the Bank's life insurance policy on the employee's life.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

Legal Proceedings

We are involved in various pending and threatened legal actions arising in the ordinary course of business. We maintain reserves for losses from legal actions, which are both probable and estimable. In our opinion, the disposition of claims currently pending will *not* have a material adverse effect on our financial position or results of operations.

Concentrations of Credit Risk

We grant real estate construction, commercial, and installment loans to customers throughout northern California. In our judgment, a concentration exists in real estate related loans, which represented approximately *77%* and *75%* of our gross loan portfolio at *December 31, 2017* and *December 31, 2016,* respectively.

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 our principal 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.

We recognize 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, we have 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, we have an investment policy that sets forth limitations that apply to all investments with respect to credit rating and concentrations with an issuer.

NOTE 16. EMPLOYEE BENEFITS AND RETIREMENT PLANS

Profit sharing plan – In *1985,* we adopted a profit sharing *401*(k) plan for eligible employees to be funded out of the earnings of the Company. The employees' contributions are limited to the maximum amount allowable under IRS Section *402*(G). The Company's contributions include a matching contribution of *100%* of the *first 3%* of salary deferred and *50%* of the next *2%* of salary deferred. Discretionary contributions are also permitted. We made matching contributions aggregating *$494* thousand, *$457* thousand, and *$396* thousand for the years ended *December 31, 2017, 2016* and *2015,* respectively. *No* discretionary contributions were made over the *three* year reporting period.

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

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

The Company accrues for these future benefits from the effective date of the agreements until the executives' expected final payment date. The amount of accrued benefits approximates the present value of the benefits expected to be provided at retirement. Compensation expense under the salary continuation plan totaled *$577* thousand, *$551* thousand, and *$726* thousand for the years ended *December 31, 2017, 2016* and *2015,* respectively. As of *December 31, 2017, 2016* and *2015,* the vested benefit payable was *$3.4* million, *$3.4* million, and *$3.5* million, respectively.

Directors deferred fee compensation – On *December 19, 2013,* the Board of Directors adopted a Directors Deferred Compensation Plan (the *"2013* Plan") to replace the Directors Deferred Compensation Plan dated *January 1, 1993* as amended *(*the *"1993* Plan"). Both plans allow the eligible Director to voluntarily elect to defer some or all of his or her current fees in exchange for the Company's promise to pay a deferred benefit. The deferred fees are credited with interest and the accrued liability is paid to the Director at retirement. Directors must stop the deferral of compensation once their total deferred benefit reaches *$500* thousand.

The interest rate in the *2013* Plan is equal to the Bloomberg *20*-year Investment Grade Financial Institutions Index (IGFII) rate (or a similar reference rate we select if that rate is *not* published) in effect on the interest accrual date, plus *two* percent. The *2013* Plan is only available to independent directors and, as a nonqualified deferred compensation plan, is *not* subject to nondiscrimination requirements applicable to qualified plans. *No* deferred compensation is payable to a director until separation from service, whereupon all such compensation, together with interest thereon shall be provided to such Director, or his beneficiary within *thirty* (*30*) days. The Director *may* designate payments to be made in a lump sum or in monthly installments over a period *not* to exceed *120* months.

Although deferrals under the *1993* Plan have ceased, the *1993* Plan remains in effect for all amounts previously deferred in the plan. Under the *1993* Plan, at retirement, Directors are granted the option of continuing to accrue interest on deferred payments at a variable rate of Wall Street Journal prime plus *3.00%* or at a fixed rate of *10%.* The Director *may* designate payments to be made in a lump sum or in monthly installments over a period *not* to exceed *180* months.

Deferred compensation expense recorded in other noninterest expense totaled *$292* thousand, *$281* thousand, and *$274* thousand for the years ended *December 31, 2017, 2016,* and *2015,* respectively. As of *December 31, 2017, 2016* and *2015,* the vested benefit payable recorded in *Other Liabilities* in the *Consolidated Balance Sheets* was *$3.8* million, *$3.8* million, and *$3.7* million, respectively.

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 17. FEDERAL FUNDS PURCHASED AND LINES OF CREDIT

At *December 31, 2017* and *2016,* we had *no* outstanding federal funds purchased balances and *no* outstanding advances on any of the Bank's lines of credit.

The Bank had the following lines of credit:

Federal Funds

We have entered into nonbinding federal funds line of credit agreements with *three* financial institutions to support short-term liquidity needs. The lines totaled $*35.0* million at *December 31, 2017* and had interest rates ranging from *1.64%* to *2.29%.* Advances under the lines are subject to funds availability, continued borrower eligibility, and *may* have consecutive day usage restrictions. The credit arrangements are reviewed and renewed annually.

Federal Reserve Bank

We have an available line of credit with the Federal Reserve Bank totaling *$28.5* million subject to collateral requirements, namely the amount of certain pledged loans.

Federal Home Loan Bank of San Francisco

We have an available line of credit with the Federal Home Loan Bank of San Francisco of $*334.9* million subject to certain collateral requirements, namely the amount of pledged loans and investment securities. The line of credit is secured by an investment in Federal Home Loan Bank of San Francisco stock, certain real estate mortgage loans that have been specifically pledged to the Federal Home Loan Bank of San Francisco pursuant to collateral requirements, and pledged securities held in the Bank's investment securities portfolio.

As of *December 31, 2017,* the Bank was required to hold an investment in Federal Home Loan Bank of San Francisco stock of *$4.5* million recorded in *Other Assets* in the *Consolidated Balance Sheets*. Our investments in Federal Home Loan Bank of San Francisco stock are restricted investment securities, carried at cost, evaluated for impairment, and excluded from securities accounted for under ASC Topic *320* and ASC Topic *321.*

We have pledged $*378.3* million of our commercial and real estate mortgage loans as collateral for the line of credit with the Federal Home Loan Bank of San Francisco. As of *December 31, 2017,* we also pledged *$28.3* million in securities to the Federal Home Loan Bank of San Francisco.

NOTE 18. SHAREHOLDERS' EQUITY

On *May 10, 2017,* the Company completed the sale of *2,738,096* shares of its common stock at a public offering price of *$10.50* and received net proceeds of *$26.8* million. These proceeds will support lending and investment activities, support or fund acquisitions of other institutions or branches as and if opportunities for such transactions become available, or repay certain borrowings.

On *December 11, 2015,* the Holding Company completed the redemption of all of the outstanding shares of the Holding Company's preferred stock designated as Senior Non-Cumulative Perpetual Preferred Stock, Series B (the "Series B Preferred Stock"), held by the US Treasury Department under the Small Business Lending Fund Program. The Holding Company paid *$20.0* million to redeem the Series B Preferred Stock plus *$39* thousand in accrued but unpaid dividends. The Holding Company exercised its optional redemption rights pursuant to the terms of the Securities Agreement. As a result of the SBLF Redemption, the Holding Company's obligations under the Securities Agreement are terminated. The Holding Company funded the SBLF Redemption using the net proceeds from (i) its issuance and sale of *$10.0* million in aggregate principal amount of its *6.88%* Fixed to Floating rate Subordinated Notes due *2025* and (ii) the *$10.0* million dollar loan provided to the Holding Company by another institution maturing in *2020* at a variable rate, resetting monthly that is equal to the sum of the current *three* month LIBOR plus *400* basis points.

Stock Plans – The *2008* Stock Option Plan was approved by the Holding Company’s shareholders on *May 15, 2007* (“the Plan”). The Plan was amended and restated by the *2010* Equity Incentive Plan which was approved by the Holding Company’s shareholders on *May 18, 2010.* The latest amendment and restatement of the Plan was approved by the Holding Company’s shareholders on *May 15, 2012.* The Plan provides for equity awards including stock options, restricted stock and restricted stock units which *may* constitute incentive stock options (“ISO”) under Section *422*(a) of the Internal Revenue Code of *1986,* as amended, or non-statutory stock options (“NSO”) to key personnel of the Company, including Directors. The Plan provides that ISO and NSO under the Plan *may not* be granted at less than *100%* of fair market value of the Holding Company’s common stock on the date of the grant. Vesting *may* be accelerated in case of an option holder’s death, disability, and retirement or in case of a change of control. At *December 31, 2017,* approximately *198* thousand common shares were available for future grants under the Plan.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

We recognized *$53* thousand in tax benefits from vesting of restricted stock and *$245* thousand in proceeds from stock options exercised during the year ended *December 31, 2017.* Proceeds from stock options exercised were *$10* thousand and *$156* thousand for the years ended *December 31, 2016* and *2015,* respectively.

Stock Option Activity

The following tables summarize information about stock option activity for the years ended *December 31, 2017, 2016* and *2015.*

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term
Options outstanding December 31, 2015	*234,100*	$ *5.77*	$ *319,483*	*5.87*
Exercised	*(1,900)*	$ *5.29*	$ *4,789*	*3.33*
Forfeited	*(43,300)*	$ *8.81*	$ *n/a*	*n/a*
Options outstanding December 31, 2016	*188,900*	$ *5.08*	$ *834,625*	*5.66*
Exercised	*(51,900)*	$ *4.73*	$ *245,450*	*4.42*
Forfeited	*(2,500)*	$ *4.05*	$ *n/a*	*n/a*
Options outstanding December 31, 2017	*134,500*	$ *5.24*	$ *704,350*	*4.76*
Exercisable at December 31, 2017	*118,920*	$ *5.13*	$ *609,596*	*4.51*

	For the Years Ended December 31,		
(Amounts in thousands, except per share information)	**2017**	**2016**	**2015**

Stock option expense	$ *23*	$ *24*	$ *42*
Stock option awards weighted average grant date fair value per share	$—	$ —	$ *1.33*

	At December 31,		
	2017	**2016**	**2015**
Unrecognized compensation costs related to non-vested stock option payments	$ *17*	$ *29*	$ *55*
Number of exercisable shares	*119*	*157*	*163*

Generally, stock options vest at *20%* per year from the date of the grant. The unrecognized compensation costs are expected to be recognized over a weighted average period of *two* years.

Restricted Stock Activity

The following tables summarize information about unvested restricted shares and restricted shares granted for the years ended *December 31, 2017, 2016* and *2015.*

	Number of Shares	**Weighted Average Grant Price**	**Aggregate Intrinsic Value**	**Weighted Average Remaining Contractual Term**
Unvested restricted shares December 31, 2015	*42,676*	$ *5.95*	$ *285,076*	*2.49*
Granted	*65,736*	$ *5.74*	$ *254,816*	*1.07*
Vested	*(38,148*)	$ *5.79*	$ *229,198*	*n/a*
Forfeited	*(3,084*)	*5.75*	*n/a*	*n/a*
Unvested restricted shares December 31, 2016	*67,180*	$ *5.84*	$ *638,210*	*1.38*
Granted	*45,070*	$ *10.35*	$ *466,328*	*1.32*
Vested	*(37,761*)	$ *5.79*	$ *218,600*	*n/a*
Unvested restricted shares December 31, 2017	*74,489*	$ *8.60*	$ *640,255*	*1.03*

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

(Amounts in thousands, except per share information)	**For the Years Ended December 31, 2017**	**2016**	**2015**
Restricted stock compensation expense	$*196*	$*215*	$*89*
Restricted stock awards weighted average grant date fair value per share	$*10.35*	$*5.74*	$*5.90*

	At December 31, 2017	**2016**	**2015**
Unrecognized compensation costs related to non-vested restricted stock payments	$*811*	$*205*	$*181*

Restricted shares vest over a *three* to *five* year service period. Unvested restricted shares have *no* dividend or voting rights. The unrecognized compensation costs are expected to be recognized over a weighted average period of *two* years.

Stock Grant Activity

The following tables summarize information about shares granted as employee compensation for the year ended *December 31, 2017.*

	Number of Shares	**Weighted Average Grant Price**	**Stock Grant Compensation Expense**
Shares Granted during the year ended December 31, 2017	*4,868*	$ *10.05*	$ *48,923*

NOTE 19. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the components of accumulated other comprehensive loss and the ending balances at *December 31, 2017, 2016,* and *2015,* respectively.

(Amounts in thousands)	**Unrealized Gains (Losses) On Securities**	**Unrealized (Losses) On Derivatives**	**Accumulated Other Comprehensive Loss**
Accumulated other comprehensive loss as of December 31, 2015	$ *1,142*	$ *(1,396*)	$ *(254*)
Accumulated other comprehensive loss as of December 31, 2016	$ *(659*)	$ —	$ *(659*)
Accumulated other comprehensive loss as of December 31, 2017	$ *(266*)	$ —	$ *(266*)

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

NOTE 20. REGULATORY CAPITAL

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

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

On *July 2, 2013,* the federal banking agencies substantially amended the regulatory risk-based capital rules applicable to the Holding Company and the Bank. Effective *January 1, 2015* the new rules created "Common equity tier *1,"* a new measure of regulatory capital closer to pure tangible common equity than the present Tier *1* definition; The required minimum risk-based capital ratio for Common equity tier *1* is *4.5* percent and with a *2.5* percent capital conservation buffer. The capital conservation buffer of *2.5* percent is being phased in between *2016* and *2019.*

The new capital rules require the Bank to meet the capital conservation buffer requirement by *2019* in order to avoid constraints on capital distributions, such as dividends and equity repurchases, and certain bonus compensation for executive officers. These new capital rules also change the risk-weights of certain assets for purposes of the risk-based capital ratios and phase out certain instruments as qualifying capital.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

When the new capital rule is fully phased in, the minimum capital requirements plus the conservation buffer will exceed the well-capitalized thresholds. This *0.5* percentage-point cushion allows institutions to dip into a portion of their capital conservation buffer before reaching a status that is considered less than well capitalized for prompt corrective action purposes.

The capital amounts and the Bank's prompt corrective action classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are *not* applicable to bank holding companies. Quantitative measures established by regulation to ensure capital adequacy, require the Company and the Bank to maintain minimum amounts and ratios set forth in the following table as defined in the regulations. Management believes as of *December 31, 2017* that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of *December 31, 2017,* 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 ratios as set forth in the following table. There are *no* conditions or events since that notification that management believes have changed the Bank's capital rating category. The Holding Company's and the Bank's actual capital amounts and ratios as of *December 31, 2017* and *2016* are presented in the following table.

	Capital	**Actual**	**Well Capitalized Requirement**		**Minimum Capital Requirement**		**Applicable 2017 Capital Conservation**	**Minimum Capital Ratio plus Capital Conservation Buffer**	
(Amounts in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Buffer**	**Amount**	**Ratio**
At December 31, 2017:									
Company									
Common equity tier 1 capital ratio	$*125,745*	*12.26* %	*n/a*	*n/a*	$*46,169*	*4.50* %	*1.25* %	$*58,994*	*5.750*%
Tier 1 capital ratio	$*135,745*	*13.23* %	*n/a*	*n/a*	$*61,559*	*6.00* %	*1.25* %	$*74,384*	*7.250*%
Total capital ratio	$*158,365*	*15.44* %	*n/a*	*n/a*	$*82,079*	*8.00* %	*1.25* %	$*94,903*	*9.250*%
Tier 1 leverage ratio	$*135,745*	*10.86* %	*n/a*	*n/a*	$*50,008*	*4.00* %	*n/a*	*n/a*	*n/a*

Bank									
Common equity tier 1 capital ratio	$*129,139*	*12.58* %	$*66,703*	*6.50* %	$*46,179*	*4.50* %	*1.25* %	$*59,006*	*5.750*%
Tier 1 capital ratio	$*129,139*	*12.58* %	$*82,096*	*8.00* %	$*61,572*	*6.00* %	*1.25* %	$*74,399*	*7.250*%
Total capital ratio	$*141,760*	*13.81* %	$*102,620*	*10.00*%	$*82,096*	*8.00* %	*1.25* %	$*94,923*	*9.250*%
Tier 1 leverage ratio	$*129,139*	*10.33* %	$*62,486*	*5.00* %	$*49,989*	*4.00* %	*n/a*	*n/a*	*n/a*
At December 31, 2016:									
Company									
Common equity tier 1 capital ratio	$*92,757*	*9.43* %	*n/a*	*n/a*	$*44,266*	*4.50* %	*0.625* %	$*50,414*	*5.125*%
Tier 1 capital ratio	$*102,496*	*10.42* %	*n/a*	*n/a*	$*59,021*	*6.00* %	*0.625* %	$*65,169*	*6.625*%
Total capital ratio	$*124,735*	*12.68* %	*n/a*	*n/a*	$*78,695*	*8.00* %	*0.625* %	$*84,843*	*8.625*%
Tier 1 leverage ratio	$*102,496*	*9.13* %	*n/a*	*n/a*	$*44,905*	*4.00* %	*n/a*	*n/a*	*n/a*
Bank									
Common equity tier 1 capital ratio	$*121,098*	*12.31* %	$*63,962*	*6.50* %	$*44,281*	*4.50* %	*0.625* %	$*50,432*	*5.125*%
Tier 1 capital ratio	$*121,098*	*12.31* %	$*78,722*	*8.00* %	$*59,042*	*6.00* %	*0.625* %	$*65,192*	*6.625*%
Total capital ratio	$*133,337*	*13.55* %	$*98,403*	*10.00*%	$*78,722*	*8.00* %	*0.625* %	$*84,873*	*8.625*%
Tier 1 leverage ratio	$*121,098*	*10.80* %	$*56,043*	*5.00* %	$*44,835*	*4.00* %	*n/a*	*n/a*	*n/a*

We currently hold *$24.0* million from our *May 2017* public offering. Historically, our principal source of cash has been dividends received from the Bank, which are subject to government regulation and limitations on the Bank's ability to pay dividends. We also have trust preferred securities, senior debt and subordinated debt agreements have provisions that *may* impact our ability to pay dividends on our common stock to our common shareholders.

The Bank is subject to certain restrictions under the Federal Reserve Act, including restrictions on the extension of credit to affiliates. In particular, it is prohibited from lending to an affiliated company unless the loans are secured by specific types of collateral. Such secured loans and other advances from the subsidiaries are limited to *10%* of the Bank's Tier *1* and Tier *2* capital. There were *no* loans to affiliates during the *three* years ended *December 31, 2017.*

NOTE 21. DERIVATIVES

During *March* of *2016,* we paid off the *$75.0* million Federal Home Loan Bank of San Francisco borrowing (the "hedged instrument") and terminated all of our interest rate swaps (active and forward starting). Prior to the time of termination, a *$2.3* million unrealized pretax loss on swaps was carried in *Other Liabilities* in our *Consolidated Balance Sheets*. At termination, we immediately reclassified the loss to noninterest expense.

45

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

For derivative financial instruments accounted for as hedging instruments, we formally designate and document, at inception, the financial instrument as a hedge of a specific underlying exposure, the risk management objective, and the manner in which the effectiveness of the hedge will be assessed. We formally assess both at inception and at each reporting period thereafter, whether the derivative financial instruments used in hedging transactions are effective in offsetting changes in cash flows of the related underlying exposures. Any ineffective portion of the changes in cash flow of the instruments is recognized immediately into earnings.

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,* we designated our interest rate swaps as cash flow hedges of certain active and forecasted variable rate Federal Home Loan Bank of San Francisco advances. Changes in the fair value of the hedging instrument, except any ineffective portion, were recorded in accumulated other comprehensive income (loss) until earnings were impacted by the hedged instrument. *No* components of our hedging instruments were excluded from the assessment of hedge effectiveness in hedging exposure to variability in cash flows.

Classification of the gain or loss in the *Consolidated Statements of Income* upon release from accumulated other comprehensive income (loss) is the same as that of the underlying exposure. We discontinue 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. When we discontinue 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 that were recorded in accumulated other comprehensive income (loss) are recognized immediately in earnings.

The following table summarizes the losses recorded during the years ended *December 31, 2016* and *2015* and their locations within the *Consolidated Statements of Income.*

(Amounts in thousands)

Description	**Consolidated Statement of Operations**	**2016**	**2015**
Interest rate swap [1]	Interest on term debt	$*396*	$*1,435*
Forward starting interest rate swap - terminated [2]	Other noninterest expense	*2,325*	—
Total		$*2,721*	$*1,435*

(1) Losses represent tax effected amounts reclassified from accumulated other comprehensive income (loss) pertaining to net settlement recorded during the period on active interest rate swaps.
(2) Losses represent tax effected amounts reclassified from accumulated other comprehensive income (loss) pertaining to the terminated active and forward starting interest rate swaps.

The following table summarizes the losses on all derivative instruments (active and forward starting) designated as cash flow hedges recorded in accumulated other comprehensive income (loss) and reclassified into earnings during the years ended *December 31, 2016* and *2015.*

(Amounts in thousands)	**December 31,**	
Description	**2016**	**2015**
Interest rate swaps	$*(1,601)*	$*(843)*

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 22. FAIR VALUES

The following table presents estimated fair values of our financial instruments as of *December 31, 2017* and *2016,* 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 we utilized 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**		
December 31, 2017	**Amounts**	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Cash and cash equivalents	$*66,970*	$*66,970*	$—	$—
Securities available-for-sale	$*267,954*	$—	$*267,954*	$—
Net loans	$*869,620*	$—	$—	$*873,660*
Federal Home Loan Bank of San Francisco stock	$*4,536*	$*4,536*	$—	$—
Financial liabilities				
Deposits	$*1,102,732*	$—	$*1,101,523*	$—
Term Debt	$*16,958*	$—	$*16,918*	$—
Junior subordinated debenture	$*10,310*	$—	$*10,206*	$—

(Amounts in thousands)	**Carrying**	**Fair Value Measurements Using**		
December 31, 2016	**Amounts**	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Cash and cash equivalents	$*68,407*	$*68,407*	$—	$—
Securities available-for-sale	$*175,174*	$—	$*175,174*	$—

Securities held-to-maturity	$*31,187*	$—	$*31,374*	$—
Net loans	$*793,991*	$—	$—	$*797,144*
Federal Home Loan Bank of San Francisco stock	$*4,465*	$*4,465*	$—	$—
Financial liabilities				
Deposits	$*1,004,666*	$—	$*1,004,429*	$—
Term Debt	$*18,733*	$—	$*18,726*	$—
Junior subordinated debenture	$*10,310*	$—	$*9,077*	$—

Fair Value Hierarchy

Level *1* valuations utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have 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.

We maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. Our 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, we believe the measurement of fair value of cash and cash equivalents is derived from Level *1* inputs.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

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.*

Net Loans – 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; we believe the fair value of loans is derived from Level *3* inputs.

Federal Home Loan Bank of San Francisco stock – The carrying value of Federal Home Loan Bank of San Francisco stock approximates fair value as the shares can only be redeemed by the issuing institution at par. We measure the fair value of Federal Home Loan Bank of San Francisco stock using Level *1* inputs.

Deposits – We measure 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 Federal Home Loan Bank of San Francisco yield curves, and maturities. We obtained Federal Home Loan Bank of San Francisco yield curve rates as of the measurement date, and believe 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.

Term Debt – For variable rate term debt, the carrying value approximates fair value. The fair value of fixed rate term debt is estimated by discounting the future cash flows using market rates at the reporting date, of which similar debt would be issued with similar credit ratings as ours and similar remaining maturities. At *December 31, 2017,* future cash flows were discounted at *7.29%.* We measure the fair value of term debt using Level *2* inputs.

Junior subordinated debenture – The fair value of the junior 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 *December 31, 2017,* future cash flows were discounted at

3.34%. We measure 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.

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available-for-sale securities are recorded at fair value on a recurring basis. From time to time, we *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, core deposit intangibles or goodwill. These nonrecurring fair value adjustments involve the application of lower of cost or fair value accounting or write-downs of individual assets.

The following table presents information about our assets and liabilities measured at fair value on a recurring basis, and indicate the fair value hierarchy of the valuation techniques we utilized to determine such fair value, as of *December 31*, *2017* and *December 31, 2016.*

(Amounts in thousands)	**Fair Value at December 31, 2017**			
Recurring Basis	**Total**	**Level 1**	**Level 2**	**Level 3**
Available-for-sale securities				
U.S. government and agencies	$*40,369*	$ —	$*40,369*	$ —
Obligations of states and political subdivisions	*78,844*	—	*78,844*	—
Residential mortgage-backed securities and collateralized mortgage obligations	*114,592*	—	*114,592*	—
Corporate securities	*4,992*	—	*4,992*	—
Commercial mortgage-backed securities	*26,641*	—	*26,641*	—
Other investment securities (1)	*2,516*	—	*2,516*	—
Total assets measured at fair value	$*267,954*	$ —	$*267,954*	$ —

(*1*) Principally consists of asset backed securities and CRA qualified mutual fund investments.

48

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

(Amounts in thousands)	**Fair Value at December 31, 2016**			
Recurring Basis	**Total**	**Level 1**	**Level 2**	**Level 3**
Available-for-sale securities				
U.S. government and agencies	$*10,354*	$ —	$*10,354*	$ —
Obligations of states and political subdivisions	*59,428*	—	*59,428*	—
Residential mortgage-backed securities and collateralized mortgage obligations	*69,604*	—	*69,604*	—
Corporate securities	*16,116*	—	*16,116*	—
Commercial mortgage-backed securities	*15,514*	—	*15,514*	—
Other investment securities [1]	*4,158*	—	*4,158*	—
Total assets measured at fair value	$*175,174*	$ —	$*175,174*	$ —

(*1*) Principally consists of asset backed securities and CRA qualified mutual fund investments.

Recurring Items

Investment 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, we obtain 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. We have determined that the source of these fair values falls within Level *2* of the fair value hierarchy.

Transfers Between Fair Value Hierarchy Levels

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstance that caused the transfer. There were *no* transfers between levels of the fair value hierarchy during the years ended *December 31, 2017* or *2016.*

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

We *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 *three* tables present information about our assets and liabilities at *December 31, 2017* and *December 31, 2016* 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 present 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 December 31, 2017**			
Nonrecurring basis	**Total**	**Level 1**	**Level 2**	**Level 3**
Collateral dependent impaired loans	$*60*	$ —	$ —	$ *60*
Other real estate owned	*35*	—	—	*35*
Total assets measured at fair value	$*95*	$ —	$ —	$ *95*

(Amounts in thousands)	**Fair Value at December 31, 2016**			
Nonrecurring basis	**Total**	**Level 1**	**Level 2**	**Level 3**
Collateral dependent impaired loans	$*1,587*	$ —	$ —	$*1,587*
Other real estate owned	*219*	—	—	*219*
Total assets measured at fair value	$*1,806*	$ —	$ —	$*1,806*

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table presents the losses resulting from nonrecurring fair value adjustments for the years ended *December 31, 2017, 2016* and *2015* related to assets outstanding at *December 31, 2017, 2016,* and *2015.*

(Amounts in thousands)	**December 31,**		
Fair value adjustments	**2017**	**2016**	**2015**
Collateral dependent impaired loans	$*20*	$*1,183*	$*476*
Other real estate owned	*38*	*77*	*197*
Total	$*58*	$*1,260*	$*673*

For the year ended *December 31, 2017* collateral dependent impaired loans with a carrying amount of *$80* thousand were written down to their fair value of *$60* thousand resulting in a *$20* thousand adjustment to the ALLL.

For the year ended *December 31, 2017, one* property is included in the OREO balance with an aggregate carrying value of *$73* thousand that was written down to fair value of *$35* thousand, resulting in a *$38* thousand adjustment to 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 less estimated selling costs. 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, we record 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. OREO fair values are adjusted for estimated selling costs between *8%* and *34%.* We record OREO as a nonrecurring Level *3.*

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, our entire holdings of a particular financial instrument. Because *no* market exists for a significant portion of our 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. 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.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 23. INCOME TAXES

The following table presents components of income tax expense included in the *Consolidated Statements of Income* for each of the past *three* years.

(Amounts in thousands)	**Current**	**Deferred**	**Total**
Year ended December 31, 2017:			
Federal	$ *2,005*	$ *2,837*	$*4,842*
State	*1,474*	*(76*)	*1,398*
Affordable housing partnership amortization	*688*	—	*688*
	$ *4,167*	$ *2,761*	$*6,928*
Year ended December 31, 2016:			
Federal	$ *283*	$ *409*	$*692*
State	*582*	*86*	*668*
Affordable housing partnership amortization	*598*	—	*598*
	$ *1,463*	$ *495*	$*1,958*
Year ended December 31, 2015:			
Federal	$ *1,183*	$ *509*	$*1,692*
State	*981*	*75*	*1,056*
Affordable housing partnership amortization	*714*	—	*714*
Total	$ *2,878*	$ *584*	$*3,462*

Our effective tax rate is derived from provision for income taxes divided by income before provision for income taxes. Income tax expense attributable to income before income taxes differed from the amounts computed by applying the U.S. federal income tax rate of *34%* to income before income taxes.

The following table presents a reconciliation of income taxes computed at the federal statutory rate to the actual effective rate for the years ended *December 31, 2017, 2016,* and *2015.*

	2017	2016	2015
Income tax at the federal statutory rate	*34.00%*	*34.00 %*	*34.00%*
Deferred tax asset write-down	*17.45%*	*5.02 %*	*— %*
State franchise tax, net of federal tax benefit	*6.46 %*	*6.11 %*	*5.79 %*
Amortization of affordable housing credit partnerships	*4.82 %*	*8.11 %*	*5.91 %*
Officer life insurance	*(2.50 %)*	*(2.89 %)*	*(1.81 %)*
Tax-exempt interest	*(5.23 %)*	*(10.85%)*	*(8.02 %)*
Affordable housing credits and benefits	*(5.68 %)*	*(11.69%)*	*(6.42 %)*
Other	*(0.78 %)*	*(0.68 %)*	*(0.71 %)*
Effective Tax Rate	*48.54%*	*27.13 %*	*28.74%*

For the year ended *December 31, 2017,* our income tax provision of $*6.9* million on pre-tax income of *$14.3* million was an effective tax rate of *48.5%.* The income tax provision was composed of a *$2.5* million write-down of our deferred tax assets and a *$4.4* million tax provision on pre-tax net operating income of *$14.3* million (*30.8%*). The *$2.5* million write-down occurred when we revalued our deferred tax assets and liabilities to account for the future impact of lower corporate tax rates from a graduated rate of *35%* to a flat rate of *21%* resulting from the Tax Cuts and Jobs Act enacted on *December 22, 2017.*

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table reflects the effects of temporary differences that give rise to the components of the net deferred tax asset as of *December 31, 2017* and *2016.*

(Amounts in thousands)	**2017**	**2016**
Deferred tax assets:		
Loan and lease loss reserves	$*3,526*	$*4,751*
Deferred compensation	*2,365*	*3,285*
State franchise taxes	*291*	*260*
Branch acquisition costs	*274*	*366*
Unrealized losses other comprehensive income	*134*	*553*
Non accrued interest	*105*	*341*
Federal tax credits	—	*525*
Other	*484*	*1,093*
Total deferred tax assets	*7,179*	*11,174*
Deferred tax liabilities:		
Deferred loan origination costs	*(619*)	*(904*)
Unrealized gains other comprehensive income	—	*(92*)
Basis difference in fixed assets	—	*(164*)
Other	*(55*)	*(472*)
Total deferred tax liabilities	*(674*)	*(1,632*)
Net deferred tax asset	$*6,505*	$*9,542*

We have determined that we are *not* required to establish a valuation allowance for the deferred tax assets as management believes it is more likely than *not* that the deferred tax assets of *$7.2* million and *$11.2* million at *December 31, 2017* and *2016,* will be realized principally through future reversals of existing taxable temporary differences. We further believe that future taxable income will be sufficient to realize the benefits of temporary deductible differences that cannot be realized through the reversal of future temporary taxable differences.

We have investments in Qualified Zone Academy Bonds ("QZAB") of *$4.7* million at *December 31, 2017* and *2016* recorded in *Other Assets* in the *Consolidated Balance Sheets.* We also have investments in QZAB of *$1.0* million at *December 31, 2017* recorded in *Securities available-for-sale* in the *Consolidated Balance Sheets*. The investments provide funds for capital improvements at local schools and are repaid at maturity in *2031, 2033* and *2046.* In exchange for the investment we receive a federal tax credit at a rate determined at the settlement of the investment by the US Treasury. We account for the benefit for these tax credit investments using the deferred cost reduction method.

For the years ended *December 31, 2017* and *2016,* we expect to carryforward a California capital loss in the amount of *$53* thousand which will expire in *2020.*

See Note *24 Qualified Affordable Housing Partnership Investments* in these *Notes to Consolidated Financial Statements*, for further details on our affordable housing project investments.

In *September* of *2016,* we filed amended federal and state tax returns for tax years *2011, 2012, 2013,* and *2014.* We recognized *$41* thousand in other noninterest expense during the year ended *December 31, 2017* as interest applied to our amended state tax returns.

Additionally, we have *no* unrecognized tax benefits at *December 31, 2017* and *2016.* We recognize interest accrued and penalties related to unrecognized tax benefits in other noninterest expense.

We file income tax returns in the U.S. federal jurisdiction, and the State of California. Income tax returns filed are subject to examination by the U.S. federal, state, and local income tax authorities. While *no* income tax returns are currently being examined, we are *no* longer subject to tax examination by tax authorities for years prior to fiscal year *2014* for federal tax returns and fiscal year *2013* for state and local tax returns.

In September of 2016, we filed amended federal and state tax returns for tax years 2011, 2012, 2013, and 2014. The amendments were filed to properly recognize tax events in years 2011 and 2013, that were improperly recognized in years 2011 through 2014. The IRS rejected the 2011 amended tax return citing the statute for assessment had expired. Accordingly, $988 thousand of taxes due to the taxing authorities pursuant to the 2011 amended federal tax return was returned to us. As of December 31, 2017 we continue to recognize 100% of the tax liability relating to our 2011 amended federal tax return because we believe it is more likely than not, our tax position would be sustained upon reexamination by the IRS or through the litigation process. We do not expect to reconsider or reverse our tax position until the statute of limitations expires on the 2014 amended federal tax return in September of 2018, and until we believe it is more likely than not that the taxes due cannot be recouped. If we reverse our tax position, we will recognize the $988 thousand in our provision for income taxes and our effective tax rate will be reduced.

The following table presents our uncertain tax position at December 31, 2017 and 2016.

(Amounts in thousands)	**2017**	**2016**
Balance, beginning of period	$988	$—
Additions for tax positions related to prior years	—	988
balance, end of period	$988	$988

52

Table of Contents

NOTE 24. QUALIFIED AFFORDABLE HOUSING PARTNERSHIP INVESTMENTS

Our investments in Qualified Affordable Housing Partnerships that generate Low Income Housing Tax Credits ("LIHTC") and deductible operating losses totaled *$3.5* million at *December 31, 2017.* These investments are recorded in *Other Assets* with a corresponding funding obligation of *$361* thousand recorded in *Other Liabilities* in our *Consolidated Balance Sheets*. We have invested in *four* separate LIHTC partnerships, which provide the Company with CRA credit. Additionally, the investments in LIHTC partnerships provide us with tax credits and with operating loss tax benefits over an approximately *18*-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 investments we made and provide returns on the investments of between *3%* and *6%* over the life of the investment. The investments in LIHTC partnerships are being accounted for using the proportional amortization method, under which we amortize the initial cost of an investment in proportion to the amount of the tax credits and other tax benefits received, and recognize the net investment performance in the *Consolidated Statements of Income* as a component of income tax expense.

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table presents our original investment in LIHTC partnerships, the current recorded investment balance, and the unfunded liability balance of each investment at *December 31, 2017* and *December 31, 2016.* In addition, the table reflects the tax credits and tax benefits, amortization of the investment and the net impact to our income tax provision for the years ended *December 31, 2017* and *2016.*

	At December 31, 2017			**For the year ended December 31, 2017**		
	Original	**Current**	**Unfunded**	**Tax Credits**	**Amortization**	**Net**
(Amounts in thousands)	**Investment**	**Recorded**	**Liability**	**and**	**of**	**Income Tax**
Qualified Affordable Housing Partnerships	**Value**	**Investment**	**Obligation**	**Benefits**	**Investments**	**Benefit**
Raymond James California Housing Opportunities Fund II	$*2,000*	$ *1,182*	$ *20*	$*224*	$ *179*	$ *45*
WNC Institutional Tax Credit Fund 38, L.P.	*1,000*	*589*	—	*139*	*108*	*31*
Merritt Community Capital Corporation Fund XV, L.P.	*2,500*	*1,476*	*341*	*271*	*237*	*34*
California Affordable Housing Fund	*2,454*	*282*	—	*176*	*164*	*12*
Total	$*7,954*	$ *3,529*	$ *361*	$*810*	$ *688*	$ *122*

	At December 31, 2016			For the year ended December 31, 2016		
(Amounts in thousands)	Original	Current	Unfunded	Tax Credits	Amortization	Net
	Investment	Recorded	Liability	and	of	Income Tax
Qualified Affordable Housing Partnerships	Value	Investment	Obligation	Benefits	Investments	Benefit
Raymond James California Housing Opportunities Fund II	$ *2,000*	$ *1,361*	$ *45*	$ *237*	$ *192*	$ *45*
WNC Institutional Tax Credit Fund 38, L.P.	*1,000*	*698*	*73*	*143*	*100*	*43*
Merritt Community Capital Corporation Fund XV, L.P.	*2,500*	*1,713*	*367*	*266*	*106*	*160*
California Affordable Housing Fund	*2,454*	*445*	*—*	*205*	*200*	*5*
Total	$ *7,954*	$ *4,217*	$ *485*	$ *851*	$ *598*	$ *253*

The following table presents our generated tax credits and tax benefits from investments in qualified affordable housing partnerships for the years ended *December 31, 2017, 2016* and *2015.*

	For the Years Ended December 31,					
	2017		2016		2015	
(Amounts in thousands)	Generated	Tax Benefits from	Generated	Tax Benefits from	Generated	Tax Benefits from
Qualified Affordable Housing Partnerships	Tax Credits	Taxable Losses	Tax Credits	Taxable Losses	Tax Credits	Taxable Losses
Raymond James California Housing Opportunities Fund II	$ *176*	$ *48*	$ *184*	$ *53*	$ *168*	$ *62*
WNC Institutional Tax Credit Fund 38, L.P.	*113*	*26*	*107*	*36*	*93*	*27*
Merritt Community Capital Corporation Fund XV, L.P.	*215*	*56*	*206*	*60*	*214*	*58*
California Affordable Housing Fund	*126*	*50*	*158*	*47*	*158*	*43*
Total	$ *630*	$ *180*	$ *655*	$ *196*	*633*	$ *190*

The tax credits and benefits were partially offset by the amortization of the principal investment balances of *$688* thousand, *$598* thousand and *$712* thousand for the years ended *December 31, 2017, 2016* and *2015,* respectively.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table reflects the anticipated net income tax benefit at *December 31, 2017,* that is expected to be recognized over the remaining life of the investments and has been updated to reflect the change in tax rate in the Tax Cuts and Jobs Act enacted on *December 22, 2017.*

(Amounts in thousands) **Qualified Affordable Housing Partnerships: Anticipated income tax benefit, net less amortization of investments**	**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 Income Tax Benefit, Net**
2018	$ *23*	$ *21*	$ *3*	$ *(17)*	$ *30*
2019	*23*	*17*	*4*	*(14)*	*30*
2020	*22*	*17*	*4*	*(14)*	*29*
2021	*23*	*16*	*3*	*(14)*	*28*
2022 and thereafter	*61*	*42*	*9*	*(43)*	*69*
Total	$ *152*	$ *113*	$ *23*	$ *(102)*	$ *186*

NOTE 25. BRANCH ACQUISITION

On *March 11, 2016,* we completed the purchase of *five* Bank of America branches in northern California. The acquired branches are located in Colusa, Willows, Orland, Corning, and Yreka. The Bank also acquired *three* offsite ATM locations in Williams, Orland and Corning. The Bank paid cash consideration of *$6.7* million and acquired *$155.2* million in assets, primarily cash and premises. The Bank assumed *$149.2* million in liabilities, primarily deposits.

The transaction provided a new source of low cost core deposits and allowed us to execute our plan to reconfigure our balance sheet. On *March 14, 2016,* we utilized a portion of that new liquidity to reduce our reliance on wholesale funding sources repaying *$75.0* million of Federal Home Loan Bank of San Francisco hedged term debt and redeeming *$17.5* million of brokered time deposits.

The transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at estimated fair values on the acquisition date. The Bank engaged *third* party specialists to assist in valuing certain assets, including the real estate and the core deposit intangible that resulted from the acquisition.

The contribution of the acquired operations of the *five* former Bank of America offices was immaterial. Therefore, disclosure of supplemental pro forma financial information, especially prior period comparisons is deemed neither practical nor meaningful. Additionally, the acquired operation was *not* considered a “significant business combination” as defined by the Securities and Exchange Commission.

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

Branch acquisition costs recorded during the year ended *December 31, 2016* and *2015* were $*580* thousand and *$347* thousand, respectively. The following table provides an assessment of the consideration transferred, assets purchased, and the liabilities assumed.

(Amounts in thousands)	**As Recorded by Bank of America**	**Fair Value and Other Merger Related Adjustments**	**As Recorded by the Company**
Consideration paid:			
Cash paid			$ *6,656*
Total consideration			$ *6,656*
Assets acquired:			
Cash and cash equivalents	$ *149,067*	$ —	$ *149,067*
Premises and equipment, net	*1,835*	*2,355*	*4,190*
Other assets	*201*	—	*201*
Core deposit intangible	—	*1,772*	*1,772*
Total assets acquired	$ *151,103*	$ *4,127*	$ *155,230*
Liabilities assumed:			
Deposits	$ *149,047*	$ —	$ *149,047*
Other liabilities	*20*	*172*	*192*
Total liabilities assumed	$ *149,067*	$ *172*	$ *149,239*
Net identifiable assets acquired over liabilities assumed	$ *2,036*	$ *3,955*	$ *5,991*
Goodwill			$ *665*

NOTE 26. EARNINGS PER COMMON SHARE

The following table presents a computation of basic and diluted earnings per share for the years ended *December 31, 2017, 2016* and *2015.*

(Amounts in thousands, except per share information)

Earnings Per Share	**2017**	**2016**	**2015**
Numerators:			
Net income	$*7,344*	$*5,259*	$*8,586*
Less:			
Preferred stock extinguishment costs	—	—	*102*
Preferred stock dividends	—	—	*189*
Net income available to common shareholders	$*7,344*	$*5,259*	$*8,295*
Denominators:			
Weighted average number of common shares outstanding - basic [1]	*15,207*	*13,367*	*13,331*
Effect of potentially dilutive common shares [2]	*103*	*58*	*34*
Weighted average number of common shares outstanding - diluted	*15,310*	*13,425*	*13,365*
Earnings per common share:			
Basic	$*0.48*	$*0.39*	$*0.62*
Diluted	$*0.48*	$*0.39*	$*0.62*
Anti-dilutive options not included in earnings per share calculation	—	*45*	*121*
Anti-dilutive restricted shares not included in diluted earnings per share calculation	*7*	—	*41*

[1] Excludes unvested restricted shares because they do *not* have dividend or voting rights.
[2] Represents the effects of the assumed exercise of stock options and vesting of non-participating restricted shares.

On *May 10, 2017,* the Company announced the closing of its underwritten public offering, at the public offering price of *$10.50* per share. The total number of shares of common stock sold by the Company was *2,738,096* shares. Net proceeds raised in the offering, after underwriting discounts and expenses of the offering, were *$26.8* million.

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 27. RELATED PARTY TRANSACTIONS

Some of the directors and executive officers (and their associated or affiliated companies) were customers of and had banking transactions with us in the ordinary course of our business and we expect to have such transactions in the future. All deposits, loans and commitments to fund loans included in such transactions were made in compliance with the applicable laws on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar creditworthiness.

The following table presents a summary of aggregate activity involving related party borrowers for the years ended *December 31, 2017* and *2016.*

(Amounts in thousands)	**2017**	**2016**
Balance at beginning of year	$*13,424*	$*13,707*
Advances on existing lines of credit	*29,166*	*24,447*
Principal repayments	*(29,360*)	*(24,730*)
Balance at end of year	$*13,230*	$*13,424*

At *December 31, 2017* and *2016,* deposits of related parties amounted to *$6.7* million and *$6.0* million, respectively. As of *December 31, 2017* and *2016,* there were *no* related party loans which were past due or adversely classified. At *December 31, 2017* and *2016* there was *$12.4* million, and *$8.8* million, respectively, in outstanding loan commitments to related parties. In our opinion, these transactions did *not* involve more than a normal risk of collectability or present other unfavorable terms.

NOTE 28. PARENT COMPANY FINANCIAL STATEMENTS

Condensed Balance Sheets

Year ended *December 31,*

(Amounts in thousands)	**2017**	**2016**
Assets:		
Cash	$*23,984*	$*493*
Investment in:		
Redding Bank of Commerce	*130,658*	*122,707*
Bank of Commerce Mortgage	*(64*)	*(64*)
Bank of Commerce Holdings Trust II	*310*	*310*
Other assets	*169*	*124*
Total Assets	$*155,057*	$*123,570*
Liabilities and shareholders' equity:		
Term debt:		
Senior debt, net	$*7,090*	$*8,904*
Subordinated debt, net	*9,868*	*9,829*
Junior subordinated debentures	*10,310*	*10,310*
Other liabilities	*525*	*421*
Total liabilities	*27,793*	*29,464*
Shareholders’ equity	*127,264*	*94,106*
Total liabilities and shareholders’ equity	$*155,057*	$*123,570*

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

Condensed Statements of Income

Year Ended *December 31,*

(Amounts in thousands)	**2017**	**2016**	**2015**
Income:			
Other income	$*9*	$*7*	$*6*
Dividends from subsidiaries	*2,200*	*4,200*	*2,850*
Total income	*2,209*	*4,207*	*2,856*
Expenses:			
Management fees paid to subsidiaries	*278*	*259*	*229*
Interest expense	*1,452*	*1,409*	*267*
Noninterest expense	*474*	*345*	*337*
Total expenses	*2,204*	*2,013*	*833*
Income before income taxes and equity in undistributed net income of subsidiaries	*5*	*2,194*	*2,023*
Income tax expense	*1*	*1*	*1*
Income before equity in undistributed net income of subsidiaries	*4*	*2,193*	*2,022*
Equity in undistributed net income of subsidiaries	*7,340*	*3,066*	*6,564*
Net income	$*7,344*	$*5,259*	$*8,586*
Less: Preferred stock extinguishment costs	—	—	*102*
Less: Preferred dividends	—	—	*189*
Income available to common shareholders	$*7,344*	$*5,259*	$*8,295*

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

Condensed Statements of Cash Flows

Year Ended *December 31,*

(Amounts in thousands)	**2017**	**2016**	**2015**
Cash flows from operating activities:			
Net income	$*7,344*	$*5,259*	$*8,586*
Adjustments to reconcile net income to net cash provided by operating activities:			
Compensation associated with stock options	—	—	*1*
Equity in undistributed net income of subsidiaries	*(7,340*)	*(3,066*)	*(6,564*)
Amortization of debt issuance costs	*44*	*40*	—
Provision for depreciation and amortization	*6*	—	—
Decrease in other assets	*32*	*6*	*371*
Increase (decrease) in other liabilities	*59*	*(137*)	*229*
Net cash provided by operating activities	*145*	*2,102*	*2,623*
Cash flows from investing activities:			
Purchases of premises and equipment	*(82*)	—	—
Net cash (used) by investing activities	*(82*)	—	—
Cash flows from financing activities:			
Advances on term debt	—	—	*20,000*
Repayment of term debt	*(1,819*)	*(1,001*)	*(83*)
Debt issuance costs paid	—	—	*(223*)

Redemption of preferred stock	—	—	(20,000)
Preferred stock extinguishment costs	—	—	(33)
Cash dividends paid on preferred stock	—	—	(189)
Cash dividends paid on common stock	(1,776)	(1,603)	(1,601)
Proceeds from stock options exercised	245	10	156
Net proceeds from issuance of common stock	26,778	—	—
Net cash provided by (used in) financing activities	23,428	(2,594)	(1,973)
Net increase (decrease) in cash and cash equivalents	23,491	(492)	650
Cash and cash equivalents at the beginning of year	493	985	335
Cash and cash equivalents at the end of year	$23,984	$493	$985
Supplemental disclosures of non cash financing activities:			
Stock compensation grants	$41	$—	$—
Common stock issued under employee plans	$—	$84	$36

58

Table of Contents

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 29. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following tables present the summary of results for the *eight* quarters ended *December 31, 2017.*

2017

(Amounts in thousands, except for share information)	**March 31, 2017**	**June 30, 2017**	**September 30, 2017**	**December 31, 2017**	**Four Quarters**
Net interest income	$*9,734*	$*10,175*	$ *10,584*	$ *10,869*	$ *41,362*
Provision for loan and lease losses	*200*	*300*	—	*450*	*950*
Noninterest income	*1,471*	*995*	*1,076*	*1,282*	*4,824*
Noninterest expense	*7,990*	*7,726*	*7,357*	*7,891*	*30,964*
Income before provision for income tax	*3,015*	*3,144*	*4,303*	*3,810*	*14,272*
Provision for income tax	*763*	*935*	*1,427*	*3,803*	*6,928*
Income available to common shareholders	$*2,252*	$*2,209*	$ *2,876*	$ *7*	$ *7,344*
Earnings per share - basic	$*0.17*	$*0.15*	$ *0.18*	$ —	$ *0.48*
Weighted average shares - basic	*13,416*	*15,014*	*16,191*	*16,195*	*15,207*
Earnings per share - diluted	$*0.17*	$*0.15*	$ *0.18*	$ —	$ *0.48*
Weighted average shares - diluted	*13,521*	*15,113*	*16,288*	*16,306*	*15,310*

2016

(Amounts in thousands, except for share information)	**March 31, 2016**	**June 30, 2016**	**September 30, 2016**	**December 31, 2016**	**Four Quarters**
Net interest income	$*8,304*	$*9,217*	$ *9,276*	$ *9,434*	$ *36,231*
Provision for loan and lease losses	—	—	—	—	—
Noninterest income	*824*	*412*	*990*	*1,260*	*3,486*
Noninterest expense	*9,876*	*7,643*	*7,156*	*7,825*	*32,500*

(Loss) income before provision for income tax	*(748)*	*1,986*	*3,110*	*2,869*	*7,217*
Provision for income tax	*212*	*430*	*744*	*572*	*1,958*
(Loss) income available to common shareholders	$*(960)*	$*1,556*	$ *2,366*	$ *2,297*	$ *5,259*
(Loss) earnings per share - basic	$*(0.07)*	$*0.11*	$ *0.18*	$ *0.17*	$ *0.39*
Weighted average shares - basic	*13,360*	*13,367*	*13,369*	*13,370*	*13,367*
(Loss) earnings per share - diluted	$*(0.07)*	$*0.11*	$ *0.18*	$ *0.17*	$ *0.39*
Weighted average shares - diluted	*13,403*	*13,425*	*13,439*	*13,476*	*13,425*

59

Table of Contents

Part IV

Item 15 - Exhibits and Financial Statement Schedules

(a) The following documents are filed as a part of this Form 10-K:

(1) Financial Statements:

Reference is made to the Index to Consolidated Financial Statements under Item 8 in Part II of this Form 10-K.

(2) Financial Statement Schedules:

All schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3) Exhibits:

Exhibit No.	Exhibit Description	Form	SEC File No.	Original Exhibit No.	Filing Date	Filed Herewith
3.1	Restated Articles of Incorporation	10-Q	000-25135	3.1	8/5/2016	
3.2	Amended and Restated Bylaws	8-K	000-25135	3.1	5/21/2015	
4.1	Promissory Note between Bank of Commerce Holdings and NexBank SSB, dated December 10, 2015	8-K	000-25135	4.1	12/14/2015	
4.2	Form of 6.875% Fixed to Floating Rate Subordinated Note due December 10, 2025	8-K	000-25135	4.2	12/14/2015	
10.1*	1993 Directors Deferred Compensation Plan	10-12G	000-25135	10.7	12/4/1998	
10.2*	Form of Deferred Compensation Agreement used in connection with 1993 Directors Deferred Compensation Plan	10-12G	000-25135	10.8	12/4/1998	
10.3*	Amendments to the 1993 Deferred Compensation Plan	10-K	000-25135	10.8	3/11/2014	
10.4*	Amended and Restated 2010 Equity Incentive Plan (“2010 Equity Incentive Plan”)	DEF 14A	000-25135	Appendix A	3/9/2012	
10.5*	Form of Stock Option Agreement used in connection with 2010 Equity Incentive Plan	10-K	000-25135	10.7	3/8/2016	
10.6*	Form of Notice of Exercise of Stock Option used in connection with 2010 Equity Incentive Plan	10-K	000-25135	10.8	3/8/2016	
10.7*	Form of Restricted Stock Agreement used in connection with 2010 Equity Incentive Plan	10-K	000-25135	10.9	3/8/2016	
10.8*	Form of Stock Grant Agreement used in connection with 2010 Equity Incentive Plan	10-K	000-25135	10.10	3/8/2016	
10.9*	Amended and Restated Salary Continuation Agreement with Randall S. Eslick, dated November 19, 2013	10-K	000-25135	10.10	3/11/2014	
10.10*	Amended and Restated Salary Continuation Agreement with Samuel D. Jimenez, dated December 17, 2013	10-K	000-25135	10.12	3/11/2014	
10.11*	Salary Continuation Agreement with Robert H. Muttera, dated January 17, 2014	10-K	000-25135	10.18	3/11/2014	

10.12*	Amended and Restated 2013 Directors Deferred Compensation Plan and Participant Election Form	10-K	000-25135	10.12	3/9/2018
10.13	Loan Agreement by and between Bank of Commerce Holdings and NexBank SSB, dated December 10, 2015	8-K	000-25135	10.1	12/14/2015
10.14	Pledge and Security Agreement between Bank of Commerce Holdings and NexBank SSB, dated December 10, 2015	8-K	000-25135	10.2	12/14/2015

Table of Contents

10.15	Subordinated Note Purchase Agreement between Bank of Commerce Holdings and The Purchasers named Herein, dated December 10, 2015	8-K	000-25135	10.3	12/14/2015	
10.16*	Amended and Restated Employment Agreement with Randall S. Eslick dated February 21, 2017.	10-K	000-25135	10.20	3/15/2017	
10.17*	Amended and Restated Employment Agreement with James A. Sundquist dated February 21, 2017.	10-K	000-25135	10.21	3/15/2017	
10.18*	Amended and Restated Employment Agreement with Samuel D. Jimenez dated February 21, 2017.	10-K	000-25135	10.22	3/15/2017	
10.19*	Amended and Restated Employment Agreement with Robert H. Muttera dated February 21, 2017.	10-K	000-25135	10.23	3/15/2017	
14	Code of Ethics for Senior Financial Officers	8-K	000-25135	14.1	5/21/2015	
21.1	Subsidiaries of the Company	10-K	000-25135	21.1	3/9/2018	
23.1	Consent of Moss Adams LLP					X
24	Power of Attorney (included on signature page to this report)	10-K	000-25135	24	3/9/2018	
31.1	Certification of Randall S. Eslick pursuant to Exchange Act Rule 13a-14(a) or 15d — 14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of James A. Sundquist pursuant to Exchange Act Rule 13a-14(a) or 15d — 14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification pursuant to Section 1350					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

* Executive Contract, Compensatory Plan or Arrangement

Table of Contents

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 27, 2018.

BANK OF COMMERCE HOLDINGS

By /s/ *Randall S. Eslick*
Randall S. Eslick
President, Chief Executive Officer and Director of Redding Bank of Commerce and Bank of Commerce Holdings

Table of Contents

Exhibit Index

(Material Contracts Listed as 10.1 - 10.19)

Exhibit No.	Exhibit Description	Form	SEC File No.	Original Exhibit No.	Filing Date	Filed Herewith
3.1	Restated Articles of Incorporation	10-Q	000-25135	3.1	8/5/2016	
3.2	Amended and Restated Bylaws	8-K	000-25135	3.1	5/21/2015	
4.1	Promissory Note between Bank of Commerce Holdings and NexBank SSB, dated December 10, 2015	8-K	000-25135	4.1	12/14/2015	
4.2	Form of 6.875% Fixed to Floating Rate Subordinated Note due December 10, 2025	8-K	000-25135	4.2	12/14/2015	
10.1*	1993 Directors Deferred Compensation Plan	10-12G	000-25135	10.7	12/4/1998	
10.2*	Form of Deferred Compensation Agreement used in connection with 1993 Directors Deferred Compensation Plan	10-12G	000-25135	10.8	12/4/1998	
10.3*	Amendments to the 1993 Deferred Compensation Plan	10-K	000-25135	10.8	3/11/2014	
10.4*	Amended and Restated 2010 Equity Incentive Plan ("2010 Equity Incentive Plan")	DEF 14A	000-25135	Appendix A	3/9/2012	
10.5*	Form of Stock Option Agreement used in connection with 2010 Equity Incentive Plan	10-K	000-25135	10.7	3/8/2016	
10.6*	Form of Notice of Exercise of Stock Option used in connection with 2010 Equity Incentive Plan	10-K	000-25135	10.8	3/8/2016	
10.7*	Form of Restricted Stock Agreement used in connection with 2010 Equity Incentive Plan	10-K	000-25135	10.9	3/8/2016	
10.8*	Form of Stock Grant Agreement used in connection with 2010 Equity Incentive Plan	10-K	000-25135	10.10	3/8/2016	
10.9*	Amended and Restated Salary Continuation Agreement with Randall S. Eslick, dated November 19, 2013	10-K	000-25135	10.10	3/11/2014	
10.10*	Amended and Restated Salary Continuation Agreement with Samuel D. Jimenez, dated December 17, 2013	10-K	000-25135	10.12	3/11/2014	
10.11*	Salary Continuation Agreement with Robert H. Muttera, dated January 17, 2014	10-K	000-25135	10.18	3/11/2014	
10.12*	Amended and Restated 2013 Directors Deferred Compensation Plan and Participant Election Form	10-K	000-25135	10.12	3/9/2018	
10.13	Loan Agreement by and between Bank of Commerce Holdings and NexBank SSB, dated December 10, 2015	8-K	000-25135	10.1	12/14/2015	
10.14	Pledge and Security Agreement between Bank of Commerce Holdings and NexBank SSB, dated December 10, 2015	8-K	000-25135	10.2	12/14/2015	
10.15	Subordinated Note Purchase Agreement between Bank of Commerce Holdings and The Purchasers named Herein, dated December 10, 2015	8-K	000-25135	10.3	12/14/2015	

10.16*	Amended and Restated Employment Agreement with Randall S. Eslick dated February 21, 2017.	10-K	000-25135	10.20	3/15/2017

63

Table of Contents

10.17*	Amended and Restated Employment Agreement with James A. Sundquist dated February 21, 2017.	10-K	000-25135	10.21	3/15/2017	
10.18*	Amended and Restated Employment Agreement with Samuel D. Jimenez dated February 21, 2017.	10-K	000-25135	10.22	3/15/2017	
10.19*	Amended and Restated Employment Agreement with Robert H. Muttera dated February 21, 2017.	10-K	000-25135	10.23	3/15/2017	
14	Code of Ethics for Senior Financial Officers	8-K	000-25135	14.1	5/21/2015	
21.1	Subsidiaries of the Company	10-K	000-25135	21.1	3/9/2018	
23.1	Consent of Moss Adams LLP					X
24	Power of Attorney (included on signature page to this report)	10-K	000-25135	24	3/9/2018	
31.1	Certification of Randall S. Eslick pursuant to Exchange Act Rule 13a-14(a) or 15d — 14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of James A. Sundquist pursuant to Exchange Act Rule 13a-14(a) or 15d — 14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification pursuant to Section 1350					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

* Executive Contract, Compensatory Plan or Arrangement