Bank of Commerce Holdings
Form 10-Q
November 12, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from __________ to __________

Commission file number 0-25135

Bank of Commerce Holdings

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

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

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

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

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

Yes þ No o

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

Yes o No o

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

(Check One)

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

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

Yes o No þ

Outstanding shares of Common Stock, no par value, as of October 31, 2010: 16,991,495

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Condensed Consolidated Balance Sheets
September 30, 2010 (unaudited), December 31, 2009 and September 30, 2009 (unaudited)

(Dollars in thousands)	September 30, 2010	December 31, 2009	September 30, 2009
ASSETS			
Cash and due from banks, noninterest bearing	$ 27,763	$ 36,902	$ 20,224
Interest bearing due from banks	43,188	31,338	56,208
Cash and cash equivalents	70,951	68,240	76,432
Securities available-for-sale, at fair value (including pledged collateral of $43,772 at September 30, 2010, $55,672 at December 31, 2009 and $61,345 at September 30, 2009)	166,925	80,062	86,499
Portfolio Loans, net of the allowance for loan losses of $15,452 at September 30, 2010, $11,207 at December 31, 2009 and $8,899 at September 30, 2009	595,575	590,023	590,885
Mortgage loans held for sale	41,025	27,288	16,787
Bank premises and equipment, net	9,842	9,980	10,201
Goodwill	3,695	3,727	3,727
Other real estate owned	2,020	2,880	2,934
Other assets	34,239	31,206	27,215
TOTAL ASSETS	$ 924,272	$ 813,406	$ 814,680
LIABILITIES AND STOCKHOLDERS EQUITY			
Demand noninterest bearing	$ 90,613	$ 69,448	$ 70,491
Demand interest bearing	161,154	163,814	156,233
Savings accounts	82,761	65,414	59,982
Certificates of deposit	305,503	341,788	312,968
Total deposits	640,031	640,464	599,674
Securities sold under agreements to repurchase	11,328	9,621	10,038
Federal Home Loan Bank and Federal Reserve Bank borrowings	141,000	70,000	100,000
Mortgage warehouse lines of credit			12,285
Other liabilities	11,669	9,050	8,967
Junior subordinated debt payable to unconsolidated subsidiary grantor trust	15,465	15,465	15,465
Total Liabilities	819,493	744,600	746,429
Commitments and contingencies Stockholders Equity:			
	16,708	16,641	16,619

Preferred stock (liquidation preference of $1,000 per share; issued 2008) 2,000,000 authorized; 17,000 shares issued and outstanding on September 30, 2010, December 31, 2009, and September 30, 2009			
Common stock , no par value, 50,000,000 shares authorized; 16,991,495 shares issued and outstanding at September 30, 2010, 8,711,495 issued and outstanding on December 31, 2009 and at September 30, 2009	42,741	9,730	9,709
Common stock warrant	449	449	449
Retained earnings	40,845	39,004	38,355
Accumulated other comprehensive income, net of tax	1,717	657	827
Total Equity Bank of Commerce Holdings	102,460	66,481	65,959
Non controlling interest in subsidiary	2,319	2,325	2,292
Total stockholders equity	104,779	68,806	68,251
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 924,272	$ 813,406	$ 814,680

See accompanying notes to condensed consolidated financial statements.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Condensed Consolidated Statements of Income
Three and Nine Months Ended September 30, 2010 and September 30, 2009 (Unaudited)

	For Three Months Ended:		**For Nine Months Ended:**	
(Amounts in thousands, except for per share data)	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Interest income:				
Interest and fees on loans	$ 9,414	$ 9,355	$ 27,767	$ 26,676
Interest on tax-exempt securities	465	278	1,168	853
Interest on U.S. government securities	633	628	1,578	2,774
Interest on federal funds sold and securities purchased under agreements to resell	1	1	2	31
Interest on other securities	471	309	1,085	557
Total interest income	10,984	10,571	31,600	30,891
Interest expense:				
Interest on demand deposits	251	240	707	786
Interest on savings deposits	237	223	677	742
Interest on certificates of deposit	1,453	1,941	4,768	5,722
Securities sold under agreements to repurchase	13	13	40	38
Interest on FHLB and other borrowings	186	514	460	1,634
Interest on junior subordinated debt payable to unconsolidated subsidiary grantor trust	204	234	619	665
Total interest expense	2,344	3,165	7,271	9,587
Net interest income	8,640	7,406	24,329	21,304
Provision for loan and lease losses	4,450	1,844	8,300	6,325
Net interest income after provision for loan losses	4,190	5,562	16,029	14,979
Noninterest income:				
Service charges on deposit accounts	63	108	207	296
Payroll and benefit processing fees	107	109	335	347
Earnings on cash surrender value Bank owned life insurance	112	108	327	311
Net gain on sale of securities available-for-sale	179	506	1,243	1,984
Net gain on transfer of financial assets				340
Gain on settlement of put reserve	1,750		1,750	
Mortgage brokerage fee income	3,293	1,913	8,585	3,215
Other income	179	200	515	511
Total noninterest income	5,683	2,944	12,962	7,004
Noninterest expense:				

Salaries and related benefits	4,162	2,902	11,238	7,673
Occupancy and equipment expense	952	1,124	2,805	2,426
Write down of other real estate owned	129		1,374	
FDIC insurance premium	250	421	755	995
Data processing fees	52	52	205	231
Professional service fees	216	220	1,159	674
Deferred compensation expense	126	118	366	360
Stationery and supplies	35	62	211	141
Postage	58		145	111
Directors expense	56	75	208	232
Goodwill impairment			32	
Other expenses	1,257	680	3,490	1,664
Total noninterest expense	7,293	5,654	21,988	14,507
Income before provision for income taxes	2,580	2,852	7,003	7,476
Provision for income taxes	916	1,010	2,410	2,647
Net Income	1,664	1,842	4,593	4,829
Less: Net income (loss) attributable to non-controlling interest	105	129	(6)	230
Net Income attributable to Bank of Commerce Holdings	$ 1,559	$ 1,713	$ 4,599	$ 4,599
Less: preferred dividend and accretion on preferred stock	235	235	706	707
Income available to common shareholders	$ 1,324	$ 1,478	$ 3,893	$ 3,892
Basic earnings per share	$ 0.08	$ 0.17	$ 0.27	$ 0.45
Weighted average shares basic	16,991	8,711	14,263	8,711
Diluted earnings per share	$ 0.08	$ 0.17	$ 0.27	$ 0.45
Weighted average shares diluted	16,991	8,711	14,263	8,712
Cash Dividends declared	$ 0.03	$ 0.12	$ 0.15	$ 0.18

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Condensed Consolidated Statements of Stockholders Equity
Three and Nine Months Ended September 30, 2010 (Unaudited)

(Dollars in Thousands)	Comprehensive Income	Preferred Amount	Preferred Warrant	Common Shares	Stock Amount	Retained Earnings	Accumulated Other Comp- Income (Loss), net of tax	Subtotal Bank of Commerce Holdings	Non Controlling Interest in Subsidiary	Total
Balance at December 31, 2009		$ 16,641	$ 449	8,711,495	$ 9,730	$ 39,004	$ 657	$ 66,481	$ 2,325	$ 68,806
Comprehensive Income:										
Net Income (loss)	$ 1,280					1,535		1,535	(255)	1,280
Other Comprehensive Income:										
Unrealized gains on securities, net of tax	245									
Reclassification adjustment for gains included in net income, net of tax	(549)									
Total Other Comprehensive Income	976									
Less: Other Comprehensive loss non-controlling interest	(255)									
Total Comprehensive Income BOCH	$ 1,231						(304)	(304)		(304)
Accretion on Preferred Stock		22				(22)				
Common cash dividends ($0.06 per share)						(523)		(523)		(523)
Preferred stock dividend						(213)		(213)		(213)
Compensation expense associated with stock options					13			13		13
Issuance of new shares, net of issuance costs ($4.25 per share)				7,200,000	28,752			28,752		28,752
Balance at March 31, 2010		$ 16,663	$ 449	15,911,495	$ 38,495	$ 39,781	$ 353	$ 95,741	$ 2,070	$ 97,811

Comprehensive Income:										
Net Income	$ 1,649					1,505		1,505	144	1,649
Other Comprehensive Income:										
Unrealized gains on securities, net of tax	168									
Reclassification adjustment for gains included in net income, net of tax	(78)									
Total Other Comprehensive Income	1,739									
Less: Other Comprehensive income non-controlling interest	144									
Total Comprehensive Income BOCH	$ 1,595						90	90		90
Accretion on Preferred Stock		23				(23)				
Common cash dividends ($0.06 per share)						(1,019)		(1,019)		(1,019)
Preferred stock dividend						(213)		(213)		(213)
Compensation expense associated with stock options					14			14		14
Issuance of new shares, net of issuance costs ($4.25 per share)				1,080,000	4,361			4,361		4,361
Balance at June 30, 2010		$ 16,686	$ 449	16,991,495	$ 42,870	$ 40,031	$ 443	$ 100,479	$ 2,214	$ 102,693
Comprehensive Income:										
Net Income	$ 1,664					1,559		1,559	105	1,664
Other Comprehensive Income:										
Unrealized gains on securities and derivatives, net of tax	1,380									
Reclassification adjustment for gains included in net income, net of tax	(106)									
Total Other Comprehensive Income	2,938									
Less: Other Comprehensive income	105									

non-controlling interest										
Total Comprehensive Income BOCH	$ 2,833						1,274	1,274		1,274
Accretion on Preferred Stock		22				(22)				
Common cash dividends ($0.03 per share)						(510)		(510)		(510)
Preferred stock dividend						(213)		(213)		(213)
Compensation expense associated with stock options					12			12		12
Additional issuance costs					(141)			(141)		(141)
Balance at September 30, 2010		$ 16,708	$ 449	16,991,495	$ 42,741	$ 40,845	$ 1,717	$ 102,460	$ 2,319	$ 104,779

See accompanying notes to condensed consolidated financial statements.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
Nine Months Ended September 30, 2010 and 2009

(Dollars in thousands)	September 30, 2010	September 30, 2009
Cash flows from operating activities:		
Net income	$ 4,593	$ 4,829
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	8,300	6,325
Provision for depreciation and amortization	718	943
Goodwill impairment	32	
Compensation expense associated with stock options	39	60
Gain on transfer of financial assets		(340)
Gross proceeds from sales of loans held for sale	482,641	286,885
Gross originations of loans held for sale	(496,378)	(291,609)
Gain on sale of securities available-for-sale	(1,243)	(1,984)
Amortization of investment premiums and accretion of discounts, net	261	(90)
Gain on settlement of put reserve	(1,750)	
Loss (Gain) on sale of other real estate owned	139	(20)
Write down of other real estate owned	1,374	
(Increase) in deferred income taxes	(2,656)	(580)
Increase in cash surrender value of bank owned life policies	(278)	(1,471)
Effect of changes in:		
Other assets	(825)	(723)
Deferred compensation	321	337
Deferred loan fees	(85)	145
Other liabilities	3,461	(5,226)
Net cash used in operating activities	(1,336)	(2,519)
Cash flows from investing activities:		
Proceeds from maturities and payments of available for sale securities	25,805	22,653
Proceeds from sales of available-for-sale securities	38,707	67,874
Purchases of available-for-sale securities	(148,000)	(41,468)
Purchase of ITIN loan portfolio		(66,696)
Purchases of home equity loan portfolio	(14,801)	
Loan origination, net of principal repayments	151	(11,431)
Purchases of premises and equipment, net	(586)	(286)
Proceeds from the sales of other real estate owned	229	315
Cash acquired in merger, net of cash consideration paid		265
Net cash used in investing activities	(98,495)	(28,774)
Cash flows from financing activities:		
Net increase (decrease) in demand deposits and savings accounts	35,853	(4,289)

Net (decrease) increase in certificates of deposit		(36,286)		48,681
Net increase (decrease) in securities sold under agreement to repurchase		1,707		(3,815)
Net change in FHLB advances		71,000		(20,000)
Net change in other short term borrowings				4,375
Cash dividends paid on common stock		(2,065)		(1,742)
Cash dividends paid on preferred stock		(639)		(640)
Net proceeds from issuance of common stock		32,972		
Net cash from financing activities		102,542		212,534
Net increase (decrease) in cash and cash equivalents		2,711		(8,759)
Cash and cash equivalents, beginning of period		68,240		85,191
Cash and cash equivalents, end of period	$	70,951	$	76,432
Supplemental disclosures:				
Cash paid during the period for:				
Income taxes	$	3,711	$	2,189
Interest		7,369		9,635
Transfer of loans to other real estate owned		882		3,229

See accompanying notes to condensed consolidated financial statements.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
1. Summary of Significant Accounting Policies

Bank of Commerce Holdings is a financial services company providing banking, investments and mortgage banking through branch locations, the internet and other distribution channels. The unaudited condensed consolidated financial statements include the accounts of Bank of Commerce Holdings (the Holding Company) and its wholly owned subsidiaries Redding Bank of Commerce and Roseville Bank of Commerce (BOC or the Bank) and its majority owned subsidiary, Bank of Commerce Mortgage (collectively the Company). All significant inter-company balances and transactions have been eliminated. The condensed consolidated balance sheet as of December 31, 2009, which has been derived from audited financial statements audited by Moss Adams, LLP, a registered public accounting firm, as indicated in their report not included herein, and the unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. The financial information contained in this report reflects all adjustments that in the opinion of management are necessary for a fair presentation of the results of the interim periods. All such adjustments are of a normal recurring nature. Certain reclassifications have been made to the prior period condensed consolidated financial statements to conform to the current financial statement presentation with no effect on previously reported equity and net income.

The accounting and reporting policies of the Company conform to U.S. generally accepted accounting principles (GAAP) and general practices within the banking industry. In preparing the consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions about future economic and market conditions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Although our estimates contemplate current conditions and how they are expected to change in the future, it is reasonably possible that actual conditions could be worse than anticipated in those estimates, which could materially affect the Company s results of operations and financial condition. Management has made significant estimates in several areas, including the evaluation of other-than-temporary impairment on investment securities, allowance for loan and lease losses, and income taxes. Actual results could differ from those estimates. Among other effects, such changes could result in future impairments of investment securities, increases to the allowance for loan and lease losses, and changes to tax positions.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in Bank of Commerce Holdings 2009 Annual Report on Form 10-K. The results of operations and cash flows for the 2010 interim periods shown in this report are not necessarily indicative of the results for any future interim period or the entire fiscal year. For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and repurchase agreements. Federal funds are sold for a one-day period and securities purchased under agreements to resell are for no more than a 90-day period. Balances held in federal funds sold may exceed FDIC insurance limits.

2. Business Combinations

A business combination occurs when an entity acquires net assets that constitute a business, or acquires equity interests in one or more other entities that are businesses and obtains control over those entities. Business combinations may be effected through the transfer of consideration such as cash, other financial or non-financial assets, debt, or common or preferred shares. The assets and liabilities of an acquired entity or business are recorded at their respective fair values as of the closing date of the transaction.

The results of operations of an acquired entity are included in our consolidated results from the closing date of the transaction, and prior periods are not restated. All business combinations are accounted for using the acquisition method.

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

in two different states and licenses in California, Oregon, Washington, Idaho and Colorado. The business was formed in 1993 and the corporate offices are located in San Ramon, California. The Corporate offices are located in San Ramon, California.

The agreement was dated May 15, 2009. The total consideration paid by the Company was $2.5 million, with $1.5 million paid at closing and the additional $1.0 million to be earned-out over a period of three years. The earn-out is based upon the mortgage company s profits and will be paid in annual installments over the three year period. The measurement date for the earn out payments is December 31. The Company has accounted for the business combination using the acquisition method. The Company s acquisition of 51% majority ownership interest was measured at fair value based on the total consideration transferred.

The market and income approaches were used to value the business. The total estimated fair value of the non controlling interest was estimated to be $2.06 million and was based on the following multiples: 13.27 times trailing twelve months earnings, 29.21% price to trailing twelve months gross revenues and 436.70% of total shareholders equity.

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

The agreement allows the Company to penetrate into the Mortgage Brokerage Services market through our retail outlets and to share in the income on transactions produced from other locations. Effective July 1, 2009 the Company changed its name to Bank of Commerce Mortgage .

Purchase Price and Goodwill

The following table summarizes the purchase and resulting goodwill:

(Dollars in thousands) **Goodwill**	
Total consideration at fair value	$ 2,465
Fair value of non-controlling interest	2,062
	$ 4,527
Acquisition date fair value of net assets acquired	$ (800)
Goodwill at date of acquisition	$ 3,727

Total consideration paid in the acquisition consisted of $1.5 million in cash and $965 thousand in contingent consideration measured at fair value. No assets or liabilities arose out of contingencies. Goodwill totaling $3.7 million is not being amortized for book purposes under current accounting guidelines. Goodwill is not deductible for tax purposes. No other intangible assets, other than goodwill were recorded as a result of the business combination.

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

(Dollars in thousands)	**Nine Months Ended September 30, 2009**				
Pro-Forma Income Statement	**Bank**	**Mortgage**	**Parent**	**Intercompany**	**Consolidated**
Interest income:					
Total interest income	$ 30,663	$	$ 246	$ (18)	$ 30,891
Interest expense:					
Total interest expense	8,955	41	638	(18)	9,616
Net interest income	21,708	(41)	(392)		21,275
Provision for loan and lease losses	6,325				6,325
Net interest income after provision for loan losses	15,383	(41)	(392)		14,950
Noninterest income:					
Mortgage brokerage fee income	27	5,898			5,925
Other noninterest income	3,789	2			3,791
Total noninterest income	3,816	5,900			9,716
Noninterest expense:					
Salaries and related benefits	6,209	2,768	98		9,075
Occupancy and equipment expense	1,872	840			2,712
Other noninterest expense	3,743	1,062	153		4,958

Total noninterest expense	11,824	4,670	251		16,745
Income before provision for income taxes	7,375	1,189	(643)		7,921
Provision for income taxes	2,373	275			2,648
Net Income	5,002	914	(643)		5,273
Less: Net income attributable to non-controlling interest		448			448
Net Income attributable to Bank of Commerce Holdings	$ 5,002	$ 466	$ (643)		$ 4,825
Less: Preferred dividend and accretion on preferred stock			707		707
Income available to common shareholders	$ 5,002	$ 466	$ (1,350)		$ 4,118

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

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

The disclosures as of the end of the reporting period are effective for the Company s interim and annual periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for the Company s interim and annual periods beginning on or after December 15, 2010. The adoption of this Update requires enhanced disclosures and is not expected to have a significant effect on the Company s financial statements.

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

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

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

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

FASB ASU 2010-09 *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements* was issued on February 24, 2010. The amendments in the ASU remove the requirement for a Securities and Exchange Commission (SEC) filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. generally accepted accounting principals (U.S. GAAP). The FASB also clarified that if the financial statements have been revised, then an entity that is not an SEC filer should disclose both the date that the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued. The FASB believes these amendments remove potential conflicts with the SEC s literature. All of the amendments in the ASU were effective upon issuance, except for the use of the issued date for conduit debt obligors, which will be effective for interim or annual periods ending after June 15, 2010.

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

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

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

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

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4. Earnings per Share

Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that subsequently shared in the earnings of the entity. Net income available to common stockholders is based on the net income attributable to Bank of Commerce Holdings adjusted for dividend payments and accretion associated with Preferred Stock. The following table displays the computation of earnings per share for the three and nine months ended September 30, 2010 and 2009.

(Dollars in thousands, except per share data)	**Three Months Ended**		**Nine Months Ended**	
Earnings Per Share	**September 30, 2010**	**September 30, 2009**	**September 30, 2010**	**September 30, 2009**
Basic EPS Calculation:				
Net Income attributable to Bank of Commerce Holdings	$ 1,559	$ 1,713	$ 4,599	$ 4,599
Less: dividend on Preferred Stock	213	213	639	640
Less: accretion on Preferred Stock	22	22	67	67
Numerator: Earnings available to common stockholders	$ 1,324	$ 1,478	$ 3,893	$ 3,892
Denominator (average common shares outstanding)	16,991	8,711	14,263	8,711
Basic earnings per Share	$ 0.08	$ 0.17	$ 0.27	$ 0.45
Diluted EPS Calculation:				
Net Income attributable to Bank of Commerce Holdings	$ 1,559	$ 1,713	$ 4,599	$ 4,599
Less: dividend on Preferred Stock	213	213	639	640
Less: accretion on Preferred Stock	22	22	67	67
Numerator: Earnings available to common stockholders	$ 1,324	$ 1,478	$ 3,893	$ 3,892
Denominator:				
Average common shares outstanding	16,991	8,711	14,263	8,711
Plus incremental shares from assumed conversions				
Stock Options				1
Warrants				8,712
Diluted earnings per Share	$ 0.08	$ 0.17	$ 0.27	$ 0.45
Anti-dilutive options not included in EPS Calculation	282,080	621,605	282,080	621,605
Anti-dilutive warrants not included in EPS Calculation	405,405	405,405	405,405	405,405

5. Stock Option Plans

For the nine months of 2010, stock option compensation expense charged against income was $39,296 compared to $59,504 at September 30, 2009. At September 30, 2010, there were $60,007 of total unrecognized compensation costs related to non-vested share based payments for named officers and directors. This amount is expected to be recognized over a period of 3.9 years. No options were granted or exercised during the first nine months of 2010. Stock options totaling 4,200 at an average price of $5.06 expired during the period ended September 30, 2010.

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6. Securities Available-for-Sale

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

Total available-for-sale securities increased $87 million or 109% at September 30, 2010 compared to December 31, 2009. As of September 30, 2010, the Company held $140.2 million in securities with safekeep institutions for pledging purposes. Of this amount, $43.8 million are currently pledged for treasury, tax and loan accounts; public funds collateral; collateralized repurchase agreements; Federal Home Loan Bank borrowings and interest rate swap contracts.

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

(Dollars in thousands) **Available for sale securities**	**As of September 30, 2010** Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury and agencies	$ 31,083	$ 186	$	$ 31,269
Obligations of state and political subdivisions	62,964	2,168	(16)	65,116
Residential mortgage backed securities and collateralized mortgage obligations	64,628	1,247	(142)	65,733
Other asset backed securities	4,746	61		4,807
Total	$ 163,421	$ 3,662	$ (158)	$ 166,925

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

The amortized cost and estimated fair value of available-for-sale securities at September 30, 2010 are shown below.

(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$	$
Due after one year through five years	20,787	21,089

Due after five years through ten years		23,905		24,321
Due after ten years		118,729		121,515
Total	$	163,421	$	166,925

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

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The ALCO Committee considers a number of factors including, but not limited to: (a) the length of time and the extent to which the fair value has been less than amortized cost, (b) the financial condition and near term prospects of the issuer, (c) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for an anticipated recovery in value, (d) whether the debtor is current on interest and principal payments and (e) general market conditions and industry or sector specific outlook. Management has evaluated all securities at September 30, 2010 and has determined that no securities are other than temporarily impaired.

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

The following table presents the current fair value and associated unrealized losses on investments with unrealized losses at September 30, 2010. The table also discloses whether these securities have had unrealized losses for less than 12 months or for 12 months or longer.

	As of September 30, 2010					
	Less than 12 months		12 months or more		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of state and political subdivisions	$ 4,175	$ (16)	$	$	$ 4,175	(16)
Residential mortgage backed securities and collateralized mortgage obligations	11,826	(99)	3,644	(43)	15,470	(142)
Total temporarily impaired securities	$ 16,001	$ (115)	$ 3,644	$ (43)	$ 19,645	$ (158)

	As of December 31, 2009					
	Less than 12 months		12 months or more		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and agencies	$ 3,994	$	$	$	$ 3,994	$
Obligations of state and political subdivisions	8,517	(84)	500	(1)	9,017	(85)
Residential mortgage backed securities and collateralized mortgage obligations	7,516	(332)			7,516	(332)
	$ 20,027	$ (416)	$ 500	$ (1)	$ 20,527	$ (417)

Total temporarily impaired securities

U.S. Treasury and agency securities
Unrealized losses associated with securities of U.S. states and political subdivisions are primarily driven by changes in interest rates and not due to the credit quality of the securities.
Obligations of state and political subdivisions
The unrealized losses associated with securities of U.S. states and political subdivisions are primarily driven by changes in interest rates and not due to the credit quality of the securities. These investments are exclusively investment grade and were underwritten in accordance with our investment standards prior to the decision to purchase, without relying on a bond insurer s guarantee in making the investment decision.

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These securities will continue to be monitored as part of our ongoing impairment analysis, but are expected to perform, even if the rating agencies reduce the credit rating of the bond insurers. We expect to recover the entire amortized cost basis of these securities.

Residential mortgage-backed securities and collateralized mortgage obligations

The unrealized losses associated with federal agency mortgage-backed securities are primarily driven by changes in interest rates and not due to credit losses. These securities are issued by U.S. government or government sponsored entities and do not have any credit losses given the explicit government guarantee. As of September 30, 2010, there were two non agency collateralized mortgage obligations in unrealized loss positions greater than twelve months.

7. Mortgages held for sale

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

8. Goodwill

As a result of the stock purchase agreement and acquisition of 51% of the capital stock of Simonich Corporation, d.b.a. BOC Mortgage Services, the Company has recorded goodwill (See note 2). The following table summarizes the changes in the Company s goodwill for the years ended December 31, 2008, 2009, and the period ending September 30, 2010. All recorded goodwill is related to the Mortgage Services segment.

	Mortgage Services		
(Dollars in thousands)	**Gross**	**Accumulated Impairment**	**Total**
Balance, December 31, 2008	$	$	$
Net additions	3,727		3,727
Balance, December 31, 2009	3,727		3,727
Impairment		(32)	(32)
Balance, September 30, 2010	$ 3,727	$ (32)	$ 3,695

At September 30, 2010, the Company had recorded goodwill of $3,695,012 as compared to $3,727,052 at December 31, 2009. The goodwill recorded in connection with the acquisition of mortgage services represents the excess of the purchase price over the estimated fair value of the net assets acquired. Goodwill and other intangible assets with indefinite lives are not amortized but instead are periodically tested for impairment.

The Company performs a goodwill impairment analysis on an annual basis as of April 30th. Additionally, the Company performs a goodwill impairment evaluation on an interim basis when events or circumstances indicate impairment potentially exists. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others, a significant decline in our expected cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; adverse action or assessment by regulator; and unanticipated competition.

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

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

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

The Company performed its annual goodwill impairment analysis of the Mortgage Brokerage Services operating segment as of April 30, 2010. The Company engaged an independent valuation consultant to assist in determining whether and to what extent our goodwill asset was impaired. The results of the Company s and valuation specialist s step one impairment test indicated that the reporting unit s fair value was less than its carrying value, and therefore the Company performed step two of the analysis.

In the second step of the goodwill impairment analysis, we calculated the fair value of the reporting unit s assets and liabilities. There were no unrecognized identifiable intangible assets associated with the reporting unit. We determined the implied fair value of goodwill pertaining to the reporting unit was less than the carrying amount of goodwill recorded. In accordance to accounting standards, the carrying amount of goodwill was written down to its implied fair value. Accordingly, the Company recognized an impairment loss of $32,039.

9. Junior Subordinated Debt Payable to Unconsolidated Subsidiary Grantor Trust

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

The proceeds from the issuance of the trust notes were transferred from the grantor trust to the Holding Company and from the Holding Company to the Bank as surplus capital. The trust notes accrue and pay distributions on a quarterly basis at 3 month London Interbank Offered Rate (LIBOR) plus 3.30%. The rate at September 30, 2010 was 3.83%. The rate increase is capped at 2.75% annually and the lifetime cap is 12.5%. The final maturity on the trust note is March 18, 2033, and the debt allows for prepayment after five years on the quarterly payment date.

On July 29, 2005, Bank of Commerce Holdings (the Company) participated in a private placement to an institutional investor of $10 million of fixed rate trust preferred securities (the Trust Preferred Securities); through a newly formed Delaware trust affiliate, Bank of Commerce Holdings Trust II (the Trust). The Trust simultaneously issued $310,000 of the Trust s common securities of beneficial interest to the Company. The Trust Preferred Securities mature on September 15, 2035, and are redeemable at the Company s option on any March 15, June 15, September 15 or December 15 on or after September 15, 2010.

In addition, the Trust Preferred Securities require quarterly distributions by the Trust to the holder of the Trust Preferred Securities at a rate of 6.12%, until September 10, 2010 after which the rate will reset quarterly to equal 3-Month LIBOR plus 1.58%. On September 10, 2010 the rate reset to 1.87%.

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

The Notes were issued pursuant to a Junior Subordinated Indenture (the Indenture), dated July 29, 2005, by and between the Company and J.P. Morgan Chase Bank, National Association, as trustee. The interest payments by the Company will be used to pay the quarterly distributions payable by the Trust to the holder of the Trust Preferred Securities.

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

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

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

10. Preferred Stock and Warrants

Pursuant to a Letter Agreement dated November 14, 2008, and the Securities Purchase Agreement Standard Terms the Company issued to the United States Department of the Treasury (Treasury Department) 17,000 shares of Bank of Commerce Holdings Series A Fixed Rate Perpetual Preferred Stock, without par value (the Series A Preferred Stock), having a liquidation amount per share equal to $1,000 for a total price of $17 million. The Series A Preferred Stock pays cumulative dividends at a rate of 5% per year for the first five years and thereafter at a rate of 9% per year. The Company may not redeem the Series A Preferred Stock during the first three years except with the proceeds from a qualified equity offering. After three years, the Company may, at our option, redeem the Series A Preferred Stock at par value plus accrued and unpaid dividends. The Series A Preferred Stock is generally non-voting. Prior to November 14, 2011, unless the Company has redeemed the Series A Preferred Stock or the Treasury Department has transferred the Series A Preferred Stock to a third party, the consent of the Treasury Department will be required for the Company to increase our common stock dividend or repurchase our common stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the Securities Purchase Agreement. A consequence of the Series A Preferred Stock purchase includes certain restrictions on executive compensation that could limit the tax deductibility of compensation we pay to executive management.

As part of its purchase of the Series A Preferred Stock, the Treasury Department received a warrant (the Warrant) to purchase 405,405 shares of the Company s common stock at an initial per share exercise price of $6.29.

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

The preferred stock proceeds from the Treasury Department were allocated based upon the relative fair value of the warrant as compared with the fair value of the preferred stock. The fair value of the warrant was determined using a Black-Sholes pricing model incorporating assumptions including our common stock price, dividend yield, stock price volatility and risk-free interest rate. We determined the fair value of the preferred stock based on assumptions regarding the discount rate (market rate) on the preferred stock which was estimated to be approximately 9.0% at the date of issuance. The discount on the preferred stock is being accreted to par value over a five-year term which is the expected life of the preferred stock. The proceeds of $17.0 million were allocated between the preferred stock and warrant with $16.6 million allocated to preferred stock and $449,000 allocated to the warrant based on their relative fair value at the time of issuance.

Both the Series A Preferred Stock and Warrant will be accounted for as components of Tier 1 capital. The Series A Preferred Stock and the Warrant were issued in a private placement exempt from registration pursuant to Section 4(2)

of the Securities Act of 1933, as amended. Upon the request of the Treasury Department at any time, we have agreed to promptly enter into a deposit arrangement pursuant to which the Series A Preferred Stock may be deposited and depositary shares (Depositary Shares) may be issued.

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

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Prior to November 14, 2011, unless the Company has redeemed the Series A Preferred Stock or the Treasury Department has transferred the Series A Preferred Stock to a third party, the consent of the Treasury Department will be required for us to (1) declare or pay any dividend or make any distribution on our common stock (other than regular quarterly cash dividends of not more than $0.08 per share of common stock) or (2) redeem, purchase or acquire any shares of the Company s common stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the Securities Purchase Agreement. The Company may opt out by repaying the capital without raising additional capital subject to consultation with the appropriate Federal regulator.

11. Commitments and contingent liabilities

Lease Commitments The Company leases certain facilities at which it conducts its operations. Future minimum lease commitments under all non-cancelable operating leases as of September 30, 2010 are below:

(Dollars in thousands)
Operating Leases

2010	$ 200
2011	775
2012	606
2013	488
2014	499
Thereafter	434
Total	$ 3,002

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

FHLB Advances The Company has advances from the Federal Home Loan Bank of San Francisco (FHLB) totaling $141 million as of September 30, 2010 and $100 million as of September 30, 2009. The Company has two fixed rate advances for $6 million and $120 million, with interest payable at maturity and monthly respectively. In addition, the Company has one floating rate advance for $15 million. The floating rate adjusts quarterly to 3 month LIBOR plus 1 basis point, and interest on the principal is payable quarterly. The following table illustrates borrowings outstanding at the end of the period:

(Dollars in thousands)
FHLB Advances

Advance Amount	Interest Rate	Maturity
$ 6,000	0.25%	12/7/2010
120,000	0.28%	12/7/2010
15,000	0.30%	3/5/2013

The borrowings are secured by an investment in FHLB stock, certain real estate mortgage loans which have been specifically pledged to the FHLB pursuant to their collateral requirements, and securities held in the Bank s available for sale securities portfolio. Based upon the level of FHLB advances, the Company was required to hold an investment in FHLB stock of $6.9 million. Furthermore, the Company has pledged $190 million of its commercial and real estate mortgage loans, and has borrowed $135 million against the pledged loans. As of September 30, 2010, the Company held $80.7 million in securities with the FHLB for pledging purposes. Of this amount $6.0 million are

pledged as collateral against borrowings, and the remaining securities are considered unpledged.
At September 30, 2010, the Company had available borrowing lines at the FHLB of $79.4 million and a federal fund borrowing line at a correspondent bank totaling $10,000,000.

FRB Advances The Company may periodically obtain secured borrowings from the Federal Reserve Bank of San Francisco (FRB). FRB borrowings outstanding were $0 as of September 30, 2010 and $0 as of September 30, 2009. The FRB s discount window credit facility is limited to overnight borrowings. The Company has pledged $82.4 million in commercial and industrial loans as collateral as of September 30, 2010, and had available borrowing lines at the FRB of $50.3 million.

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

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These instruments include commitments to extend credit and standby letters of credit, which are not reflected in the accompanying consolidated balance sheets. These transactions may involve, to varying degrees, credit and interest rate risk more than the amount, if any recognized in the consolidated balance sheets. Commitments to extend credit are agreements to lend to customers.

These commitments have specified interest rates and have fixed expiration dates but may be terminated by the Company if certain conditions of the contract are violated. Although currently subject to draw down, many of the commitments do not necessarily represent future cash requirements. Collateral held relating to these commitments varies, but includes real estate, securities and cash. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Credit risk arises in these transactions from the possibility that a customer may not be able to repay the Bank upon default of performance.

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

The Company s commitments to extend credit are illustrated below:

(Dollars in thousands)

Credit Commitments	**September 30, 2010**	**September 30, 2009**
Unfunded loan commitments	$ 121,164	$ 137,964
Standby letters of credit	3,858	5,489
Guaranteed commitments outstanding	1,299	1,325
	$ 126,321	$ 144,778

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

The Company entered into a mandatory forward loan volume commitment agreement with a purchaser of mortgage loans. Under the agreement, the Company is committed to deliver $264,000,000 loan volume over the period from April 1, 2010 through May 31, 2011. Upon failure to deliver minimum loan volume quarterly, the Company is responsible to pay a non-delivery fee to the purchaser.

The Company, through its majority owned subsidiary, Bank of Commerce Mortgage, enters into best efforts forward delivery contracts to sell residential mortgage loans at specific prices and dates in order to hedge the interest rate risk in its portfolio of mortgage loans held for sale and its residential mortgage loan commitments. Generally, the Company enters into a best efforts interest rate lock commitment (IRLC) with borrowers and best efforts forward delivery contracts with investors associated with mortgage loans receivable held for sale. The Company s derivative instruments consist primarily of best efforts IRLC s executed with borrowers which are offset against best efforts forward purchase commitments with investor lenders. These derivative instruments are accounted for as fair value hedges, with the changes in fair value reflected in earnings as a component of mortgage brokerage fee income. The net impact of the best efforts IRLC s and commitments to deliver is not considered significant. At September 30, 2010 the Company did not maintain any open positions or any other outstanding derivative loan commitments.

12. Accounting for Income Tax and Uncertainties

The Company s effective income tax rate was 34.38% for the nine months ending September 2010, compared with 34.35% for the nine months ending September 2009. The Company s provision for income taxes includes both federal and state income taxes and reflects the application of federal and state statutory rates to the Company s income before taxes. The principal difference between statutory tax rates and the Company s effective tax rate is the benefit derived investing in tax-exempt securities and preferential state tax treatment for qualified enterprise zone loans. The increase is primarily attributable to increased tax expense (with a comparable increase in interest income). The Company accounts for income taxes under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

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Deferred tax assets and liabilities are measured using currently enacted tax rates applied to such taxable income in the years in which those temporary differences are expected to be recovered or settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Non-controlling interests are presented in the income statement such that the consolidated income statement includes amounts from both the Company interests and the non-controlling interests. As a result, the effective tax rate is calculated by dividing income tax expense by income before income tax expense less net income attributable to non controlling interest.

13. Fair Value Measurement

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. From time to time, the Company may be required to record at fair value other assets on a non recurring basis, such as impaired loans and certain other assets including other real estate owned and goodwill. These non recurring fair value adjustments involve the application of lower-of-cost-or-market accounting or write-downs of individual assets.

Fair Value Hierarchy

Level 1 valuations utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 valuations utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 valuations include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 valuations are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

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

The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when developing fair value measurements.

The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

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The following table presents information about the Company s assets and liabilities measured at fair value on a recurring basis as of September 30, 2010, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

(Dollars in thousands) **Recurring basis**	**Fair Value at September 30, 2010**				**Total Gains**
	Total	**Level 1**	**Level 2**	**Level 3**	**(Losses)**
Available for sale securities					
Obligations of states and political subdivisions	$ 65,116	$	$ 65,116	$	$
Other investment securities (1)	101,809		101,809		
Total assets measured at fair value	$ 166,925	$	$ 166,925	$	$
Derivatives	$ 602		$ 602		
Total liabilities measured at fair value	$ 602	$	$ 602		$

(1) Principally represents U.S. Treasury and agencies or residential mortgage-backed securities issued or guaranteed by governmental agencies.

(Dollars in thousands) **Recurring basis**	**Fair Value at December 31, 2009**				**Total Gains**
	Total	**Level 1**	**Level 2**	**Level 3**	**(Losses)**
Available for sale securities					
Obligations of states and political subdivisions	$ 32,646	$	$ 32,646	$	$
Other investment securities (1)	47,416		47,416		
Total assets measured at fair value	$ 80,062	$	$ 80,062	$	$

(1) Principally represents U.S. Treasury and agencies or residential mortgage-backed securities issued or guaranteed by governmental agencies

The following methods were used to estimate the fair value of each class of financial instrument above:

Securities available-for-sale - Securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions among other things.

Derivative Assets and Liabilities The valuation of the Company s interest rate swaps are obtained from a third-party pricing service. The fair values are determined by using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. The Company has determined that the source of the

derivative fair values fall with Level 2 of the fair value hierarchy.

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Assets and Liabilities Recorded at Fair Value on a Non Recurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a non recurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a non recurring basis are included in the table below. No liabilities were measured at fair value on a non recurring basis at September 30, 2010 or December 31, 2009.

(Dollars in thousands)

Non recurring basis	**Fair Value at September 30, 2010**				**Losses as of September 30, 2010**	
	Total	**Level 1**	**Level 2**	**Level 3**	**Three Months Ended Total (Losses)**	**Nine Months Ended Total (Losses)**
Impaired loans	$ 20,698	$	$ 14,399	$ 6,299	$ (1,289)	$ (4,946)
Other real estate owned	2,020			2,020	(125)	(1,374)
Goodwill	3,695			3,695		(32)
Total assets measured at fair value	$ 26,413	$ 0	$ 14,399	$ 12,014	$ (1,414)	$ (6,352)

(Dollars in thousands)

Non recurring basis	**Fair Value at December 31, 2009**				**Losses as of December 31, 2009**	
	Total	**Level 1**	**Level 2**	**Level 3**	**Three Months Ended Total (Losses)**	**Nine Months Ended Total (Losses)**
Impaired loans	$ 5,278	$	$ 2,917	$ 2,361	$ (563)	$ (633)
Other real estate owned	2,880			2,880	(161)	(161)
Total assets measured at fair value	$ 8,158	$	$ 2,917	$ 5,241	$ (724)	$ (794)

For the nine months ending September 30, 2010:

Impaired loans with a carrying amount of $25,643,581 were written down to their fair value of $20,697,921, resulting in an impairment charge of $4,945,660 which was included in earnings for the period.

Other real estate owned with a carrying amount of $3,393,283 was written down to fair value of $2,019,547 resulting in a loss of $1,373,736 which was included in earnings for the period.

Goodwill with a carrying amount of $3,727,052 was written down to the fair value of $3,695,012, resulting in an impairment charge of $32,040, which was included in earnings for the period.

The following methods were used to estimate the fair value of each class of financial instrument above:

Impaired loans When available, we use observable market data, including pricing on recent closed market transactions, to value loans. The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, the Company records non recurring fair value adjustments to the loan to reflect (1) partial write-downs that are based on observable market price or current appraised value of collateral or (2) the full charge-off of the loan carrying value.

The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value, and discounted cash flows adjusted for credit losses. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At September 30, 2010, the impaired loans were evaluated based on the discounted cash flow method or the fair value of the collateral.

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Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as non recurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as non recurring Level 3.
Other Real Estate Owned The fair value of other real estate owned is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value, and discounted cash flows. At September 30, 2010, the estimated fair value was based on the fair value of the other real estate owned, supported by current appraisals. The Company records other real estate owned as a nonrecurring Level 3.
Goodwill The fair value of goodwill is estimated using a market and income approach, and is provided to the Company by a third party independent valuation consultant. See footnote 10 for further disclosure pertaining to the goodwill impairment analysis.
Method for determining fair values
The following are descriptions of the valuation methodologies that were used by the Company in estimating its fair value disclosures for financial instruments:
Cash and cash equivalents - The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents are a reasonable estimate of fair value. 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.
Loans receivable - For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for fixed rate loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of accrued interest receivable approximates its fair value.
Mortgage Loans held for sale- Mortgage loans held for sale are carried at the lower of cost or fair value. Cost generally approximates fair value, given the short duration of these assets.
Commitments to extend credit and standby letters of credit - The fair value of commitments is the off-balance sheet amount of loan commitments and outstanding letters of credit.
Federal Home Loan Bank borrowings- The fair value of borrowed funds is based on carrying amounts due to the short term nature of the borrowing.
Junior subordinated debt payable to unconsolidated subsidiary grantor trust The fair value of variable rate junior subordinated debt payable to subsidiary grantor trust is based on carrying amounts.
Deposit liabilities - The fair values disclosed for demand deposits (e.g., interest and noninterest checking, savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., carrying amounts). The fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation applying interest rates currently offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. For variable-rate certificates of deposit that reprice frequently, fair values are based on carrying values. The carrying amount of accrued interest payable approximates its fair value.
Securities purchased under agreements to resell The fair value of securities purchased under agreements to resell is estimated by discounting the contractual cash flows under outstanding borrowings at rates prevailing in the marketplace today for similar borrowings, rates and collateral.
Earn out payable The fair value of the earn out payable is estimated by discounting the contractual cash flows expected to be paid out, under the assumption the mortgage subsidiary meets the targeted results.
Derivative assets and liabilities The valuation of the Company s interest rate swaps is obtained from a third-party pricing service. The fair values are determined by using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. The Company has determined that the source of the derivative fair values fall with Level 2 of the fair value hierarchy.

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Commitments Loan commitments and standby letters of credit generate ongoing fees, which are recognized over the term of the commitment period. In situations where the borrower s credit quality has declined, we record a reserve for these off-balance sheet commitments. Given the uncertainty in the likelihood and timing of a commitment being drawn upon, a reasonable estimate of the fair value of these commitments is the carrying value of the related unamortized loan fees plus the reserve, which is not material. As such, no disclosures are made on the fair value of commitments.

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

Because no market exists for a significant portion of the Company s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

The table below is a summary of fair value estimates for financial instruments as of September 30, 2010 and December 31, 2009, excluding financial instruments recorded at fair value on a recurring basis (summarized in a separate table). The carrying amounts in the following table are recorded in the statement of condition under the indicated captions. We have excluded non-financial assets and non-financial liabilities defined by the Codification (ASC 820-10-15-1A), such as Bank premises and equipment, deferred taxes and other liabilities. In addition, we have not disclosed the fair value of financial instruments specifically excluded from disclosure requirements of the Financial Instruments Topic of the Codification (ASC 825-10-50-8), such as Bank-owned life insurance policies.

	September 30, 2010		**December 31, 2009**	
(Dollars in thousands)	**Carrying Amounts**	**Fair Value**	**Carrying Amounts**	**Fair Value**
Financial assets				
Cash and cash equivalents	$ 70,951	$ 70,951	$ 68,240	$ 68,240
Portfolio loans, net	595,575	605,500	590,023	611,099
Mortgages held for sale	41,025	41,025	27,288	27,288
Interest receivable	3,862	3,862	3,087	3,087
Financial Liabilities				
Deposits	640,031	641,588	640,465	642,917
Securities sold under agreement to repurchase	11,328	11,328	9,621	9,621
Federal home loan borrowings	141,000	141,000	70,000	70,000
Subordinated debenture	15,465	15,465	15,465	15,465
Earn out payable	976	976	965	965
Interest payable	397	397	495	495
			Contract Amount	**Contract Amount**
Off balance sheet financial instruments:				

Commitments to extend credit	$ 121,164	$ 122,872
Standby letters of credit	$ 3,858	$ 4,844
Guaranteed commitments outstanding	$ 1,299	$ 1,325

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14. Transfer of Financial Assets

On March 12, 2010, the Company completed a loan swap transaction which included the purchase of a pool of residential mortgage home equity loans with a par value of $22.0 million. The residential mortgage home equity loan portfolio (portfolio) was purchased from an unrelated private equity firm in exchange for a combination of approximately $7.0 million in carrying value of certain impaired loans measured at fair value and cash of approximately $14.8 million. The impaired loans were transferred without recourse and were carried at fair value prior to the exchange, in accordance with accounting standards.

The acquisition of the residential mortgage home equity loan portfolio and the transfer of certain impaired loans was accounted for as a transfer of financial assets, requiring the assets obtained to be initially measured at fair value and reflected as proceeds from the transfer. In addition, the assets transferred (cash and certain impaired loans) should be derecognized with a corresponding gain or loss recorded.

The Company initially measured the acquired loan portfolio at fair value, equal to the price paid to acquire the portfolio. The fair value of the acquired loan portfolio was measured at $21.7 million. As a result of this transfer of financial assets, no gain or loss was recorded.

15. Segment Reporting

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

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

The following tables represent a reconciliation of the Company s reportable segments income and expenses to the Company s consolidated net income for the three months and nine months ending September 30, 2009 and September 30, 2010.

	Three Months Ended September 30, 2010				
(Dollars in thousands)	**Bank**	**Mortgage**	**Parent**	**Elimination**	**Consolidated**
Net interest income (expense)	$ 8,920	$	$ (141)	$ (139)	$ 8,640
Provision for loan and lease losses	4,450				4,450
Total noninterest income	2,391	3,153		139	5,683
Total noninterest expense	4,609	2,732	(48)		7,293
Income before provision for income taxes	2,252	421	(93)		2,580
Provision for income taxes	709	207			916
Net Income	1,543	214	(93)		1,664
Less: Net income attributable to non-controlling interest		105			105
Net Income attributable to Bank of Commerce Holdings	$ 1,543	$ 109	$ (93)	$	$ 1,559

Nine Months Ended September 30, 2010

(Dollars in thousands)	**Bank**	**Mortgage**	**Parent**	**Elimination**	**Consolidated**
Net interest income (expense)	$ 25,121	$ (1)	$ (437)	$ (354)	$ 24,329
Provision for loan and lease losses	8,300				8,300
Total noninterest income	4,394	8,214		354	12,962
Total noninterest expense	13,914	7,634	440		21,988
Income before provision for income taxes	7,301	579	(877)		7,003
Provision for income taxes	2,079	331			2,410
Net Income	5,222	248	(877)		4,593
Less: Net income attributable to non-controlling interest		(6)			(6)
Net Income attributable to Bank of Commerce Holdings	$ 5,222	$ 254	$ (877)	$	$ 4,599

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	Three Months Ended September 30, 2009				
(Dollars in thousands)	**Bank**	**Mortgage**	**Parent**	**Elimination**	**Consolidated**
Net interest income (expense)	$ 7,586	$ (9)	$ (171)	$	$ 7,406
Provision for loan and lease losses	1,850	(6)			1,844
Total noninterest income	1,050	1,894			2,944
Total noninterest expense	4,042	1,525	87		5,654
Income before provision for income taxes	2,744	366	(258)		2,852
Provision for income taxes	907	103			1,010
Net Income	1,837	263	(258)		1,842
Less: Net income attributable to non-controlling interest		129			129
Net Income attributable to Bank of Commerce Holdings	$ 1,837	$ 134	$ (258)	$	$ 1,713

	Nine Months Ended September 30, 2009				
(Dollars in thousands)	**Bank**	**Mortgage**	**Parent**	**Elimination**	**Consolidated**
Net interest income (expense)	$ 21,736	$ (12)	$ (420)	$	$ 21,304
Provision for loan and lease losses	6,325				6,325
Total noninterest income	3,816	3,188			7,004
Total noninterest expense	11,825	2,432	250		14,507
Income before provision for income taxes	7,402	744	(670)		7,476
Provision for income taxes	2,373	274			2,647
Net Income	5,029	470	(670)		4,829
Less: Net income attributable to non-controlling interest		230			230
Net Income attributable to Bank of Commerce Holdings	$ 5,029	$ 240	$ (670)	$	$ 4,599

The following tables represent a reconcilement Company s reportable segment total assets, gross loans, and deposits to the consolidated balance sheet items for the periods ending September 30, 2010, December 31, 2010 and September 30, 2009.

	September 30, 2010				
	Bank	**Mortgage**	**Parent**	**Elimination**	**Consolidated**
Total assets	$ 915,924	$ 18,448	$ 9,351	$ (19,451)	$ 924,272
Total loans, gross	$ 618,617	$	$ 2,336	$ (9,926)	$ 611,027
Total deposits	$ 647,655	$	$	$ (7,624)	$ 640,031

	December 31, 2010				
	Bank	Mortgage	Parent	Elimination	Consolidated
Total assets	$ 807,216	$ 15,001	$ 3,873	$ (12,684)	$ 813,406
Total loans, gross	$ 606,472	$	$ 2,470	$ (7,712)	$ 601,230
Total deposits	$ 643,582	$	$	$ (3,118)	$ 640,464

	September 30, 2009				
	Bank	Mortgage	Parent	Elimination	Consolidated
Total assets	$ 795,326	$ 23,490	$ 4,280	$ (8,416)	$ 814,680
Total loans, gross	$ 601,171	$	$ 2,513	$ (3,900)	$ 599,784
Total deposits	$ 602,664	$	$	$ (2,990)	$ 599,674

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16. Common Stock Offering

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

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

In addition, on April 14, 2010 the Company announced that the underwriters of the public offering of common shares fully exercised their over-allotment option, which resulted in the issuance of an additional 1,080,000 shares of common stock, and approximately $4.4 million in additional net proceeds. The option was granted in connection with the Company s public offering of 7,200,000 shares of common stock at a public offering price of $4.25 per share. With the additional proceeds from the exercise of the over-allotment option, the Company realized total net proceeds from the offering of approximately $33.1 million, after deducting the underwriting discount and offering expenses. The exercise of the over-allotment option brings the total number of shares of common stock sold by the Company in the offering to 8,280,000.

During the three months ending September 30, 2010 the Company recognized an additional $141,604 in professional fees directly related to the common stock offering. The billings for the professional fees were received subsequent to the offering, but pertained directly to the offering. Accordingly, these expenses were netted out of the proceeds from the offering during the current period.

17. Other Real Estate Owned

Other real estate owned represents real estate which the Bank has taken control of in partial or full satisfaction of loans. At the time of foreclosure, other real estate owned is recorded at the lower of the carrying amount of the loan or fair value less costs to sell, which becomes the property s new basis. Any write-downs based on the asset s fair value at the date of acquisition are charged to the allowance for loan and lease losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell. Subsequent valuation adjustments are recognized within net loss on other real estate owned. Revenue and expenses from operations and subsequent adjustments to the carrying amount of the property are included in non-interest expense in the Consolidated Statements of Income.

At September 30, 2010 and December 31, 2009, the recorded investment in other real estate owned (OREO) was $2,019,547 and $2,879,956, respectively. For the nine months ended September 30, 2010, the Company transferred property from ten loans in the amount of $882,156 to OREO, sold five properties with balances of $368,829 for a net loss of $139,463, recorded $1,373,736 in write downs of OREO in other noninterest expense, and adjusted the balances through charges to the allowance for loan and lease losses in the amount of $194,683. The September 30, 2010 OREO balance of $2,019,547 consists of eight properties with seven being residential real estate in the amount of $589,410 and one property representing residential land in the amount of $1,430,137.

18. Derivatives

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

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

Asset-Liability Committee of the Company s Board of Directors. Based on adherence to the Company s credit standards and the presence of the netting and collateral provisions, the Company believes that the credit risk inherent in these contracts was not significant at September 30, 2010.

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Cash flow hedges
The effective portion of unrealized changes in the fair value of derivatives accounted for as cash flow hedges are reported in other comprehensive income and subsequently reclassified to earnings when gains or losses are realized. Each quarter, the Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged item or transaction. The ineffective portion of changes in the fair value of the derivatives is recognized directly in earnings.
As of September 30, 2010, the Company held derivatives with a total notional amount of $75 million. The total $75 million represents interest rate swaps designated as cash flow hedges.
The following table summarizes the notional amount, effective date and maturity dates of the forward starting interest rate contracts the Company has outstanding with counterparties as of September 30, 2010.

(Dollars in thousands)

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

The hedge strategy converts the LIBOR based floating rate of interest on certain FHLB advances to fixed interest rates, thereby protecting the Company from floating interest rate variability.
Pursuant to the interest rate swap agreements, the Company pledged collateral to counterparties in the form of securities totaling $3.0 million with an amortized cost of $3.1 million and a fair value of $3.1 million as of September 30, 2010. No collateral was posted from counterparties to the Company as of September 30, 2010. There is the possibility that the Company may need to post additional collateral in the future in proportion to potential increases in unrealized loss positions.
As of September 30, 2010 there were no cash flows exchanged with the counterparties of the interest rate swap contracts. As such, there was no ineffectiveness. For the three months ending September 30, 2010 the derivatives carried a negative fair value of $602,233, of which $355,317 was recognized as a loss in other comprehensive income. There were no reclassifications into earnings for the period ending September 30, 2010.
The following table summarizes the type of derivative and their location on the Condensed Consolidated Balance Sheet, and the fair values of such derivatives as of September 30, 2010. The Company did not carry any derivatives as of December 31, 2009 or September 30, 2009.

(Dollars in thousands)

Underlying Risk Exposure	Description	Balance Sheet Location		Sept 30, 2010	Maturity
Liability Derivatives					
Interest rate contract	Forward starting interest rate swaps	Other liabilities	$	(108)	September 1, 2012
Interest rate contract	Forward starting interest rate swaps	Other liabilities	$	(235)	September 1, 2013
Interest rate contract	Forward starting interest rate swaps	Other liabilities	$	(195)	September 1, 2014

Interest rate contract	Forward starting interest rate swaps	Other liabilities	$	(103)	September 1, 2015
Interest rate contract	Forward starting interest rate swaps	Other liabilities	$	39	March 1, 2017
		Total	$	(602)	

Fair values of the derivatives are obtained from a third-party pricing service, see footnote 13 for further disclosures pertaining to fair value calculations of derivatives.

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20. Gain on Settlement of Put Reserve

During the three months ending September 30, 2010, the Company received a written release to the put reserve provided on the ITIN loan pool purchase. Prior to the release, the put reserve carried a balance of $2.1 million; approximately $398,627 of the reserve was paid to the private equity firm as consideration. As a result of the settlement, the Company received $1.8 million in net proceeds and was not required to transfer the outstanding principal balance of any additional ITIN loans. The Company recorded a $1.8 million gain on settlement.
The put reserve was part of the April 17, 2009 loan swap transaction in which the Company purchased a pool of Individual Tax Identification Number (ITIN) residential mortgages in exchange for a combination of certain nonperforming loans and cash. The put reserve or credit enhancement originally totaled $3.5 million; the Company had the right but not the obligation to put back the outstanding principal balance of any ITIN loan that became sixty days or more delinquent over a period not to exceed three years from the transaction date. As a result of the settlement, the Company is now entirely dependent on the general Allowance for Loan Losses and any specific valuation allowances held against the ITIN portfolio. The Company has increased its allocations to the Allowance for Loan Losses for its ITIN portfolio. The Company recorded a gain of $1.8 million on settlement.

21. Subsequent Events

The Company has evaluated the effects of subsequent events that have occurred subsequent to period end September 30, 2010 and has determined that there was no material recognized or non-recognized subsequent events that require recognition or disclosure during the third quarter 2010 consolidated financial statements or Notes to the financial statements.

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

Forward Looking Statements and Risk Factors

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

For additional information concerning risks and uncertainties related to the Company and its operations please refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2009 under the heading Risk factors that may affect results. *Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.*

The following sections discuss significant changes and trends in the financial condition, capital resources and liquidity of the Company from December 31, 2009 to September 30, 2010. Also discussed are significant trends and changes in the Company s results of operations for the three and nine months ended September 30, 2010, compared to the same period in 2009. The consolidated financial statements and related notes appearing elsewhere in this report are condensed and unaudited. The following discussion and analysis is intended to provide greater detail of the Company s financial condition and results.

Company Overview

Bank of Commerce Holdings (Company, , Holding Company, We, or Us) is a corporation organized under the laws California and a financial holding company (FHC) registered under the Bank Holding Company Act of 1956, as amended (BHC Act). Our principal business is to serve as a holding company for Redding Bank of Commerce[tm] (Bank), which operates under two separate names (Redding Bank of Commerce[tm] and Roseville Bank of Commerce[tm]) and for Bank of Commerce Mortgage[tm], our majority-owned mortgage brokerage subsidiary. We also have two unconsolidated subsidiaries, Bank of Commerce Holdings Trust and Bank of Commerce Holdings Trust II, which were organized in connection with our prior issuances of trust preferred securities. Our common stock is traded on the NASDAQ Global Market under the symbol BOCH.

The Company commenced banking operations in 1982 and currently operates four full service facilities in two diverse markets in Northern California. We are proud of the Bank s reputation as one of Northern California s premier banks for business. During 2007, we re-branded the Bank as Bank of Commerce ï *Bank of Choice*[tm] reflecting a renewed commitment to making the Bank the choice for local businesses with a fresh focus on family and personal finances.

We provide a wide range of financial services and products for business and consumer banking. The services offered by the Bank include those traditionally offered by banks of similar size in California, such as free checking, interest-bearing checking and savings accounts, money market deposit accounts, sweep arrangements, commercial, construction and term loans, travelers checks, safe deposit boxes, collection services and electronic banking activities. The Bank is an affiliate of LPL Financial and offers wealth management services through that affiliation.

In order to enhance our noninterest income, in May 2009 we acquired 51.0% of the capital stock of Simonich Corporation, a successful state of the art mortgage broker of residential real estate loans headquartered in San Ramon, California, with fourteen offices in two different states and licenses in California, Oregon, Washington, Idaho and

Colorado. The business was formed in 1993 and funds over $1.0 billion of first mortgages annually. The acquisition allows us to penetrate into the mortgage brokerage services market at our current bank locations and to share in the income on mortgage transactions nationwide. On July 1, 2009 we changed the mortgage company s name to Bank of Commerce Mortgage[tm] in order to enhance our name recognition throughout Northern California. The services offered by Bank of Commerce Mortgage[tm] include brokerage mortgages for single and multi-family residential new financing, refinancing and equity lines of credit which are then sold, servicing included, on the secondary market or to correspondent relationships.

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

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

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

Our vision is to embrace changes in the industry and develop profitable business strategies that allow us to maintain our customer relationships and build new ones. Our competitors are no longer just banks; we must compete with a myriad of other financial entities that compete for our core business. The flexibility provided by our status as a financial holding company has become increasingly important. We have developed strategic plans that evaluate additional financial services and products that can be delivered to our customers efficiently and profitably. Producing quality returns is, as always, a top priority.

Our governance structure enables us to manage all major aspects of our business effectively through an integrated process that includes financial, strategic, risk and leadership planning. Our management processes, structures and policies and procedures help to ensure compliance with laws and regulations and provide clear lines for decision-making and accountability. Results are important, but we are equally concerned with how we achieve those results. Our core values and commitment to high ethical standards is material to sustaining public trust and confidence in our Company.

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

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

Leverage Our Existing Foundation for Additional Growth. Based on our management s depth of experience and certain infrastructure investments, we believe that we will be able to take advantage of certain economies of scale typically enjoyed by larger organizations to expand our operations both organically and through strategic cost-effective avenues. We believe that there will be significant opportunities to acquire failing institutions or their assets through loss sharing agreements with the FDIC, buy branches from struggling banks in our market areas looking to raise capital, and acquire entire franchises for little to no premium. We also believe that the investments we have made in our data processing, staff and branch network will be able to support a much larger asset base. We are committed, however, to control any additional growth in a manner designed to minimize risk and to maintain strong capital ratios. We believe that the net proceeds raised in our capital offering will assist us in implementing our growth strategies by providing the capital necessary to support future asset growth, both organically and through strategic acquisitions.

Maintain Local Decision-Making and Accountability. We believe we have a competitive advantage over larger national and regional financial institutions by providing superior customer service with experienced, knowledgeable management, localized decision-making capabilities and prompt credit decisions. We believe that our customers want to deal directly with the people who make the ultimate credit decisions and have provided our Bank managers and

loan officers with the authority commensurate with their experience and history which we believe strikes the right balance between local decision-making and sound banking practice.

Focus on Asset Quality and Strong Underwriting. We consider asset quality to be of primary importance and have taken measures to ensure that, despite the turbulent economy and growth in our loan portfolio, we consistently maintain strong asset quality. As part of our efforts, we utilize a third party loan review service to evaluate our loan portfolio on a quarterly basis and recommend action on certain loans if deemed appropriate. As of September 30, 2010, we had $28 million in nonperforming assets, including other real estate owned of $2.0 million, which as a percentage of total assets was 3.03%. We also seek to maintain a prudent allowance for loan losses, which at September 30, 2010 was $15.5 million, representing 2.53% of our loan portfolio.

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

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

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

Risk Factors

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

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

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

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

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

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

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

- Performance of the underlying loans in the private label mortgage backed securities we hold may continue to deteriorate as the recession continues, potentially causing other-than-temporary impairment markdowns to our

investment portfolio.

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

Until economic and market conditions improve, we may expect to continue to incur losses relating to an increase in nonperforming assets. We generally do not record interest income on nonperforming loans or other real estate owned, thereby adversely affecting our income, and increasing our loan administration costs. When we take collateral in foreclosures and similar proceedings, we are required to mark the related asset to the then fair market value of the collateral, which may ultimately result in a loss. An increase in the level of nonperforming assets increases our risk profile and may impact the capital levels our regulators believe are appropriate in light of the ensuing risk profile. While we reduce problem assets through loan sales, workouts, restructurings and otherwise, decreases in the value of the underlying collateral, or in these borrowers performance or financial condition, whether or not due to economic and market conditions beyond our control, could adversely affect our business, results of operations and financial condition.

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

In addition, the resolution of nonperforming assets requires significant commitments of time from management and our directors, which can be detrimental to the performance of their other responsibilities. There can be no assurance that we will not experience future increases in nonperforming assets.

We have a concentration risk in real estate related loans.

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

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

In April 2009, we completed a loan swap transaction, whereby we exchanged, without recourse, $14.0 million in certain nonperforming assets measured at fair value and cash of approximately $67.0 million for a pool of performing ITIN loans with an estimated fair value of $80.7 million. These loans are residential mortgage loans made to United States residents without a social security number and are geographically dispersed throughout the United States. This is our first ITIN loan transaction, and as such, is serviced through a third party. Worsening economic conditions in the United States may cause us to suffer higher default rates on our ITIN loans and reduce the value of the assets that we hold as collateral. In addition, if we are forced to foreclose and service these ITIN properties ourselves, we may realize additional monitoring, servicing and appraisal costs due to the geographic disbursement of the portfolio which would adversely affect our noninterest expense.

Future loan losses may exceed the allowance for loan losses.

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

Defaults may negatively impact us.

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

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

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

Our income is highly dependent on interest rate differentials and the resulting net interest margins (i.e., the difference between the interest rates earned on the Bank s interest-earning assets such as loans and securities, and the interest rates paid on the Bank s interest-bearing liabilities such as deposits and borrowings). These rates are highly sensitive to

many factors, which are beyond our control, including general economic conditions, inflation, recession and the policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board. Because of our preference for using variable rate pricing on the majority of our loan portfolio and non-interest bearing demand deposit accounts we are frequently asset sensitive. However, presently we are liability sensitive, because many of the variable rate loans are presently at their floors.

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

As a result, we are frequently adversely affected by declining interest rates, however in our present rate environment we could potentially be adversely affected by rising rates as well. In addition, changes in monetary policy, including changes in interest rates, influence the origination of loans, the purchase of investments and the generation of deposits. These changes also affect the rates received on loans and securities and paid on deposits, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

Our equity holdings consist of shares of the Federal Home Loan Bank of San Francisco (FHLB). As of September 30, 2010, we held stock in the FHLB totaling $6.9 million. The stock is carried at cost and is subject to recoverability testing under applicable accounting standards. As of September 30, 2010, we did not recognize an impairment charge related to our FHLB stock holdings; however, future negative changes to the financial condition of the FHLB may require us to recognize an impairment charge with respect to such stock holdings.

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

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

The condition of other financial institutions could negatively affect us.

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

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

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

Financial institutions have been the subject of substantial legislative and regulatory changes and may be the subject of further legislation or regulation in the future, none of which is within our control. Significant new laws or regulations or changes in, or repeals of, existing laws or regulations may cause our results of operations to differ materially. In addition, the cost and burden of compliance with applicable laws and regulations have significantly increased and could adversely affect our ability to operate profitably. Further, federal monetary policy significantly affects credit

conditions for us, as well as for our borrowers, particularly as implemented by the Federal Reserve Board, primarily through open market operations in United States government securities, the discount rate for bank borrowings and reserve requirements. A material change in any of these conditions could have a material impact on us or our borrowers, and therefore on our results of operations.

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

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (EESA) was signed into law. Pursuant to the EESA, the Treasury was granted the authority to take a range of actions for the purpose of stabilizing and providing liquidity to the United States financial markets and has proposed several programs, including the purchase by the Treasury of certain troubled assets from financial institutions and the direct purchase by the Treasury of equity of financial institutions.

There can be no assurance, however, as to the actual impact that the foregoing or any other governmental program will have on the financial markets. The failure of the financial markets to stabilize and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock. In addition, current initiatives of President Obama s Administration and the possible enactment of recently proposed bankruptcy legislation may adversely affect our financial condition and results of operations. There can be no assurance, however, as to the actual impact that the foregoing or any other governmental program will have on the financial markets.

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

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

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

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

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

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

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

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

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

In the event that we fail to pay dividends on the Series A Preferred Stock for a total of at least six quarterly dividend periods (whether or not consecutive), the Treasury will have the right to appoint two directors to our Board of Directors until all accrued but unpaid dividends has been paid. Otherwise, except as required by law, holders of the Series A Preferred Stock have limited voting rights.

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

So long as shares of Series A Preferred Stock are outstanding, in addition to any other vote or consent of shareholders required by law or our Articles of Incorporation, the vote or consent of holders of at least 66-2/3% of the shares of Series A Preferred Stock outstanding is required for:

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

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

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

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

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

Our success has been and will continue to be greatly influenced by the ability to retain existing senior management and, with expansion, to attract and retain qualified additional senior and middle management. We recently had a number of changes in our senior management team, including the promotions of our new Chief Financial Officer and Chief Operating Officer and the appointment of a new Chief Risk Officer. The departure of any of our senior management could have an adverse effect on us.

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

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

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

The full scope and impact of these limitations is uncertain and difficult to predict. The Secretary of the Treasury has adopted standards that implement certain compensation limitations, but these standards have not yet been broadly interpreted and remain, in many respects, ambiguous. The new and potential future legal requirements and implementing standards under the Capital Purchase Program may have unforeseen or unintended adverse effects on the financial services industry as a whole, and particularly on Capital Purchase Program participants, including us. It will likely require significant time, effort and resources on our part to interpret and apply them. If any of our regulators believe that we are not in compliance with new and future legal requirements and implementing standards, it could subject us to regulatory actions or otherwise adversely affect our management retention and, as a result, our results of operations and financial condition.

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

Internal control systems could fail to detect certain events.

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

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

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

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

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

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

Potential acquisitions may disrupt our business and dilute shareholder value.

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

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

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

- Potential exposure to unknown or contingent liabilities of the target company;
- Exposure to potential asset quality issues of the target company;
- Difficulty and expense of integrating the operations and personnel of the target company;

Potential disruption to our business;

The possible loss of key employees and customers of the target company;

Difficulty in estimating the value of the target company; and

Potential changes in banking or tax laws or regulations that may affect the target company.

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

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

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

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

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

We expect to pay significantly higher FDIC premiums in the future. As the large number of recent bank failures continues to deplete the Deposit Insurance Fund, the FDIC adopted a revised risk-based deposit insurance assessment schedule in February 2009, which raised deposit insurance premiums. In addition, the FDIC recently approved a rule requiring financial institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010 through and including 2012 in order to re-capitalize the Deposit Insurance Fund. Accordingly, the Bank prepaid deposit insurance premiums in the amount of $2.6 million on September 30, 2010. There can be no assurance that the FDIC will not increase premiums or levy additional special assessments, either of which could have a material adverse effect on our results of operations and financial condition.

Shares eligible for future sale could have a dilutive effect.

Shares of our common stock eligible for future sale, including those that may be issued in connection with our various stock option and equity compensation plans, in possible acquisitions, and any other offering of our common stock for cash, and the issuance of 405,405 shares underlying the warrant issued to the Treasury pursuant to the TARP Capital Purchase Program, could have a dilutive effect on the market for our common stock and could adversely affect its market price. Our Articles of Incorporation authorize 50,000,000 shares of which 16,991,495 shares were outstanding as of September 30, 2010. In addition there are 282,080 shares subject to common stock options outstanding with a weighted average exercise price of $8.46 per share.

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

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

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

Historically, California has been vulnerable to natural disasters. Therefore, we are susceptible to the risks of natural disasters, such as earthquakes, wildfires, floods and mudslides. Natural disasters could harm our operations directly through interference with communications, including the interruption or loss of our websites, which would prevent us from gathering deposits, originating loans and processing and controlling our flow of business, as well as through the

destruction of facilities and our operational, financial and management information systems. California has also experienced energy shortages, which, if they recur, could impair the value of the real estate in those areas affected. Although we have implemented several back-up systems and protections and maintain business interruption insurance, these measures may not protect us fully from the effects of a natural disaster. The occurrence of natural disasters or energy shortages in California could have a material adverse effect on our business, prospects, financial condition and results of operations.

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

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

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

- Actual or anticipated variations in quarterly results of operations;
- Recommendations by securities analysts;
- Operating and stock price performance of other companies that investors deem comparable to us;
- News reports relating to trends, concerns and other issues in the financial services industry, including the failures of other financial institutions in the current economic downturn;
- Perceptions in the marketplace regarding us and/or our competitors;
- Public sentiments toward the financial services and banking industry generally;
- New technology used, or services offered, by competitors;
- Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- Failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- Changes in government regulations; and
- Geopolitical conditions such as acts or threats of terrorism or military conflicts.

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

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

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

On April 14, 2010 the Company announced that the underwriters of the public offering of common shares fully exercised their over-allotment option, which resulted in the issuance of an additional 1,080,000 shares of common stock, and approximately $4.4 million in additional net proceeds. The option was granted in connection with the Company s public offering of 7,200,000 shares of common stock at a public offering price of $4.25 per share. With the additional proceeds from the exercise of the over-allotment option, the Company realized total net proceeds from the offering of approximately $33.4 million, after deducting the underwriting discount and offering expenses. The exercise of the over-allotment option brings the total number of shares of common stock sold by the Company in the

offering to 8,280,000.

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

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

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

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

In order to approve a merger or similar business combination with the owner of 20% or more of our common stock (an Interested Shareholder), our Articles of Incorporation contain provisions that would require a supermajority vote of 66-2/3% of the outstanding shares of the common stock (excluding the shares held by the Interested Shareholder or its affiliates). These provisions further require that the per share consideration to be paid in such a transaction would have to equal or exceed the greater of (a) the highest per share price paid by the Interested Shareholder (i) within two years of the transaction proposal announcement date, or (ii) the date the Interested Shareholder acquired a 20% -plus ownership interest (if the acquisition occurred less than two years before the transaction announcement) and (b) the fair market value of the Common Stock on (i) the transaction proposal announcement date, or (ii) the date the Interested Shareholder acquired a 20% -plus ownership interest (if the acquisition occurred less than two years before the transaction announcement).

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

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

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

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

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

At September 30, 2010, our subsidiary trusts had outstanding $15.0 million of trust preferred securities. These securities are effectively senior to shares of common stock due to the priority of the underlying junior subordinated debt. As a result, we must make payments on our trust preferred securities before any dividends can be paid on our common stock; moreover, in the event of our bankruptcy, dissolution, or liquidation, the obligations outstanding with respect to our trust preferred securities must be satisfied before any distributions can be made to our shareholders. While we have the right to defer dividends on the trust preferred securities for a period of up to five years, if any such election is made, no dividends may be paid to our common or preferred shareholders during that time.

We are required to pay cumulative dividends on the $17.0 million in Series A Preferred Stock issued to the Treasury in the TARP Capital Purchase Program at an annual rate of 5% for the first five years and 9% thereafter, unless we redeem the shares earlier. We may not declare or pay dividends on our common stock or repurchase shares of our common stock without first having paid all accrued cumulative preferred dividends that are due. Until January 2012, we also may not increase our per share common stock dividend rate above $0.08 per share or repurchase shares of our common shares without the Treasury s consent, unless the Treasury has transferred to third parties all the Series A Preferred Stock originally issued to it.

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

Since we are a holding company with no significant assets other than the Bank and our majority-owned mortgage company, we have no material source of income other than dividends received from the Bank and the mortgage company. Therefore, our ability to pay dividends to our shareholders will depend on the Bank s and mortgage company s ability to pay dividends to us. Moreover, banks and financial holding companies are both subject to certain federal and state regulatory restrictions on cash dividends. We are also restricted from paying dividends if we have deferred payments of the interest on, or an event of default has occurred with respect to, our trust preferred securities or Series A Preferred Stock. Additionally, terms and conditions of our Series A Preferred Stock place certain restrictions and limitations on our common stock dividends and repurchases of our common stock.

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

Potential Volatility of Deposits

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

At September 30, 2010, time certificates of deposit in excess of $100,000 represented approximately 35.57% of the dollar value of the total deposits of the Company. As such, these deposits are considered volatile and could be subject to withdrawal. Withdrawal of a material amount of such deposits could adversely affect the liquidity of our profitability, business prospects, results of operations and cash flows. The Company monitors activity of volatile liability deposits on a quarterly basis.

Negative Publicity could Damage our Reputation

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

Mortgage banking interest rate and market risk

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

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

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

Mortgage banking revenue can be volatile from quarter to quarter

The Company earns revenue from fees for originating mortgage loans. When rates rise, the demand for mortgage loans tends to fall, reducing the revenue from loan originations. It is also possible that, because of the overall weakness in the economy and the deteriorating housing market, even if interest rates were to fall, mortgage originations may also fall, with a corresponding impact on origination fees.

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

The Impact of New Financial Reform Legislation is Yet to be Determined

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

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

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

(3) The Act restricts the amount of trust preferred securities (TPS) that may be considered as Tier 1 Capital. For depository institution holding companies below $15 billion in total assets, TPS issued before May 19, 2010 will be grandfathered, so their status as Tier 1 capital does not change. However going forward, TPS will be disallowed as Tier 1 capital. Beginning January 1, 2013, Bank holding companies above $15 billion in assets will have a three-year phase-in period to fill the capital gap caused by the disallowance of the TPS issued before May 19, 2010.

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

(5) The Act places certain limitations on investment and other activities by depository institutions, holding companies and their affiliates.

The impact of the Act on our banking operations is still uncertain due to the massive volume of new rules still subject to adoption and interpretation.

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

Executive Overview

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

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

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

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

We define risks to include not only credit, market and liquidity risk, the traditional concerns for financial institutions, but also operational risks, including risks related to systems, processes or external events, as well as legal, regulatory and reputation risks. Our management processes, structures, and policies help to ensure compliance with laws and regulations and provide clear lines for decision-making and accountability. Results are important, but equally important is how we achieve those results. Our core values and commitment to high ethical standards is material to sustaining public trust and confidence in our Company.

For additional information concerning risks and uncertainties related to the Company and its operations please refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2009, under the heading Risk Management.

Sources of Income

We derive our income from two principal sources: (i) net interest income, which is the difference between the interest income we receive on interest-earning assets and the interest expense we pay on interest-bearing liabilities, and (ii) fee income, which includes fees earned on deposit services, income from payroll processing, electronic-based cash management services, mortgage brokerage fee income and merchant credit card processing services. Our income depends to a great extent on net interest income. These interest rate characteristics are highly sensitive to many factors, which are beyond our control, including general economic conditions, inflation, recession, and the policies of various governmental and regulatory agencies, and the Federal Reserve Board in particular. Because of our predisposition to variable rate pricing on our assets and level of time deposits, we are frequently considered asset sensitive, and generally we are affected adversely by declining interest rates. However, in the present interest rate environment, many of our variable rate loans are priced at their floors. As a result, we would not experience an immediate benefit in a rising rate environment.

Net interest income reflects both our net interest margin, which is the difference between the yield we earn on our assets and the interest rate we pay for deposits and our other sources of funding, and the amount of earning assets we

hold. As a result, changes in either our net interest margin or the amount of earning assets we hold could affect our net interest income and our earnings.

Increase or decreases in interest rates could adversely affect our net interest margin. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, and cause our net interest margin to expand or contract. Many of our assets are tied to prime rate, so they may adjust faster in response to changes in interest rates. As a result, when interest rates fall, the yield we earn on our assets may fall faster than the repricing opportunities of our liabilities, causing our net interest margin to contract until the repricing of liabilities catches up.

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

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

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

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

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

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

	Nine months ending	
	September 30, 2010	September 30, 2009
Profitability		
Return on average assets	0.70%	0.77%
Return on average equity	6.61%	8.88%
Average earning assets to total average assets	89.86%	93.56%
Interest Margin		
Net interest margin	4.14%	3.81%
Asset Quality		
Allowance for loan losses to total loans	2.53%	1.48%
Nonperforming assets to total assets	3.03%	3.28%
Net charge-offs to average loans	0.67%	0.99%
Liquidity		
Loans to deposits	93.05%	98.53%
Liquidity ratio	47.30%	36.38%
Capital		
Tier 1 risk-based capital Bank	14.28%	11.58%
Total risk-based capital Bank	15.54%	12.83%
Tier 1 risk-based capital Company	14.58%	11.79%
Total risk-based capital Company	15.84%	13.01%
Efficiency		
Efficiency ratio	58.96%	51.25%

Financial Highlights Results of Operations

Balance Sheet

As of September 30, 2010, the Company had total consolidated assets of $924.3 million, total net portfolio loans of $596 million, an allowance for loan and lease losses of $15.5 million, or 2.53% of total portfolio loans, deposits outstanding of $640 million and stockholders equity of $104.8 million.

The real estate development and construction related portfolios are beginning to stabilize, but remain under stress. Furthermore, the Company s Commercial and Industrial portfolio has weakened, particularly for loan which the borrow is tied to real estate. The loan portfolio will likely continue to be influenced by weakness in real estate values, the effects of high unemployment levels, and general overall weakness in economic conditions. Net charge offs were $4.1 million for the nine month period ended at September 30, 2010 compared to net charge offs of $5.9 million for the same period a year ago. The charge-offs were centered in real estate loans and commercial & industrial loans. OREO was $2.0 million at September 30, 2010 and $3.0 million for the same period a year ago. We are committed to working with our customers to find potential solutions when our customers experience financial difficulties.

Our Company has provided $8.3 million in provisions for loan and lease losses for the nine months ended September 30, 2010 compared to $6.3 million for the same period a year ago. The Company s allowance for loan losses was 2.53% of total portfolio loans at September 30, 2010 compared to 1.48% of total loans for the same period a year ago.

Our Company continues to maintain a relatively low-risk, liquid available-for-sale investment portfolio. This resource is utilized as a source of liquidity as opportunities to reposition the balance sheet present themselves. During the period the Company leveraged the proceeds of the common stock issuance and purchased U.S agencies, municipals, and residential mortgage backed securities. As such, available for sales securities increased from $86.5 million as of September 30, 2009 to $166.9 million as of September 30, 2010.

During the nine months ended September 30, 2010, the Company has recorded approximately $1.2 million in realized gains on sales of securities. Proceeds from the sales were used to fund additional provisions to the allowance for loan and lease losses as well as general operational expenses.

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

On March 23, 2010, we filed a Form S-1/A Registration Statement (the Registration Statement) with the SEC to offer 7,200,000 shares of our common stock in an underwritten public offering (Offering). In the Registration Statement, we set out our intent to use the net proceeds of the Offering for general corporate purposes, including contributing additional capital to the Bank, supporting our ongoing and future anticipated growth, which may include opportunistic acquisitions of all or parts of other financial institutions, including FDIC-assisted transactions, and positioning us for eventual redemption of our Series A Preferred Stock issued to the Treasury. Although we are periodically engaged in discussions with potential acquisition candidates, we are not currently party to any purchase or merger agreement. On March 29, 2010 the Company announced the successful closing of the Offering. The Company received net proceeds from the offering of approximately $28.8 million, after underwriting discounts and commissions and estimated expenses. The capital ratios of Bank of Commerce continue to be above well-capitalized guidelines established by regulatory agencies. With our strong capital position, we find significantly more opportunities now for acquisitions, portfolio purchases and attractive loan and asset purchases.

On April 14, 2010 the Company announced that the underwriters of its recent public offering of common shares have fully exercised their over-allotment option, which resulted in the issuance of an additional 1,080,000 shares of common stock. The option was granted in connection with the Company s public offering of 7,200,000 shares of common stock at a public offering price of $4.25 per share, which closed on March 29, 2010. The exercise of the over-allotment option resulted in additional net proceeds of approximately $4.4 million, bringing the expected total net proceeds of the offering to approximately $33.1 million, after deducting the underwriting discount and estimated offering expenses. The exercise of the over-allotment option brings the total number of shares of common stock sold by the Company in the offering to 8,280,000.

During the three months ending September 30, 2010 the Company recognized an additional $141,604 in professional fees directly related to the common stock offering. The billings for the professional fees were received subsequent to the offering, but pertained directly to the offering. Accordingly, these expenses were netted out of the proceeds from the offering during the current period.

Income Statement

Due to conservative loan underwriting, active servicing of problem credits, and maintenance of a healthy net interest margin, we have remained profitable during the recent economic downturn and positioned our Company to take advantage of growth opportunities in the coming years. For the first three quarters of 2010 we recorded net income attributable to Bank of Commerce Holdings of $4.6 million, and net income available to common stockholders of $3.9 million, or $0.27 per diluted share, after deducting preferred dividend payments made to the Treasury and accretion of preferred shares under the TARP Capital Purchase Program. Net income attributable to Bank of Commerce Holdings and net income available to common shareholders for the nine months ending September 30, 2010 was relatively unchanged compared to the period ending September 30, 2009. However, earnings per share decreased from $0.45 per diluted share in the prior period to $0.27 per diluted share in the current period. The decrease in earnings per diluted share is due to the disproportional increase in common shares outstanding during the period.

Net income attributable to the Company for the three months ending September 30, 2010 totaled $1.6 million compared to $1.7 million for the three months ending September 30, 2009. Diluted earnings per common share for the third quarter 2010 was $0.08, compared to $0.17 for the same period of 2009. The decrease in earnings per diluted share is due to the disproportional increase in common shares outstanding during the period. Return on average assets (ROA) and return on average equity (ROE) for the three months ending September 30, 2010 were 0.67% and 5.95%, respectively, compared with 0.86% and 9.21%, respectively, for the three months ending September 30, 2009. The decrease in return on assets is directly related to the decrease in market interest rates as well as the spreads on investment securities. The decrease in ROE is attributed to the increase in common equity related to the capital offering, while net income attributable to the Company remained relatively unchanged.

Net income attributable to the Company for the nine-month period ended September 30, 2010 totaled $4.6 million which is relatively unchanged compared to the nine-month period ended September 30, 2009.

On the same basis, diluted earnings per common share for the nine-months ended September 30, 2010 was $0.27, compared to $0.45 for the nine-month period ending September 30, 2009. ROA was 0.70% and ROE was 6.61% for the first nine-months of 2010 compared with 0.77% and 8.88%, respectively, for the same nine-month period ending September 30, 2009.

Net Interest Income and Net Interest Margin

Net interest income is the primary source of the Company s income. Net interest income represents the excess of interest and fees earned on interest-earning assets (loans, securities, certificates of deposits and Excess Reserves held at the Federal Reserve) over the interest paid on deposits and borrowed funds. Net interest margin is net interest income expressed as a percentage of average earning assets. Net interest income for the quarter ended September 30, 2010 was $8.6 million compared with $7.4 million for the same period in 2009, an increase of 16.7%. Net interest income for the nine-months ended September 30, 2010 was $24.3 million compared with $21.3 million for the same nine-month period in 2009, an increase of 14.2%.

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

Average earning assets for the nine-months ended September 30, 2010 increased $39.7 million or 5.3% compared with the same period in the prior year. Average loans, the largest component of average earning assets, increased $35.6 million or 6.0% compared with the prior year period. During the period, yields on average earning assets decreased by 16 basis points to 5.37%. The decrease in yields on average earning assets is primarily due to two factors; relatively higher yielding loans either maturing or being reclassified as nonaccrual, and the repositioning of the investment portfolio. The Company repositioned the investment portfolio for liquidity purposes and to mitigate interest rate risk. As a result, the Company purchased securities at current market yields that were lower than the stated yields of the securities sold.

Average deposits and borrowings increased by $8.4 million over the same period a year ago. The yield on funding costs decreased to 1.45% compared with 1.94% for the same period a year ago. The Company utilizes retail deposits, brokered deposits and FHLB borrowings as its main source of funding.

A combination of reduced funding costs and an increase in the volume of earning assets significantly improved the Company s net interest margin. The increased volume of earning assets contributed an additional $2.0 million in interest income. The majority of this increases in volume of earning assets resulted from increases in average portfolio loans. In addition, the continued decline in interest rates on earning assets resulted in a reduction of $1.3 million to interest income. Accordingly, the net effect of changes in rate and volume of earning assets resulted in an increase of $709,000 in interest income.

The Company s volume in average deposits and borrowings remained relatively unchanged to prior period ending September 30, 2009, however the Company did benefit from the continued decline in interest expense relating to retail and wholesale fundings. As a result, the Company realized a decrease in interest expense of $2.7 million due to decreased interest rates. This increase was slightly offset by a $347,000 increase in interest expense due to volume. Specifically, the reduction in costs for FHLB borrowings, and the Company s time deposits resulted in the majority of the decrease in interest expense. Accordingly, the net effect of changes in rate and volume of interest bearing liabilities resulted in a decrease of $2.3 million in interest expense.

Liquidity

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

The Asset Liability Management Committee (ALCO) establishes and monitors liquidity guidelines that require sufficient asset-based liquidity to cover potential funding requirements and to avoid over-dependence on volatile, less reliable funding markets. In addition to the immediately liquid resources of cash and due from banks and federal funds sold, asset liquidity is supported by debt securities in the securities available-for-sale, the ability to sell loans in the secondary market and to pledge loans to access secured borrowing lines of credit with the Federal Home Loan Bank, Federal Reserve Bank and borrowing lines with other financial institutions.

Customer core deposits have historically provided the Company with a source of relatively stable and low-cost funds. Additional funding is provided by long-term debt (including trust preferred securities).

The Company s consolidated liquidity position remains adequate to meet short-term and long-term future contingencies. At September 30, 2010, the Company had available lines of credit at the Federal Home Loan bank and Federal Reserve Bank of San Francisco of approximately $79.4 million and $50.3 million, respectively. The Company also has a $10.0 million federal funds borrowing line with a correspondent bank.

Capital Management

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

On March 23, 2010, we filed a Form S-1/A Registration Statement (the Registration Statement) with the SEC to offer 7,200,000 shares of our common stock in an underwritten public offering (Offering). In the Registration Statement,

we set out our intent to use the net proceeds of the Offering for general corporate purposes, including contributing additional capital to the Bank, supporting our ongoing and future anticipated growth, which may include opportunistic acquisitions of all or parts of other financial institutions, including FDIC-assisted transactions, and positioning us for eventual redemption of our Series A Preferred Stock issued to the Treasury.

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

Although we are periodically engaged in discussions with potential acquisition candidates, we are not currently party to any purchase or merger agreement. On March 29, 2010 the Company announced the successful closing of the Offering.

The Company received net proceeds from the Offering of approximately $28.8 million, after underwriting discounts and commissions and estimated expenses, and on April 14, 2010 the underwriters exercised their over allotment option adding an additional net proceeds of approximately $4.4 million to the Company s equity.

Periodically, the Board of Directors authorizes the Company to repurchase shares. Share repurchase announcements are published in press releases and SEC 8-K filings. Typically we do not give any public notice before repurchasing shares. Various factors determine the amount and timing of our share repurchases, including our capital requirements, market conditions and legal considerations.

These factors can change at any time and there can be no assurance as to the number of shares repurchased or the timing of the repurchases.

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

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

As of September 30, 2010, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank s category.

September 30, 2010	Capital	Actual Ratio	Well Capitalized Requirement	Minimum Capital Requirement
The Company				
Leverage	$ 114,723,030	12.59%	n/a	4.0%
Tier 1 Risk-Based	$ 114,723,030	14.58%	n/a	4.0%
Total Risk-Based	$ 124,630,793	15.84%	n/a	8.0%
Redding Bank of Commerce				
Leverage	$ 105,470,141	11.52%	5.0%	4.0%
Tier 1 Risk-Based	$ 105,470,141	14.28%	6.0%	4.0%
Total Risk-Based	$ 114,786,085	15.54%	10.0%	8.0%

Short and Long Term Borrowings

The Company actively uses Federal Home Loan Bank (FHLB) advances as a source of wholesale funding to support growth strategies as well as to provide liquidity. At September 30, 2010, the Company s FHLB advances were of fixed term and variable term borrowings without call or put option features.

At September 30, 2010, the Bank had $141 million in FHLB advances outstanding at an average rate of 0.28% compared to $100 million at an average rate of 2.04% at September 30, 2009.

Allowance for Loan and Lease Losses

The Allowance for Loan and Lease Losses, which consists of the allowance for loan losses, is management s estimate of credit losses inherent in the loan portfolio at the balance sheet date. The Company has established a process using several analytical tools and benchmarks, to calculate a range of probable outcomes and determine the adequacy of the

allowance. No single statistic or measurement determines the adequacy of the allowance. Loan recoveries and the provision for credit losses increase the allowance, while loan charge-offs decrease the allowance.
The Company concentrates its lending activities primarily within Shasta, El Dorado, Placer, Sacramento and Tehama counties, in California, and the location of the four full service offices of the Bank.

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

In addition the Company purchased an ITIN loan portfolio from a private equity firm in exchange for a combination of nonperforming loans and cash. At the settlement date, the mortgage loan pool contained 859 single family residential mortgages with an average principle balance of approximately $96,596, a weighted average credit score of 647, a weighted average loan to value
ratio of 89%, a weighted average yield of 7.44% and all loans were full documentation. The ITIN loan portfolio is geographically disbursed through out the United States.

On March 12, 2010, the Company purchased a pool of residential mortgage home equity loans with a par value of $22.0 million. At the settlement date the mortgage home equity loan pool consisted of 562 loans with an average principle balance of approximately $39,200, a weighted average credit score of 744, a weighted average loan to value of 86.44%, and a weighted average yield of 7.76%. Fifty one percent of the mortgage home equity loan pool is located in the state of Michigan; the remaining balance is geographically disbursed through out the United States.

Although the Company has a diversified loan portfolio, a significant portion of its customers ability to repay the loans is dependent upon the professional services and investor commercial real estate sectors. The loans are secured by real estate or other assets and are expected to be repaid from cash flows of the borrower s business or cash flows from real estate investments.

The Company s exposure to credit loss, if any, is the difference between the fair value of the collateral, and the outstanding balance of the loan. At September 30, 2010 and December 31, 2009, the Company had pledged $190,018,301 and $101,271,858, respectively, in loans as available collateral for Federal Home Loan Bank borrowings.

In the ordinary course of business, the Company enters various types of transactions, which involve financial instruments with off-balance sheet risk. These instruments include commitments to extend credit and stand-by letters of credit, which are not reflected in the consolidated balance sheets. These transactions may involve, to varying degrees, credit and interest rate risk more than the amount, if any recognized in the consolidated balance sheets.

Commitments to extend credit and standby letters of credit bear similar credit risk characteristics as outstanding loans. An allowance for unfunded loan commitments and letters of credit is determined using estimates of the probability of funding. This reserve is carried as a liability on the consolidated balance sheet.

The allowance for loan and lease losses is the Company s *most significant* management accounting estimate. The Company follows a methodology for calculating the appropriate level for the allowance for loan and lease losses as discussed under Asset Quality and Allowance for Loan and Lease Losses (ALLL) in this document. The entire allowance is used to absorb credit losses inherent in the loan portfolio. The allowance includes an amount for imprecision or uncertainty to incorporate a range of probable outcomes inherent in estimates used for the allowance, which may change from period to period. This portion of the total allowance is the results of the Company s judgment of risks inherent in the portfolio, economic uncertainties, historical loss experience and other subjective factors, including industry trends and regulatory reviews.

The methodology used is refined to calculate a portion of the allowance for each portfolio type to reflect our view of the risk in these portfolios. Changes in the estimate of the allowance for loan and lease losses and the related provision expense can materially affect net income. Determining the allowance for loan and lease losses requires management to make forecasts of losses that are highly uncertain and require a high degree of judgment.

Provision for loan and lease losses of $8,300,000 were provided for the nine-months ended September 30, 2010 compared with $6,325,000 for the nine-months ended September 30, 2009. The Company s allowance for loan and lease losses was 2.53% of total loans at September 30, 2010, 1.86% at December 31, 2009 and 1.48% at September 30, 2009, while its ratio of nonperforming assets to total assets was 3.03% at September 30, 2010, 1.92% at December 31, 2009, and 3.28% at September 30, 2009. Nonperforming assets consist of loans and other real estate owned. The Company classifies assets as nonperforming when they are either placed on nonaccrual status, classified as other real estate owned, or are restructured as a troubled debt restructuring and the borrower is not performing as agreed based on their restructured terms.

The increased level of the Company s allowance for loan and lease losses is primarily a direct reflection in the increased level of nonperforming assets since December 31, 2009. In addition, an increase in nonperforming assets inherently results in an increasing number of impairment reviews and consequently identified impairment. To a lesser extent, management has increased the level of the unallocated portion of the allowance for loan and lease losses due to ongoing economic uncertainty.

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

Factors that may affect future results

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

Geopolitical conditions can also affect our earnings. Acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and our military conflicts including the aftermath of the war with Iraq, could impact business conditions in the United States.

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

We operate in a highly competitive industry that could become even more competitive because of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can now merge creating a financial holding company that can offer virtually any type of financial service, including banking, securities underwriting, insurance (agency and underwriting) and merchant banking.

Technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of our competitors have fewer regulatory constraints and some have lower cost structures.

The holding company, subsidiary bank and non-bank subsidiary are heavily regulated at the federal and state levels. This regulation is to protect depositors, federal deposit insurance funds and the banking system as a whole, not investors. Congress and state legislatures and federal and state regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies including changes in interpretation and implementation could affect us in substantial and unpredictable ways including limiting the types of financial services and products we may offer. Our failure to comply with the laws, regulations or policies could result in sanctions by regulatory agencies and damage our reputation. For more information, refer to the Supervision and Regulation section in the Company s 2009 Annual Report on Form 10-K.

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

The holding company is a separate and distinct legal entity from its subsidiaries. It receives substantially all of its revenues from dividends from its subsidiaries. These dividends are the principal source of funds to pay dividends on the holding company s common stock and interest and principal on its debt. Various federal and state laws and regulations limit the amount of dividends that our bank may pay to the holding company. For more information, refer to Dividends and Other Distributions in the Company s 2009 Annual Report on Form 10-K.

Critical Accounting Policies

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

Our significant accounting principles are essential to understanding Management s Discussion and Analysis of Results of Operations and Financial Condition and are described the NOTES TO CONSOLIDATED FINANCIAL STATEMENTS in the Company s 2009 Annual Report on Form 10-K. Not all of the significant accounting policies presented in Note 2 to the Consolidated Financial Statements contained in the Company s 2009 Annual Report on Form 10-K require management to make difficult, subjective or complex judgments or estimates.

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

General

Bank of Commerce Holdings consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The financial information contained within our statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. Some of our accounting principles require significant judgment to estimate values of assets or liabilities. In addition, certain accounting principles require significant judgment in applying the complex accounting principles to transactions to determine the most appropriate treatment.

Preparation of financial statements

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

Use of estimates

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

Accounting Principles Generally Accepted in the United States of America

The Company s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Company s significant accounting policies are presented in Note 2 to the Consolidated Financial Statements contained in the Company s 2009 Annual Report on Form 10-K.

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

Valuation of Investments and Impairment of Securities

Invested assets are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain invested assets and the level of uncertainty related to changes in the fair value of these assets, it is possible that changes in risks in the near term could have a material adverse impact on our results of operations or equity. Our investment portfolio is subject to market declines below amortized cost that may be other-than-temporary. A significant judgment in the valuation of investments is the determination of when an other-than-temporary impairment has occurred. The ALCO Committee reviews the investment portfolio on at least a quarterly basis, with ongoing analysis as new information becomes available. Any decline that is determined to be other-than-temporary is recorded as an other-than-temporary impairment (OTTI) loss in the results of operations in the period in which the determination occurred. An investment is impaired if the fair value of the investment is less than its cost adjusted for accretion, amortization and OTTI, otherwise defined as an unrealized loss. When an investment is impaired, the impairment is evaluated to determine whether it is temporary or other-than-temporary. When an investment is impaired, we assess whether to sell the security, or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses.

For debt securities that are considered other than temporarily impaired and that we do not intend to sell and will not be required to sell prior to recovery of our amortized cost basis, we separate the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is calculated as the difference between the investment s amortized cost basis and the present value of its expected future cash flows. The remaining differences between the investment s fair value and the present value of future expected cash flows is deemed to be due to factors that are not credit related and is recognized in other comprehensive income. Significant judgment is required in the determination of whether an OTTI has occurred for an investment.

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

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

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

Allowance for Loan and Lease Losses (ALLL)

The allowance for loan and lease losses is the Company s *most significant* management accounting estimate. The allowance for loan and lease losses is management s best estimate of the probable losses that may be sustained in our loan portfolio. The allowance is based on two basic principles of accounting. (1) Losses are to be accrued when they are probable of occurring and estimable and (2) Losses on impaired loans be accrued based on the differences between that value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

The Company s allowance for loan and lease losses is the accumulation of various components that are calculated based upon independent methodologies. All components of the allowance for loan losses represent management s estimate of credit losses inherent in the loan portfolio at the balance sheet date and excludes loans carried at fair value. The process for determining adequacy of the allowance for loan and lease losses is *critical to our financial results*. It requires difficult, subjective and complex judgments, as a result of the need to make estimates about the effect of matters that are uncertain. Management s estimate of each component is based on certain observable data that management believes is the most reflective of the underlying credit losses being estimated. Changes in the amount of each component of the allowance for loan losses are directionally consistent with changes in the observable data, taking into account the interaction of the components over time.

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

For individually impaired loans, we measure impairment based on the present value of expected future principal and interest cash flows discounted at the loan s effective interest rate, except that as a practical expedient, we may measure impairment based on a loan s observable market price or the fair value of collateral, if the loan is collateral dependent. When developing the estimate of future cash flows for a loan, we consider all available information reflecting past events and current conditions, including the effect of existing economic and environmental factors.

Management considers any and all factors that are likely to cause estimated losses to differ from historical loss experience, including, but not limited to:

- Changes in lending policies and procedures, including underwriting, collection, charge-off and recovery practices not considered elsewhere in estimating credit losses;
- Changes in regional, local and business conditions and developments that affect the collectability of loans, including the conditions of various market segments;
- Changes in the nature and volume of the loan portfolio and in the terms of loans;
- Changes in the experience, ability and depth of lending management and other relevant staff;
- Changes in the volume and severity of past due loans, the volume of nonaccrual loans and the volume and severity of adversely classified or graded loans;

Changes in the quality of the Company s loan review systems or the degree of oversight by the board of directors;

Changes in the value of underlying collateral for all collateral dependent loans;

The existence and effects of any concentrations of credit and changes in the level of such concentrations;

The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses;

Loan loss history over the past 18 months has contributed significantly to the percentage of loss allocations. Accordingly the loan loss history component of the provision for loan and lease losses has been adjusted to weight toward recent history with 80% of the allocation to the last two and one half years.

In addition to the ALLL, an allowance for unfunded loan commitments and letters of credit is determined using estimates of the probability of funding. Loans with undisbursed proceeds are monitored and quantified for usage amounts. This reserve is carried as a liability on the consolidated balance sheet.

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

Revenue recognition

The Company s primary source of revenue is interest income. Interest income is recorded on an accrual basis. Note 2 to the Consolidated Financial Statements contained in the Company s 2009 Annual Report on Form 10-K offers an explanation of the process for determining when the accrual of interest income is discontinued on an impaired loan.

Income Taxes

We account for income taxes under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using currently enacted tax rates applied to such taxable income in the years in which those temporary differences are expected to be recovered or settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. If future income should prove non-existent or less than the amount of deferred tax assets within the tax years to which they may be applied, the asset may not be realized and our net income will be reduced. The Company s deferred tax assets are described further in Note 13 of the notes to Consolidated Financial Statements in the Company s 2009 Annual Report on Form 10-K.

Mortgages Held for Sale

Through our majority owned subsidiary, Bank of Commerce Mortgage we originate residential mortgage loans within Bank of Commerce s geographic market, as well as on a nationwide basis. Mortgage loans represent loans collateralized by one-to four family residential real estate and are made to borrowers in good credit standing. These loans are typically sold to primary mortgage market aggregators (Fannie Mae, Freddie Mac, and Ginnie Mae) and to third party investors including the servicing rights. Mortgages held for sale are carried at the lower of cost of fair value. Cost generally approximates fair value, given the short duration of these assets. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of a loan. We generally sell all servicing rights associated with the mortgage loans. Accordingly, there are no separately recognized servicing assets or liabilities resulting from the sale of mortgage loans.

Derivative Loan Commitments

Through our majority owned subsidiary, Bank of Commerce Mortgage we enter into forward delivery contracts to sell residential mortgage loans at specific prices and dates in order to hedge the interest rate risk in its portfolio of mortgage loans held for sale and its residential mortgage loan commitments.

Generally, the Company enters into a best efforts interest rate lock commitment (IRLC) with borrowers and a best efforts forward delivery contract with investors associated with mortgage loans receivable held for sale. Our derivative instruments consist primarily of IRLC s executed with borrowers and mandatory forward purchase commitments with investor lenders. These derivative instruments are accounted for as fair value hedges, with the changes in fair value reflected in earnings as a component of mortgage brokerage fee income.

Other Real Estate Owned

Other real estate owned represents real estate which the Bank has taken control of in partial or full satisfaction of loans. At the time of foreclosure, other real estate owned is recorded at the lower of the carrying amount of the loan or fair value less costs to sell, which becomes the property s new basis. Any write-downs based on the asset s fair value at the date of acquisition are charged to the allowance for loan and lease losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell. Subsequent valuation adjustments are recognized within net loss on other real estate owned. Revenue and expenses from operations and subsequent adjustments to the carrying amount of the property are included in non-interest expense in the Consolidated Statements of Income.

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

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

Table 1. Average Balances, Interest Income/Expense and Yields/Rates Paid (unaudited)

	Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2009		
(Dollars in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Earning Assets						
Portfolio Loans[1]	$ 625,396	$ 27,767	5.92%	$ 589,802	$ 26,676	6.03%
Tax-exempt Securities[2]	38,452	1,168	4.05%	27,859	853	4.08%
US Government Securities	26,631	478	2.39%	7,721	252	4.33%
Mortgage backed Securities	45,368	1,100	3.23%	59,892	2,522	5.61%
Other Securities	47,644	1,085	3.04%	17,499	557	1.77%
Federal Funds Sold	995	2	0.27%	41,996	31	0.23%
Average Earning Assets	$ 784,486	$ 31,600	5.37%	$ 744,769	$ 30,891	5.53%
Cash & Due From Banks	$ 37,178			$ 21,890		
Bank Premises	9,875			10,435		
Other Assets	41,518			23,755		
Average Total Assets	$ 873,057			$ 800,849		
Interest Bearing Liabilities						
Demand Interest Bearing	$ 133,494	$ 707	0.71%	$ 141,493	$ 786	0.74%
Savings Deposits	74,310	677	1.21%	62,554	742	1.58%
Certificates of Deposit	329,456	4,768	1.93%	305,237	5,722	2.50%
Repurchase Agreements	11,971	40	0.45%	11,202	38	0.45%
FHLB Borrowings	102,271	460	0.60%	122,601	1,634	1.81%
Trust Preferred Borrowings	15,000	619	5.50%	15,000	665	5.67%
	666,502	$ 7,271	1.45%	658,087	$ 9,587	1.94%
Noninterest bearing demand	92,204			71,718		
Other Liabilities	21,621			5,800		
Stockholders Equity	92,730			65,244		
Average Liabilities and Stockholders Equity	$ 873,057			$ 800,849		
Net Interest Income and Net Interest Margin		$ 24,329	4.14%		$ 21,304	3.81%

Interest income on loans includes fee (expense) income of approximately $130,759 and ($79,648) for the period ended September 30, 2010 and 2009, respectively.
Average earning assets for the three months ending September 30, 2010 was $853.3 million compared to $732 million for the three months ending September 30, 2009. The net interest margin for the three months ending September 30, 2010 was 4.05%, which was unchanged from the three months ending September 30, 2009.

[1] Average nonaccrual loans and average loans held for sale of $15 million and $23.2 million are included respectively

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

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

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

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

(Dollars in thousands)	September 30, 2010 Volume	Over Rate	September 30, 2009 Total
Increase (decrease) in interest income			
Portfolio Loans	$ 1,580	$ (489)	$ 1,091
Tax-exempt Securities	322	(7)	315
US Government Securities	339	(112)	227
Mortgage Back Securities	(352)	(1,071)	(1,423)
Other Securities	129	399	528
Federal Funds Sold	(33)	4	(29)
Total Increase (Decrease)	1,985	(1,276)	709
Increase (decrease) in interest expense			
Interest Bearing Demand	(42)	(37)	(79)
Savings Deposits	107	(172)	(65)
Certificates of Deposit	351	(1,305)	(954)
Repurchase Agreements	3	(1)	2
FHLB Borrowings	(91)	(1,083)	(1,174)
Trust Preferred Borrowings	19	(65)	(46)
Total Increase (Decrease)	347	(2,663)	(2,316)
Net Increase	$ 1,638	$ 1,387	$ 3,025

Average earning assets for the nine-months ended September 30, 2010 increased $39.7 million or 5.3% compared with the same period in the prior year. Average loans, the largest component of average earning assets, increased $35.6 million or 6.0% compared with the prior year period. During the period, yields on average earning assets decreased by 16 basis points to 5.37%. The decrease in yields on average earning assets is primarily due to two factors; relatively higher yielding loans either maturing or being reclassified as nonaccrual, and the repositioning of the investment portfolio. The Company repositioned the investment portfolio for liquidity purposes and to mitigate interest rate risk. As a result, the Company purchased securities at current market yields that were lower than the stated yields of the securities sold.

Average deposits and borrowings increased by $8.4 million over the same period a year ago. The yield on funding costs decreased to 1.45% compared with 1.94% for the same period a year ago. The Company utilizes retail deposits, brokered deposits and FHLB borrowings as its main source of funding.

A combination of reduced funding costs and an increase in the volume of earning assets significantly improved the Company s net interest margin. The increased volume of earning assets contributed an additional $2.0 million in

interest income. The majority of this increases in volume of earning assets resulted from increases in average portfolio loans. In addition, the continued decline in interest rates on earning assets resulted in a reduction of $1.3 million to interest income. Accordingly, the net effect of changes in rate and volume of earning assets resulted in an increase of $709,000 in interest income.

The Company s volume in average deposits and borrowings remained relatively unchanged to prior period ending September 30, 2009. However the Company did benefit from the continued decline in interest expense relating to retail and wholesale fundings. As a result of the decline in interest rates, the Company realized a decrease in interest expense of $2.7 million. This increase was slightly offset by a $347,000 increase in interest expense due to volume. Specifically, the reduction in costs for FHLB borrowings, and the Company s time deposits resulted in the majority of the decrease in interest expense. Accordingly, the net effect of changes in rate and volume of interest bearing liabilities resulted in a decrease of $2.3 million in interest expense.

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

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

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Noninterest income				
Service charges on deposit accounts	$ 63	$ 108	$ 207	$ 296
Payroll and benefit processing fees	107	109	335	347
Earnings on cash surrender value - Bank owned insurance	112	108	327	311
Net gain on sale of securities available-for-sale	179	506	1,243	1,984
Net on transfer of financial assets				340
Net gain on settlement of put reserve	1,750		1,750	
Mortgage brokerage fee income	3,293	1,913	8,585	3,215
Other Income	179	200	515	511
Total Noninterest income	$ 5,683	$ 2,944	12,962	$ 7,004

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

Noninterest income for the three months ending September 30, 2010 was approximately $5.7 million or 93.0% greater than the same period a year ago. The increase in noninterest income is primarily due to an increase in mortgage brokerage fee income associated with our purchase of an equity interest in the Simonich Corporation (See Acquisition below), and our settlement of the put reserve.

Mortgage brokerage fee income is primarily derived from origination fees on residential mortgage loans and from the sale of mortgage loans to financial institutions. Loan origination fees and sales fees earned on brokered loans are recorded as income when the loans are sold. Mortgage Services brokerage fee income increased substantially as a result of increased origination volume, due to the current historically low interest rate environment.

During the three months ending September 30, 2010, the Company received a written release to the put reserve provided on the ITIN loan pool purchase. Prior to the release, the put reserve carried a balance of $2.1 million; approximately $398,627 of the reserve was paid to the private equity firm as consideration. As a result, the Company recorded a $1.8 million gain on settlement.

The put reserve was part of the April 17, 2009 loan swap transaction in which the Company purchased a pool of Individual Tax Identification Number (ITIN) residential mortgages in exchange for a combination of certain nonperforming loans and cash. The put reserve or credit enhancement originally totaled $3.5 million; the Company had the right but not the obligation to put back the outstanding principal balance of any ITIN loan that became sixty days or more delinquent over a period not to exceed three years from the transaction date. As a result of the settlement, the company is now entirely dependent on the general Allowance for Loan Losses and any specific valuation allowances held against the ITIN portfolio.

Our investment strategy requires that we reposition our investment portfolio within certain parameters to minimize risks to comprehensive income, and to mitigate interest rate risk. The Company continued to reposition the portfolio during the current period, however market conditions were not as favorable compared to prior periods. As a result, the Company realized less gain on sales of securities compared to prior periods. Accordingly, net gains on available for

sale securities decreased by $327,000 compared to the three months ending September 30, 2009.

Noninterest income for the nine-months ending September 30, 2010 was approximately $13 million or 85.1% greater than the same period a year ago. The significant increase is primarily derived from increased mortgage origination volume, gains from the settlement of the put reserve, and a consolidation of nine months of mortgage brokerage fee income compared to four months during the nine months ending September 30, 2010.

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

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

(Dollars in thousands)	**Three Months Ended**		**Nine Months Ended**	
Noninterest Expense	**September 30, 2010**	**September 30, 2009**	**September 30, 2010**	**September 30, 2009**
Salaries and related benefits	$ 4,162	$ 2,902	$ 11,238	$ 7,673
Occupancy and equipment expense	952	1,124	2,805	2,426
Write down of other real estate owned	129		1,374	
FDIC insurance premium	250	421	755	995
Data processing fees	52	52	205	231
Professional service fees	216	220	1,159	674
Deferred compensation expense	126	118	366	360
Stationery and Supplies	35	62	211	141
Postage	58		145	111
Directors expense	56	75	208	232
Goodwill Impairment			32	
Other expenses	1,257	680	3,490	1,664
Total Noninterest expense	$ 7,293	$ 5,654	$ 21,988	$ 14,507

Noninterest expense includes salaries and benefits, occupancy, FDIC insurance assessments, director fees, and other expenses. Noninterest expense for the three months ending September 30, 2010 was approximately $7.3 million or 29% greater than the same period a year ago.

The $1.6 million increase in noninterest expense is primarily due to increased salaries and related benefits pertaining to the Mortgage Services subsidiary. In the three month period ending September 30, 2010, Mortgage Services transitioned existing independent contractors to FTE s, resulting in an increase in salaries and related benefits. Furthermore, due to continued growth in Mortgage Services operations, there was additional staff added to payroll.

During the three months ending September 30, 2010 the Company determined that a valuation adjustment to the carrying value of the Company s other real estate owned was necessary. The values were adjusted downward, reflecting the continued deterioration in local real estate market conditions. As a result, the Company recognized $129,000 impairment charge to earnings.

Other expenses increased by approximately $577,000 during the three months ending September 30, 2010. The increase is primarily due to increased appraisal expenses associated with the Company s real estate loan portfolio, prior period tax expenses, and overall increased activities associated with the Mortgage Services general operations.

Noninterest expense for the nine-months ending September 30, 2010 was approximately $22 million or 51.6% greater than the same period a year ago. The increase in noninterest income is primarily due to increased salary and related benefits, write downs of other real estate owned, professional fees associated with loan credit quality evaluations, and a full nine months consolidation of the Mortgage Services.

The increase in salaries and related benefits is primarily due to the timing of the purchase of an equity interest in the Simonich Corporation. The Company consolidated an additional $3.2 million in related salaries and benefits of the Mortgage Services for the nine months ending September 30, 2010 compared to a consolidation of four months of expense for the nine months ending September 30, 2009. In addition, during the current nine month period, Mortgage Services transitioned existing independent contractors to FTE s, and increased staff due to growth in general operations. As a result, the Company experienced an increase in salaries and related benefits for the period.

During the nine months ending September 30, 2010 the Company determined that a valuation adjustment to the carrying value of the Company s other real estate owned was necessary. The values were adjusted downward, reflecting the continued deterioration in local real estate market conditions. As a result the Company recognized a $1.4 million impairment charge to earnings.

During the nine months ending September 30, 2010, professional fess increased approximately $485,000. During the reporting period, the Company increased the solicitation of outside professionals to conduct credit quality reviews pertaining to the Company s loan portfolio. In addition, during the reporting period, the Company increased the engagements of legal counsel. The increase in these services coincides with the continued monitoring of the Company s nonperforming loans.

Other expenses increased by $1.8 million during the nine months ending September 30, 2010. The increase is primarily due to increased appraisal expense associated with the Company s real estate loan portfolio, prior period tax expenses, and overall increased activities associated with the Mortgage Services general operations.

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

Furthermore, due to the timing of the purchase of Simonich Corporation, the Company consolidated nine months of Mortgage Services related other expenses, compared to approximately four months in the prior period. Other expenses recorded by the mortgage company include expenses for business travel, telephone, insurance and licensing fees.

Income Taxes

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

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

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

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
Income Taxes	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Tax provision	$ 916	$ 1,010	$ 2,410	$ 2,647
Effective tax rate	37.01%	31.73%	34.38%	34.35%

The Company had a net deferred tax asset of $7.2 million at September 30, 2010. The Company does not reasonably estimate that the deferred tax asset will change significantly within the next twelve months. Deferred tax assets are recognized subject to management judgment that realization is more likely than not. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company files a consolidated federal and state income tax return. The Company determines deferred income tax assets and liabilities using the balance sheet method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between book and tax basis of assets and liabilities, and recognizes enacted changes in tax rates and laws. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at September 30, 2010 consist of the following:

(Dollars in thousands)

Deferred Tax Assets	**September 30, 2010**	**September 30, 2009**
State Franchise taxes	$ 390	$ 173
Deferred compensation	2,474	2,289
Loan loss reserves	7,006	3,990
Other	338	184
Total Deferred Tax Assets	$ 10,208	$ 6,636

Deferred Tax Liabilities

State Franchise taxes		(473)
Unrealized gain on available-for-sale investment securities	(1,511)	(578)
Depreciation	(120)	(146)
Deferred loan origination costs	(425)	(406)
Deferred state taxes	(757)	
Other	(154)	(156)
Total Deferred Tax Liabilities	$ (2,967)	(1,759)
Total Net Deferred Tax Asset	$ 7,241	$ 4,877

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

Asset Quality

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

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

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

(Dollars in thousands)

Portfolio Loans	**September 30, 2010**	**December 31, 2009**
Commercial & financial loans	$ 136,258	$ 133,080
Real estate construction loans	43,942	59,524
Real estate commercial (investor)	183,620	197,023
Real estate commercial (owner occupied)	72,093	63,001
Real estate ITIN loan pool	72,299	78,250
Real estate other mortgage	19,345	20,525
Real estate equity lines	79,460	45,601
Installment	2,371	2,223
Other loans	1,763	2,212
Less:		
Net deferred loan fees	124	209
Allowance for loan losses	15,452	11,207
Total net portfolio loans	$ 595,575	$ 590,023

The following table provides a breakdown of our real estate construction portfolio as of September 30, 2010:

(Dollars in thousands)

Loan Type	**Balance**	**% of Total net portfolio loans**
Commercial lots and entitled commercial land	$ 17,945	3.01%
Commercial real estate construction	17,626	2.96%
1-4 family subdivision loans	5,692	0.96%

1-4 family individual residential lots	2,016	0.34%
1-4 family construction speculative	663	0.11%
Total real estate- construction	$ 43,942	7.38%

Our practice, is to place an asset on nonaccrual status when one of the following events occurs: (i) Any installment of principal or interest is 90 days or more past due (unless in management s opinion the loan is well-secured and in the process of collection), (ii) management determines the ultimate collection of principal or interest to be unlikely or (iii) the terms of the loan have been renegotiated due to a serious weakening of the borrower s financial condition. Nonperforming or impaired loans may be on nonaccrual, are 90 days past due and still accruing, or have been restructured. Accruals are resumed on loans only when they are brought fully current with respect to interest and principal and when the loan is estimated to be fully collectible. Restructured loans are those loans on which concessions in terms have been granted due to the borrower s financial or legal difficulties.

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

Mortgages held for sale

Bank of Commerce Mortgage originates residential mortgage loans within Bank of Commerce s footprint and on a nationwide basis. Mortgage loans represent loans collateralized by one-to-four family residential real estate and are typically sold to primary mortgage market aggregators (Fannie Mae, Freddie Mac, and Ginnie Mae) and to third party investors, servicing included. The mortgage loans are typically funded on a pre-committed basis and held for sale; the loans are carried on the balance sheet at the lower or cost or fair value until a sale to the third party is completed. As of September 30, 2010, $41 million in mortgages are held for sale. These loans are not included in net portfolio loans listed in the table above.

Nonperforming Assets

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

(Dollars in thousands)

Nonperforming assets	September 30, 2010	December 31, 2009
Commercial & Industrial	$ 4,952	$ 237
Secured by 1-4 family, closed end 1st lien	1,204	623
Secured by 1-4 family Revolving	194	199
Secured by NFNR Other	9,617	5,759
Secured by RE - 1-4 Construction	261	849
Secured by RE Other Construction	2,251	
Nonaccrual Loan Portfolio	$ 18,479	$ 7,667
Nonaccrual ITIN Loan Pool	6,751	
Nonaccrual Home Equity Loan Pool	42	
90 days past due and still accruing interest	682	5,052
Other real estate owned	2,020	2,880
Total nonperforming assets	$ 27,974	$ 15,599

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

ITIN loans are residential mortgage loans made to legal United States residents without a social security number and are geographically dispersed throughout the United States. This is our first ITIN loan transaction, and as such, is serviced through a third party. Worsening economic conditions in the United States may cause us to suffer higher

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

As part of the ITIN loan swap transaction agreement, the Company received a credit enhancement (put reserve) in the amount of $3.5 million; the Company had the right but not the obligation to put back the outstanding principal balance of any ITIN loan that became sixty days or more delinquent over a period not to exceed three years from the transaction date. During the three months ending September 30, 2010, the put reserve was mutually terminated by both parties, resulting in a $1.8 million settlement gain.

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

The $1.7 million settlement gain from the ITIN put reserve was effectively expensed in provisions for loan losses. These monies were specifically allocated in the Allowance for Loan Losses (ALLL) against the ITIN portfolio. As a result, the specific ALLL allocation now represents approximately 4% of total outstanding principal compared to 1.56% as of December 31, 2009. The increased ALLL allocation stems from the general economic uncertainty including the continuing depressed housing market

Nonperforming assets were 3.03% of total assets as of September 30, 2010; 1.92% at December 31, 2009 and 3.28% at September 30, 2009. For the period ending September 30, 2010 there were $38.1 million in impaired loans, of which $25.3 million were in nonaccrual status. Of these, $6.8 million or eighty two of which are ITIN loans with a weighted average balance of approximately $82,334 each, all in various stages of collection. The remaining nonaccrual loans consist of seven commercial and industrial loans, two commercial lot loan, two residential lot loans, seven commercial real estate loans, four residential mortgages, and three home equity lines of credit.

The Company periodically restructures loans and grants concessions to borrowers due to economic or legal reasons relating to the borrower s financial condition that it would not otherwise consider. Accordingly, loans restructured in these situations are classified as troubled debt restructurings. The Company does not necessarily place a troubled debt restructuring on nonaccrual status. Rather, if the borrower is current at the time of the restructuring, and continues to pay as agreed, the loan is reported as current.

As of September 30, 2010, the Company has eighty restructured loans that qualified as troubled debt restructurings, of which fifty-three were performing according to their restructured terms, and are considered performing loans. As of September 30, 2010, the Company had $24.7 million in troubled debt restructurings compared to $10.7 million as of December 31, 2009.

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

Troubled debt restructurings	**September 30, 2010**	**December 31, 2009**
Nonaccrual	12,587	$ 4,937
Accruing	12,162	5,730
Total troubled debt restructurings	$ 24,749	$ 10,667

Allowance for Loan and Lease Losses (ALLL)

The allowance for loan and lease losses is management s most significant accounting estimate. It is an estimate of the amount of probable loan losses in the loan portfolio. The Company determines the allowance for loan losses based on an ongoing evaluation.

The allowance is based upon two principals of accounting. (1) Losses are to be accrued when they are probable of occurring and estimable and (2) Losses on impaired loans be accrued based on the differences between that value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance. The evaluation is inherently subjective because it requires material estimates, including the amounts and timing of cash flows expected to be received on impaired loans. Those estimates may be susceptible to significant change. The Company makes provisions to the ALLL on a regular basis through charges to operations that are reflected in the Company s statements of income as a provision for loan losses. When a loan is deemed uncollectible, it is charged against the allowance. Any recoveries of previously charged-off loans are credited back to the allowance.

The process for determining adequacy of the allowance for loan and lease losses is critical to our financial results. Higher credit losses could require the Company to increase the allowance for loan and lease losses through a charge to earnings. There is no assurance that our allowance for loan and lease losses will be adequate to cover future credit losses, especially if credit markets, housing prices and unemployment do not stabilize.

Moreover, the FDIC and the DFI, as an integral part of their examination process, periodically review the Company s allowance for loan and lease losses and the carrying value of its assets.

The Company s allowance for loan and lease losses is the accumulation of various components that are calculated based upon independent methodologies. Management s estimate of each component is based on certain observable data that management believes is the most reflective of the underlying loan losses being estimated. Changes in the amount of each component of the allowance for loan losses are directionally consistent with changes in the observable data, taking into account the interaction of the components over time. An essential element of the methodology for determining the allowance for loan and lease losses is the Company s loan risk evaluation process, which includes loan risk grading individual commercial, construction, commercial real estate and most consumer loans. Loans are assigned loan risk grades based on the Company s assessment of conditions that affect the borrower s ability to meet its contractual obligations under the loan agreement. That process includes reviewing borrower s current financial information, historical payment experience (weighted heavily towards the current economic cycle), loan documentation, public information, and other information specific to each individual borrower.

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

Loans are reviewed on an annual or rotational basis or as management become aware of information affecting the borrower s ability to fulfill its obligations. Loan risk grades carry a dollar weighted risk percentage.

Management considers any and all factors that are likely to cause estimated losses to differ from historical loss experience, including, but not limited to:

- Changes in lending policies and procedures, including underwriting, collection, charge-off and recovery practices not considered elsewhere in estimating credit losses;

- Changes in regional, local and business conditions and developments that affect the collectability of loans, including the conditions of various market segments;

- Changes in the nature and volume of the loan portfolio and in the terms of loans;

- Changes in the experience, ability and depth of lending management and other relevant staff;

- Changes in the volume and severity of past due loans, the volume of nonaccrual loans and the volume and severity of adversely classified or graded loans;

- Changes in the quality of the Company s loan review systems or the degree of oversight by the board of directors;

- The existence and effects of any concentrations of credit and changes in the level of such concentrations;

- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses;

- Loan loss history over the past 18 months has contributed significantly to the percentage of loss allocations. Accordingly the loan loss history component of the provision for loan and lease losses has been adjusted to weight toward recent history with 80% of the allocation to the last two and one half years.

In addition to the ALLL, an allowance for unfunded loan commitments and letters of credit is determined using estimates of the probability of funding. Loans with undisbursed proceeds are monitored and quantified for usage amounts. This reserve is carried as a liability on the consolidated balance sheet.

Loans are charged off against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The ALLL should not be interpreted as an indication that charge-offs in future periods will occur in the stated amounts or proportions.

The allowance is an amount that management believes will be adequate to absorb losses inherent in existing loans and overdrafts based on evaluations of collectability and prior loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, and current economic conditions that may affect the borrowers ability to pay. Material estimates relating to the determination of the allowance for loan losses are particularly susceptible to significant change in the near term. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions.

Generally, we charge off estimated losses related to impaired loans as losses are identified. The charged-off portion of impaired loans outstanding at September 30, 2010 totaled approximately $4.8 million.

The Company continues to work diligently to identify nonperforming assets. Elevated provisions are associated with a reclassification of loans, following completion of a total portfolio review, and management s prudent stance in recognizing impaired loans.

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

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

(Dollars in thousand)	**Three Months Ended**		**Nine Months Ended**	
	September 30, 2010	**September 30, 2009**	**September 30, 2010**	**September 30, 2009**
Beginning balance	$ 12,767	$ 8,496	$ 11,207	$ 8,429
Provision for loan loss charged to expense	4,450	1,844	8,300	6,325
Loans charged off	(1,883)	(1,461)	(4,765)	(6,005)
Loan loss recoveries	118	20	710	150
Ending balance	$ 15,452	$ 8,899	$ 15,452	$ 8,899
Gross portfolio loans outstanding at period end	611,027	599,784	611,027	599,784
Ratio of allowance for loan losses to total loans	2.53%	1.48%	2.53%	1.48%
Nonaccrual loans at period end:				
Construction	$ 2,512	$ 3,094	$ 2,512	$ 3,094
Commercial real estate	9,617	6,846	9,617	6,846
Commercial	4,952	271	4,952	271
Home equity	194	202	194	202
Residential real estate	7,997	894	7,997	894
Total nonaccrual loans	$ 25,272	$ 11,307	25,272	11,307
Accruing troubled-debt restructured loans				
Construction	$ 2,327	$	$ 2,327	$
Commercial real estate	2,929		2,929	
Residential real estate	6,906		6,906	
Total accruing restructured loans	12,162		12,162	
All other accruing impaired loans	740		740	
Total impaired loans	$ 38,174	$ 11,307	$ 38,174	$ 11,307
Allowance for loan losses to nonaccrual loans at period end	61.14%	78.70%	61.14%	78.70%
Nonaccrual loans to total loans	4.14%	1.89%	4.14%	1.89%
Average recorded investment in impaired loans	$ 35,046	$ 10,906	$ 25,786	$ 15,731
Cash receipt on nonaccrual loan interest and recognized as interest income	$	$	$	$

Specific valuation allowances on impaired loans totaled $3.5 million, $245 thousand and $0 at September 30, 2010, December 31, 2009 and September 30, 2009, respectively. The amount of the recorded investment in impaired loans that do not have a related specific valuation allowance for loan losses totaled $11.6 million, $6.4 million and $8.4 million at September 30, 2010, December 31, 2009 and September 30, 2009, respectively. Specific valuation allowances on impaired loans also classified as Troubled Debt Restructurings (TDRs) represent $1.6 million of the $3.5 million in total specific valuation allowances.

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES
QUARTERLY INCOME STATEMENT

(Dollars in thousands, except for per share data)	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
Interest income:					
Interest and fees on loans	$ 9,414	$ 9,302	$ 9,051	$ 9,184	$ 9,355
Interest on tax-exempt securities	465	381	322	311	278
Interest on U.S. government securities	633	507	439	676	628
Interest on federal funds sold and securities repurchased under agreements to resell	1		1	1	1
Interest on other securities	471	343	270	266	309
Total interest income	10,984	10,533	10,083	10,438	10,571
Interest expense:					
Interest on demand deposits	251	226	230	229	240
Interest on savings deposits	237	221	219	221	223
Interest on certificates of deposit	1,453	1,554	1,761	1,906	1,941
Securities sold under repurchase agreements	13	15	12	13	13
Interest on FHLB and other borrowings	186	138	136	172	514
Interest on junior subordinated debt	204	207	208	208	234
Total interest expense	2,344	2,361	2,566	2,749	3,165
Net interest income	8,640	8,172	7,517	7,689	7,406
Provision for loan and lease losses	4,450	1,600	2,250	3,150	1,844
Net interest income after provision for loan and lease losses	4,190	6,572	5,267	4,539	5,562
Noninterest income:					
Service charges on deposit accounts	63	62	82	94	108
Payroll and benefit processing fees	107	100	128	105	109
Earnings on cash surrender value bank owned life insurance	112	107	108	107	108
Net gain on sale of securities available-for-sale	179	133	931	454	506
Net gain on transfer of financial assets				1	
Gain on settlement of put reserve	1,750	64	54	68	80
Mortgage brokerage fee income	3,293	2,753	2,539	2,112	1,913
Other income	179	118	100	119	120
Total noninterest income	5,683	3,337	3,942	3,060	2,944
Noninterest expense:					
Salaries and related benefits	4,162	3,365	3,711	3,209	2,902
Occupancy and equipment expense	952	924	929	1,178	1,124
Write down of other real estate owned	129	1,064	181	161	

FDIC insurance premium	250	254	251	279	421
Data processing fees	52	64	89	51	52
Professional service fees	216	543	400	146	220
Deferred compensation expense	126	122	118	118	118
Stationery and supplies	35	96	80	44	62
Postage	58	45	42	36	
Directors expense	56	68	84	67	75
Other expenses	1,257	965	1,300	828	680
Total noninterest expense	7,293	7,510	7,185	6,117	5,654
Income before provision for income taxes	2,580	2,399	2,024	1,482	2,852
Provision for income taxes	916	750	744	43	1,010
Net Income	1,664	1,649	1,280	1,439	1,842
Less: Net income (loss) attributable to non-controlling interest	105	144	(255)	33	129
Net income attributable to Bank of Commerce Holdings	$ 1,559	$ 1,505	$ 1,535	$ 1,406	$ 1,713
Less: Preferred dividend and accretion on preferred stock	$ 235	$ 236	$ 235	$ 235	$ 235
Income available to common stockholders	$ 1,324	$ 1,269	$ 1,300	$ 1,171	$ 1,478
Basic earnings per share	$ 0.08	$ 0.08	$ 0.15	$ 0.13	$ 0.17
Weighted average shares basic	16,991	16,837	8,871	8,711	8,711
Diluted earnings per share	$ 0.08	$ 0.08	$ 0.15	$ 0.13	$ 0.17
Weighted average shares diluted	16,991	16,837	8,871	8,711	8,711
Cash dividends per share	$ 0.03	$ 0.06	$ 0.06	$ 0.06	$ 0.12

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

The simulation model used includes measures of the expected repricing characteristics of administered rate (NOW, savings and money market accounts) and non-related products (demand deposit accounts, other assets and other liabilities). These measures recognize the relative sensitivity of these accounts to changes in market interest rates, as demonstrated through current and historical experience, recognizing the timing differences of rate changes. In the simulation of net interest margin and net income the forecast balance sheet is processed against five rate scenarios. These five rate scenarios include a flat rate environment, which assumes interest rates are unchanged in the future and four additional rate ramp scenarios ranging for + 400 to - 400 basis points in 100 basis point increments, unless the rate environment cannot move in these basis point increments before reaching zero.

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

To estimate the effect of interest rate shocks on our net interest income, management uses a model to prepare an analysis of interest rate risk exposure. Such analysis calculates the change in net interest income given a change in the federal funds rate of 100, 200, 300 or 400 basis points up or down. All changes are measured in dollars and are compared to projected net interest income. The most recent model results indicate the estimated annualized increase in net interest income attributable to a 100 and 200 basis point decreases in the federal funds rate was $340,392 and $208,556 respectively. For decreases of 300, and 400 basis points in the federal funds rate the model indicated net interest income would decrease by $292,867, and $385,017 respectively.

The Federal Reserve currently has the federal funds rate targeted between zero to twenty five basis points. Accordingly, the Company is focused on the affects of interest rate shocks on our net interest income during a rising

rate environment. The most recent model results indicate the estimated annualized decrease in net interest income attributable to a 100, 200, 300 and 400 basis point increases in the federal funds rate was $485,020, $893,481, $1,117,830, and $1,290,254 respectively.

The ALCO has established a policy limitation to interest rate risk of -28% of the net interest margin and -40% of the present value of equity. The securities portfolio is integral to our asset liability management process. The decision to purchase or sell securities is based upon the current assessment of economic and financial conditions, including the interest rate environment, liquidity, regulatory requirements and the relative mix of our cash positions.

Our approach to managing interest rate risk may include the use of derivatives. This helps to minimize significant, unplanned fluctuations in earnings, fair values of assets and liabilities and cash flows caused by interest rate volatility. This approach involves an off-balance sheet instrument with the same characteristics of certain assets and liabilities so that changes in interest rates do not have a significant adverse effect on the net interest margin and cash flows.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)

As a result of interest rate fluctuations, hedged assets and liabilities will gain or lose market value. In a fair value hedging strategy, the effect of this unrealized gain or loss will generally be offset by income or loss on the derivatives linked to the hedged assets and liabilities. For a cash flow hedge, the change in the fair value of the derivative to the extent that it is effective is recorded through other comprehensive income.

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

The model utilized by management to create the analysis described in the preceding paragraph uses balance sheet simulation to estimate the impact of changing rates on our projected annual net interest income Actual results will differ from simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies. Management believes that the short duration of its rate-sensitive assets and liabilities contributes to its ability to reprice a significant amount of its rate-sensitive assets and liabilities and mitigate the impact of rate changes in excess of 100, 200, 300 or 400 basis points. The model s primary benefit to management is its assistance in evaluating the impact that future strategies with respect to our mix and level of rate-sensitive assets and liabilities will have on our net interest income.

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ITEM 4T. CONTROLS AND PROCEDURES

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

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

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

During the first quarter of 2010, changes were implemented in our internal control over financial reporting in connection with the remediation of a material weakness noted at September 30, 2009 related to the selection and application of accounting principles and specifically accounting for nonrecurring transactions. Changes in internal control over financial reporting that were implemented during the first quarter of 2010 included increased emphasis on utilizing, completing and reviewing the appropriate disclosure checklists, increased emphasis on continuing education for accounting personnel and increased emphasis on reviewing accounting literature relevant to non-recurring transactions. There have been no additional changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Company s Chief Executive Officer and the Chief Financial Officer and implemented by the Company s Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

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

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

Under the supervision and with the participation from management, including our Chief Executive Officer and the Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control- Integrated Framework issued by the

Committee of Sponsoring Organizations of the Treadway Commission (COSO). This evaluation included review of the documentation of controls, testing of operating effectiveness of controls and a conclusion on this evaluation. Based on this evaluation, management concluded that the Company s internal control over financial reporting was effective as of September 30, 2010.

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PART II. Other Information

Item 1. Legal Proceedings

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

Item 1a. Risk Factors

There was one material addition to the Company s risk factors previously disclosed in the registrant s Form 10-K. On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act), a landmark financial reform bill comprised of new rules and restrictions that will impact banks going forward. It includes key provisions aimed at preventing a repeat of the 2008 financial crisis and a new process for winding down failing, systemically important institutions in a manner as close to a controlled bankruptcy as possible. The Act includes other key provisions as follows:

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

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

(3) The Act restricts the amount of trust preferred securities (TPS) that may be considered as Tier 1 Capital. For depository institution holding companies below $15 billion in total assets, TPS issued before May 19, 2010 will be grandfathered, so their status as Tier 1 capital does not change. However going forward, TPS will be disallowed as Tier 1 capital. Beginning January 1, 2013, Bank holding companies above $15 billion in assets will have a three-year phase-in period to fill the capital gap caused by the disallowance of the TPS issued before May 19, 2010.

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

(5) The Act places certain limitations on investment and other activities by depository institutions, holding companies and their affiliates.

The impact of the Act on our banking operations is still uncertain due to the massive volume of new rules still subject to adoption and interpretation.

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

On March 23, 2010, the Company filed a Form S-1/A Registration Statement (the Registration Statement) with the SEC to offer 7,200,000 shares of our common stock in an underwritten public offering (Offering). As part of the registration statement the Company represented the intent to grant the underwriters an option to purchase up to an additional $4.5 million of common stock offered to cover over-allotments, if any. The common stock will be issued pursuant to a prospectus filed as part of the Company s registration statement under the Securities Act of 1933.

In the Registration Statement, we set out our intent to use the net proceeds of the Offering for general corporate purposes, including contributing additional capital to the Bank, supporting our ongoing and future anticipated growth, which may include opportunistic acquisitions of all or parts of other financial institutions, including FDIC-assisted transactions, and positioning us for eventual redemption of our Series A Preferred Stock issued to the Treasury.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds (Continued)

Although we are periodically engaged in discussions with potential acquisition candidates, we are not currently party to any purchase or merger agreement. On March 29, 2010 the Company announced the successful closing of the Offering. The Company received net proceeds from the Offering of approximately $28.8 million, after underwriting discounts and commissions and estimated expenses.

On April 14, 2010, the Company announced that the underwriters of its recent public offering of common shares have fully exercised their over-allotment option, which will result in the issuance of an additional 1,080,000 shares of common stock. The option was granted in connection with the Company s public offering of 7,200,000 shares of common stock at a public offering price of $4.25 per share, which closed on March 29, 2010. The exercise of the over-allotment option has resulted in additional net proceeds of approximately $4.4 million, bringing the expected total net proceeds of the offering to approximately $33.2 million, after deducting the underwriting discount and offering expenses. The exercise of the over-allotment option brings the total number of shares of common stock sold by the Company in the offering to 8,280,000.

The shares were sold in an underwritten public offering by Howe Barnes Hoefer & Arnett, Inc. acting as lead manager.

The Company intends to use the net proceeds from the offering for general corporate purposes including organic growth and opportunistic acquisitions.

Item 3. Defaults Upon Senior Securities

N/A.

Item 4. (Removed and Reserved)

N/A

Item 5. Other Information

N/A

Item 6. Exhibits

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

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

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

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SIGNATURES

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

BANK OF COMMERCE HOLDINGS
(Registrant)

Date: November 12, 2010

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

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